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The Business Seller's Comprehensive Workbook for Effective Broker Representation

Effective representation of your business for sale starts with detailed, complete, accurate information.

From the data you supply, databases we can access to find comparable completed sales, proprietary metrics, familiarity with the current market, and decades of experience in management, finance, marketing, and business law, we can provide for you a realistic and credible estimate of the current market value of your business. Then, if you choose, we can advertise and promote your company to **the "business-for-sale" market, worldwide.**

In this *Workbook*, you will find:

Introduction: Understanding the Small Business Valuation Process

Section 1 **What We Do ... How It Works**

For Valuation Purposes (Preliminary Information Needed) —

Section 2 The Business Valuation Questionnaire

Section 3 **Seller's Discretionary Earnings ("SDE") Calculation Form**

For Marketing Purposes (Information Needed Eventually) —

Section 4 Documents we will need

Section 5 **Seller's Standard Disclosures Form**

Section 6 Consolidated Asset List

Don't worry, we'll help you with filling out any information and doing any calculations.

About Tim Cunha, J.D. ~

Tim Cunha, J.D. is a graduate of Rutgers University and Georgetown University Law Center, and has over 50 years of management, marketing, business development, and business transition experience, as well as being a serial entrepreneur and a university professor and, for several decades, practicing law in New Jersey. Now living in California for over a decade, he is a licensed real estate broker specializing in business sales, mergers, and acquisitions, as well as serving as a part-time senior lecturer on a prestigious West Coast MBA graduate school faculty.

Page 1 of 27

INTRODUCTION: UNDERSTANDING THE SMALL BUSINESS VALUATION PROCESS

Our objective is to determine the likely range of price that a business will command in a competitive marketplace with as much precision as reasonably possible.

We offer two levels of business valuation services:

1. An **informal market assessment**, offered **free of charge for potential business sellers**.
2. A **Formal Comprehensive Market Value Report** with much deeper analysis and details, **offered for a professional fee** covering several hours of research and consultation.

Simple methods are used to determine an **informal estimated opinion of business market value**. One metric is established by taking a weighted average of the last three years of the company's pre-tax profit and then applying a multiple based on the company's industrial class and comparable sales in the past. The pre-tax profit used is usually the "Seller's Discretionary Earnings" ["SDE"] for one owner-operator.


The **Formal Composite Market Value Report** also uses a weighted average of the last three years of the company's pre-tax profit (greatest weight on the most recent year, lesser weight on the previous two years) and then applying a multiple based on the company's industrial class and comparable sales in the past. The pre-tax profit used is usually the "Seller's Discretionary Earnings" ["SDE"] for one owner-operator; in some circumstances, EBITDA (earnings before interest, taxes, depreciation, & amortization) may be used. There are several other factors that come into play as well, including gross revenue, increasing or decreasing sales or profits, year-to-year performance anomalies, market share, employee strengths and weaknesses, concentration or diversity of customers and suppliers, most likely type of buyer, intellectual property, lease and facility concerns, etc.

Therefore, we use profit and loss statements, balance sheets, and tax returns from the past 3-4 years, along with detailed answers to additional questions, SDE calculations, comparable-sales databases, and additional proprietary algorithms.

For most businesses, the value of the physical/tangible assets is *not* of significant importance. —“The assets are worth the profits they generate.” Most of our valuations (and the market itself) are not based on the asset valuation method. However, in asset-rich companies, particularly those with intrinsic real estate (e.g., a motel), an asset-based component to the over-all valuation can be relevant. Therefore, we use profit and loss statements, balance sheets, and tax returns from the past 3-4 years, along with detailed answers to additional questions, SDE calculations, comparable-sales databases, and additional proprietary algorithms.

We also identify key performance indicators (“KPI”) and provide advice on steps that can be taken to increase business value.

In some cases, a strategic acquirer (one already in the same business field) will pay a premium for a business because of its strategic value to them; when appropriate we take that into consideration as well.

The goal with our  **EvergreenGold® Formal Comprehensive Market Value Report** is to establish a reasonable estimate of the value of the business for purposes of marketing, strategic planning, amicable allocation of equitable interest, etc. It is not typically intended for the purposes of litigation, expert witness testimony, or tax resolution proceedings.

Documents we will need for evaluation purposes to the extent they are available –

Past 3 years business tax returns, or Past 3 years Profit & Loss statements (P&L) and balance sheets.

Preferably both tax returns and P&Ls.

Profit & Loss (P&L) statement and balance sheet for the current year.

A completed Seller's Discretionary Earnings (“SDE”) Calculation form.

A completed questionnaire (Sections 2 & 3 of the Workbook).

For a more detailed explanation of the valuation process, see the article in the Appendix.

What We Do ... How It Works

EvergreenGold® business broker and advisor, Tim Cunha and his team prepare your business for a successful sale, assess its market value, suggest a “credible” asking price, “package” the business, place and manage the advertising, screen the inquiries, negotiate the contract, find funding sources, and facilitate due diligence, all with the goal of achieving a successful transfer of ownership.

To sell your business successfully requires many critical steps that we take for you ...

- The business financials need to be professionally evaluated according to generally accepted principles, and “recast” to show the true value of the business.
- The seller’s discretionary earnings (“SDE”) need to be established fully and objectively.
- The value proposition must be presented in a manner that a prospective buyer will find plausible and reasonable.
- The appropriate “listing” or “asking” price needs to be established based upon the current profile, anticipated financing needs, market conditions, comparable sales of similar businesses (“comps”), and the expected buyer type(s).
- Key facts about the business need to be assembled and assessed regarding its products/services, facilities, employees, suppliers, customers, finances, operations/production procedures, marketing, sales, distribution, etc.
- Relevant and material facts must be disclosed.
- Assets, both tangible and intangible, must be itemized, categorized, and evaluated.
- The potential of the business to be sustainable, scalable, and prosperous in the future needs to be quantified.

And, all this then needs to be presented in the most favorable light. ...

- Ad copy must be professionally written to attract interest without revealing the identity of the business, to maintain critical confidentiality. (Confidentiality is essential to keep employees, suppliers, customers, and competitors from learning about the potential sale of the business, which could dramatically diminish the business value to a buyer.)
- The business opportunity must be broadly advertised through media proven to be prime conduits for successful business sales.

- Then, after receiving an executed NDA (confidentiality agreement), a compelling “story” needs to be presented to the prospective buyer, in the form of a professional, comprehensive Confidential Information Memorandum (“CIM” / pronounced “sym”).
- When the prospective buyer wants to learn more, we conduct a three-way phone or internet conference with the seller and the broker.
- If there is further interest, the buyer makes an in-person visit to the business facility.
- The buyer then proposes an offer ... the seller accepts or counters ... a deal is struck.
- The broker prepares a detailed asset purchase agreement (“APA”).
- The buyer puts a refundable good-faith deposit into escrow and conducts due diligence.
- Once due diligence is completed the balance of the deposit is placed in escrow, the transfer of the lease is negotiated, the purchase-money financing (if any) is arranged, the escrow agent conducts all the necessary searches and obtains the appropriate clearance ... and the deal closes.

You CAN do all this by yourself. ...

- You can determine what data you need to assemble, what form it needs to be in, what changes you need to make to make your business more attractive, more “sellable.”
- You can “recast” your financial statements to reflect the true value of your business and the actual “SDE” (Seller’s Discretionary Earnings) in a manner generally accepted by valuation and financial experts.
- You can research the market value metrics for your type of business, analyze your business, and determine a reasonable valuation.
- You can prepare & write all the advertising material, place & manage ads, and substantiate your valuation.
- You can field all the phone calls and emails yourself.
- You can try to maintain confidentiality until you have a signed NDA.

But, at what cost?

- Your attention will be shifted from running your business to selling your business.
- Sales will suffer, as will profits—your business will become less valuable.
- You will lose precious time while you “learn on the job.”
- You will waste money and energy and opportunity.



While you are an expert at running your business,

you are not an expert at selling it.

We are.

What’s next?



- ✓ Once you have reviewed our analysis and opinion regarding market value, if you choose, we will then prepare your business for sale and place it on the market; but, it is always confidential, promoted in a way designed to keep your “for sale” status confidential until a confidentiality/ agreement (“NDA”) is signed.
- ✓ With our guidance and advice, you set the initial asking price for the business.
- ✓ Then we “recast” the financial information, determine the Seller’s Discretionary Earnings, professionally draft the advertising copy, and write the Confidential Business Review (“CBR”).
- ✓ The CBR contains an in-depth description of the business; original and “re-cast” financial reports (e.g., profit and loss statements, balance sheets, tax schedules); an SDE calculation; a listing of the furniture, fixtures, and equipment (“FF&E”) as well as intangible property such as logos, tradenames, web sites, phone numbers, patents, trademarks, copyrights, etc.; the proposed deal structure, pertinent seller disclosures, etc.
- ✓ We then place the advertising on the most widely-searched Internet databases, websites like BizQuest.com, BizBuySell.com, BizBen.com, BusinessesForSale.com, BusinessBroker.net, International Business Brokers Association (IBBA.org), California Association of Business Brokers (“CABB”), DealStream.com, Axial.com, etc., as appropriate for your business. Your business listing is linked to over 135 affiliate sites such as the NY Times, Wall Street Journal, Business Week, etc.
- ✓ Our phones are answered 24/7/365, so prospective buyers get immediate personal attention. We assess their interest and send an NDA for them to sign and return along with basic financial information to help discern if they are financially qualified to buy your business.
- ✓ And, then we work diligently on selling your business, focused on the best deal for you to attain the greatest financial reward and the most personal freedom.



Section 2 — The Business Valuation Questionnaire

Fill in what is pertinent & relevant to your business; otherwise, note "N/A"

Owner— Individual or Corporate Entity			
Type of Entity	<input type="checkbox"/> C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> Limited Liability Company (LLC) <input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> Partnership		
Business Name/ Operating Name/"DBA":			
Business Address:			
City, State, Zip:			County:
Business Web Site Address:			
Business Type/Industry:	SIC Code (if known): _____	NAIC Code (of known): _____	
If a corporation, number of shares outstanding & respective ownership:			
<u>Is</u> this business "absentee-managed"? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<u>Could</u> it be "absentee-managed"? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO		

Briefly describe your business: (no more than 100 words): _____

Is this business a franchise? YES NO If "Yes", franchisor:

PRINCIPAL INDIVIDUAL OWNER INFORMATION:

Name	
Home Phone #	
Cell #	
Home Mail Address	
City, State, ZIP	



Email Address(es)

EMPLOYEE INFORMATION:

(note if W-2 or 1099)

Full Time Employees:

Part-Time Employees:

#Total Employees (FT + PT):

Family Member Employees (included above):

Working Owners (included above)

What job function(s) are performed by the owner(s) on a daily basis?

What salary (if any) is paid to owner(s)?:
(Through payroll, not "draw" against profits.)

What would be reasonable salary for a replacement of the owner(s)?:

Operating Hours, Days ... open-close: _____	Year Established/Founded: _____	Year the Current Owner Acquired: _____
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BUILDING & LEASE INFORMATION:

If applicable

Lease Term (+options) & Expiration & Assignment/Landlord Review Requirements:	Monthly Rent: \$	
	Monthly CAM/NNN: \$	
Security Deposit Amount \$:	Owned by a related party? <input checked="" type="checkbox"/> YES <input type="checkbox"/> No	Inside sq ft: Usable Outside sq ft:

Percentage Lease? (This means that rent may include a % of tenant's sales.) YES NO What % _____?

Landlord/Manager Name & Contact Info:

Building/Facility Details/Location (if applicable): Briefly describe (e.g., strip mall, industrial park, main street, **warehouse** ...)

Neighboring Businesses, briefly describe (*if* a retail or hospitality business or otherwise location-dependent) -



<i>FINANCIAL INFORMATION</i>	Profitable? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
Provide the following documents: (Scan and email)	
— Past 3 years Federal Business Tax Returns or past 3 years Profit & Loss Statements (P&Ls) or preferably both	
— Current Year Profit & Loss Statement (P&L) as current as reasonably possible	
— Current Year Balance Sheet as current as reasonably possible	

Average Inventory on Hand:	\$ _____ (the typical or usual cost value of product for resale)	
What is your forecast for GROSS revenue in the current year and the next two years (or a percentage of growth)?	What is your forecast for NET earnings in the current year and the next two years (or a percentage of growth)?	Are sales seasonal or cyclical? If so, explain:
If relevant to your business, what is your typical backlog of orders not yet started? \$ _____	If relevant to your business, what is your typical Work in Process ("WIP") ? \$ _____	If relevant to your business, what is the typical range of inventory value? \$ _____ LOW \$ _____ HIGH

<i>CUSTOMER & MARKET INFO —</i>	
# of active customers	
# of recurring customers (weekly, monthly, quarterly, as the case may be)	
# of customers in database	

Largest customer: _____% of sales	Second Largest customer: _____% of sales	Third Largest customer: _____% of sales
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Additional comments/notes regarding current customers -

Additional market details (opportunities, competition, etc.) Growth/Expansion Opportunities / Competition / Industry Trends ...
With additional resources what is the best way to grow the business?

TANGIBLE/PHYSICAL ASSETS
Estimated Replacement Cost of Furniture, Fixtures, & Equipment ("FF&E") owned by the business. \$ _____
 What it would cost to replace everything with like kind, condition, and age in case of a total loss (e.g., fire, flood)

Strengths, Weaknesses, Opportunities, Threats (SWOT):

FACTORS AFFECTING BUSINESS VALUE (PAGE 1)
PLEASE CHECK ✓ JUST ONE (1) BOX ☑ PER CATEGORY

Business Name _____

GENERAL**Interest from Potential Buyers**

- No status in the market
- Few interested buyers or investors
- Some buyer/investor interest [Neutral or N/A]
- Large pool of qualified business buyers
- Exceptional buyer / investor interest

The Location of the Business Facility

- Undesirable location
- Location with poor customer access
- Sufficient business location [Neutral or N/A]
- Easy customer access
- Superior location and facilities

SALES AND FINANCIAL**Annual Recurring Revenue**

- Less than 20% is from repeat business
- Between 20% & 40% is from repeat business
- Between 40% & 60% is from repeat business
- Between 60% & 80% is from repeat business
- More than 80% is from repeat business

The Creditworthiness of the Business**(Ability to Support third-party purchase-money loan, e.g., SBA loan)**

- No financing available
- Limited access to debt / equity financing
- Average financing [Neutral or N/A or "Don't Know"]
- Financing available on attractive terms
- Generous seller and bank financing or excellent access to debt equity and financing

The Business' Growth Trend

- Declining business
- Trailing industry averages
- Neither growing or receding. Steady. [Neutral]
- Steady, predictable business growth
- Significant growth, outperforms industry

Earnings Track Record

- Lack of financial track record.
- Large swings in revenue / profit.
- Solid 3+ year financial record. [Neutral]
- Consistent, verifiable revenue / profit.
- Excellent earnings record.

MARKET

Competitors

- Large competitors control the market
- Significant market consolidation
- Stable competitive environment [Neutral]
- Small competitors, low consolidation
- Few or no competitors

Customer Concentration

- Reliance on 1 - 2 customers
- Revenue comes from a few top customers
- Consistent selection of customers [Neutral]
- Mix of regular and ad hoc customers
- Huge customer base and excellent additional revenue streams

Market / Industry Growth

- Broad industry decline
- Significant industry contraction
- Stable industry [Neutral]
- Industry growth above overall market
- Rapid industry growth or exceptional industry growth prospects

Market Penetration

- Limited market reach
- Single location, small local market
- Several locations &/or regional market [Neutral]
- National market presence
- Multiple / global market presence

Ease of Entry to the Business's Market

- Low barriers to competitor entry
- Easy substitution, low asset base
- Well capitalized, established firm [Neutral]
- Difficult to replicate, high asset base
- Business operates in a protected niche

FACTORS AFFECTING BUSINESS VALUE (PAGE 2)
PLEASE CHECK ✓ JUST ONE (1) BOX ☑ PER CATEGORY

Business Name _____

OPERATIONS**Ease of Operating the Business**

- No clear operation procedures
- All in owner's head
- Key business processes implemented [Neutral]
- Consistent business processes in place
- Turnkey operation

Employees' Skill & Productivity

- Unskilled and low productivity of employees
- Low skills and low productivity of employees
- Slightly-skilled and average employee productivity [Neutral or N/A]
- Well-trained and good employee productivity
- Exceptionally skilled, motivated, & productive employees

The Management of the Business

- Owner is the only manager
- Owner(s) perform most management tasks
- Capable non-owner management
- Long-term, knowledgeable managers
- Professional management team in place

Product / Service Concentration

- One single product / service
- Small number of products / services
- Offer a number of products / services [Neutral or "average"]
- A good mix of products / services
- Highly diverse mix of products / services



Section 3 — Seller’s Discretionary Earnings (“SDE”) Calculation Form

Seller's Discretionary Earnings ("SDE") Worksheet

Business Name:						
		3 yrs ago	2 yrs ago	Last Year	Current YTD	
		20____	20____	20____	20____	
					Jan to _____	
1	Sales					
2	Less Cost of Sales					
3	Less Operating Expenses					
4	Equals Net Income Before Taxes (SBA)					
5	Plus Depreciation & Amortization (SBA)					
6	Plus Interest on Loans to Business (SBA)					
7	Plus Salary for One Owner ((SBA)					
8	Plus Payroll Taxes on Owner's Salary (SBA) (Approximately 10%)					
9	Equals Basic SBA Discretionary Earnings					
<i>Seller's Discretionary Earnings (SDE) may include the following additions/deletions – line items indicating cash flowing from the business to the owner.</i>						
10	Salaries to Non-Working Family Members					
11	Salary Adjustments for Other Owners & Family Members					
12	Payroll Tax Additions/Deletions For 10 & 11 Above					
13						
14	Auto Lease/Payments for Owner's Benefit					
15	Auto Insurance for Owner's Benefit					
16	Auto Repairs & Maintenance for Owner's Benefit					
17	Contributions and Donations					
18	Fair Market Rent Additions/Deletions					

19	Insurance Premiums for Owner's Health, Life, etc.					
20	Non-Business Professional Services (legal / accounting / tax)					
21	Retirement Plan Contributions for Owner(s)					
22	Non-Business Meals & Entertainment					
23	Non-Business Travel					
24	Non-Business Telephone, Internet & Cell Phone expenses					
25	Inventory Adjustments					
26	Supplier Rebates					
	<i>1X Non-Recurring Charges or (Income) / Other Add-Backs:</i>					
27						
28						
29						
30						
31						
32						
33						
34						
35	<i>Sum of Discretionary Earnings Additions/Deletions</i>					
36	<i>Plus Basic SBA Discretionary Earnings (line 9, above)</i>					
37	Total Seller Discretionary Earnings (SDE)					

The seller is responsible for proving to the buyer's satisfaction the accuracy of any information provided. Information contained in this statement is provided solely by the seller. No representations or warranties are provided by any Business Broker, its agents, representatives, or subsidiaries as to the accuracy, completeness, validity, or veracity of such information. Prospective buyers are advised to seek the counsel of their accountant, attorney, and/or other business advisors.

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Owner's Signature

Print Name

Title

Date



Explanation & Notes for Understanding the "Seller's Discretionary Earnings" Worksheet

Seller's Discretionary Earnings (SDE) are the primary factor in determining business financial strength and a market-appropriate selling price. The selling price may be determined by applying an industry-specific multiple to the SDE. Buyers will use SDE to determine the financial value of a business when compared to other businesses for sale. This form becomes even more important when the buyer examines the P&L and tax returns, typically showing less net income than the SDE.

Notes & Instructions:

1. Round all numbers to the nearest dollar.
2. Ideally, information will be provided for the last three complete fiscal years (12-month), plus the current year, plus an extrapolation of the current year to project the likely 12-month numbers for the current year.
3. SDE is based upon Net Income before taxes, depreciation, amortization, interest, one owner's compensation and other additions and deletions to project how much actual income a prospective buyer can take out plus the capacity of the business to meet its tax and business debt obligations. The higher the SDE, the higher the value or selling price will be. The seller must be prepared to substantiate (prove) these "add-backs" to the buyer's satisfaction during due diligence.
4. Other "add-backs" reflect personal expenses of the owner charged to the business but not necessary to operate the business.
5. One time charges (or Income) reflect unusual or non-recurring items, including capital purchases that are expensed rather than depreciated.

Examples of other expenses charged to the company that might be added as Owner's benefits/perks to show true net discretionary cash flow:

Inventory written off to increase COGS in previous years
Child Care provided by company (or its employees)
Other family members on the payroll but not working in the company
Gains or losses on disposal of assets
Laundry or dry cleaning for owner or owner's family
Excess market rate rental paid to owner
Personal bank charges
Household repairs or services paid by company
Home office rent paid to owner by company
Insurance premiums for owner's health, life, etc.
Home internet service
Maid or housecleaning services for home
Personal Memberships (health club, gym, country club, etc.)
Non-business postage & shipping
Unique payroll benefits paid to owner
Personal credit cards payments
Products or Services purchased for personal or family use
Non-Business Professional Services (Legal/Accounting/Tax)
Retirement plan contributions
Subscriptions to personal magazines, newspapers, etc.

SBA Lines: Line items marked "SBA" are those typically considered in SBA financing calculations to determine the ability of the business to carry debt.

Section 4 — Documents We Will Need— *to the extent they are available* —

For Valuation...

- a. Past 3 years business tax returns.'or
- b. Past 3 years Profit & Loss statements (P&L).
Preferably both tax returns and P&Ls
- c. Profit & Loss (P&L) statement for the current year.
- d. A completed Seller's Discretionary Earnings ("SDE") Calculation form.

For Marketing...

- e. Past 3 years Balance Sheets.
- f. Current Balance Sheet
- g. Monthly gross sales summary for the past 3 years and current year.
- h. Copy of Lease or Rental Agreement, if any.
- i. Complete list of furniture, fixtures, and equipment (FF&E) to be transferred. For each item, the estimated cost to replace it with like kind, in like condition, and of like age (the "insurance replacement value") will be included.
- j. A list of all FF&E not owned, designating each item as "borrowed", "leased", etc.
- k. A list of all personnel, their role in the business, how long they have been employed and rate of pay or salary for the most recent twelve-month period. (Include owner/principal.)
- l. A copy of any franchise agreement or license agreement, if any.
- m. A copy of any ongoing or upcoming contractual agreements to be assumed by the Purchaser.
- n. A list of any intellectual property, including logos, fictitious names (*i.e.*, "dba"), trademarks, copyrights, patents, web domains, trade secrets, et c.
- o. A Business Seller Valuation Questionnaire, filled out as completely as possible.
- p. A completed Seller's Standard Disclosure Form.



Section 5 — Seller’s Standard Disclosures Form

Business Name: _____ Listing# _____

SELLER’S STANDARD DISCLOSURES STATEMENT

This series of questions and answers is to inform prospective buyers about relevant material facts concerning this Business. It is provided **by the seller to answer frequently asked questions**. It **does not take the place of the buyer’s independent inspection of the business** and its financial and other records. No one has verified the accuracy or completeness of any of the information supplied by the seller.

1. Are you aware of any circumstances in the industry or market area that may adversely affect future profitability of the Business?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
2. Are there any revenues or expenses of the Business that are not clearly reflected in its financial statements?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
3. Is the business in default of any of its financial or contractual obligations?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
4. Has the business or any of its owners been the subject of any bankruptcy filing, assignment for benefit of creditors or insolvency proceeding of any kind during the last five years, or consulted with any attorney or advisor regarding such proceedings?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
5. Are there any individual customers who account for more than 10% of annual gross sales? If yes, list each by name and indicate the approximate percentage of annual gross sales and any relationship to the Business or its owners.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
6. Are there any commitments to employees or independent contractors regarding future compensation, increases in compensation, or continuation of employment or contract engagement?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
7. Are there suppliers who have a personal or special relationship with the Business or its owners? If yes, list each such supplier, the nature of the relationship and the approximate amount of annual purchase.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
8. Are any of the employees or independent contractors related to any of the owners of the Business, or one another? If yes, list them by name and describe their relationship.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
9. Have you had or do you anticipate any disputes with the Landlord or problems with the premises the Business occupies?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
10. Are there any terms or conditions of the premises lease with which the Business or the Landlord is not in full compliance?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
11. Have there been any deaths, violent crimes, or other criminal activity on the premises within the last three years?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
12. Are you aware of any substances, materials or products on or near the premises which may be an environmental hazard such as, but not limited to, asbestos, formaldehyde, radon gas, paint, solvents, fuel, medical waste, surface or underground storage tanks or contaminated soil or water?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
13. Are there any other environmental, pollution, water or air quality, noise, or similar risks or exposures currently experienced by the Business now or within the past five years?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
14. Is there any equipment used in the Business that it does not own?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
15. Is there any equipment used in the Business that is not in good or operable conditions, or for which maintenance has been deferred?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
16. Does the Business have a franchise, distributorship, or licensing agreement? If yes, please provide a copy of each.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
17. Does the Business involve using any hazardous materials or disposing of hazardous wastes?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
18. Is the Business or its operators required to hold any licenses or permits other than a local business license?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
19. Is there any such license or permit that is not transferrable to a new owner?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
20. Must a new owner personally qualify for any license or permit?	Yes <input type="checkbox"/>	No <input type="checkbox"/>

Page #1 of 3 pages

Seller’s Initials: _____



21. Are you aware of any pending zoning changes, redevelopment, or nearby construction that might affect the Business?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
22. Are there any violations alleged, filed, pending, or under investigation by the following authorities/agencies?		
a. Health Department	Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. Fire Department	Yes <input type="checkbox"/>	No <input type="checkbox"/>
c. Building Inspector	Yes <input type="checkbox"/>	No <input type="checkbox"/>
d. Zoning Authority	Yes <input type="checkbox"/>	No <input type="checkbox"/>
e. U.S. Department of Agriculture	Yes <input type="checkbox"/>	No <input type="checkbox"/>
f. State Alcoholic Beverage Control ("ABC") Department	Yes <input type="checkbox"/>	No <input type="checkbox"/>
g. U.S. or State Environmental Regulator	Yes <input type="checkbox"/>	No <input type="checkbox"/>
h. Police Department	Yes <input type="checkbox"/>	No <input type="checkbox"/>
i. OSHA	Yes <input type="checkbox"/>	No <input type="checkbox"/>
j. State Department of Employment	Yes <input type="checkbox"/>	No <input type="checkbox"/>
k. U.S. Internal Revenue Service	Yes <input type="checkbox"/>	No <input type="checkbox"/>
l. State Tax Authorities, Income, Sales, etc.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
m. County Tax Authorities	Yes <input type="checkbox"/>	No <input type="checkbox"/>
n. Local (Municipal) Tax Authorities	Yes <input type="checkbox"/>	No <input type="checkbox"/>
o. U.S. Immigration and Customs Enforcement ("ICE")	Yes <input type="checkbox"/>	No <input type="checkbox"/>
p. U.S. Bureau of Alcohol, Tobacco, & Firearms	Yes <input type="checkbox"/>	No <input type="checkbox"/>
q. U.S. Attorney/Dept. of Justice/FBI	Yes <input type="checkbox"/>	No <input type="checkbox"/>
r. State Attorney General, District attorney, or Prosecutor	Yes <input type="checkbox"/>	No <input type="checkbox"/>
s. Any other federal authority or agency	Yes <input type="checkbox"/>	No <input type="checkbox"/>
t. Any other state authority or agency	Yes <input type="checkbox"/>	No <input type="checkbox"/>
u. Any other county or regional authority or agency	Yes <input type="checkbox"/>	No <input type="checkbox"/>
v. Any other local (municipal) authority or agency	Yes <input type="checkbox"/>	No <input type="checkbox"/>
23. Does the Business have any of the following?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
a. Pending Litigation	Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. Unresolved Insurance Claims	Yes <input type="checkbox"/>	No <input type="checkbox"/>
c. Outstanding Lease Agreements for equipment, or for premises other than the business location?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
d. Outstanding Contracts or Agreements	Yes <input type="checkbox"/>	No <input type="checkbox"/>
e. Back Wages Owed or Outstanding Claims for Back wages, Vacation Pay, Sick Pay?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
f. Any Product Liability Exposure	Yes <input type="checkbox"/>	No <input type="checkbox"/>
g. Unpaid Medical or other Insurance Premiums	Yes <input type="checkbox"/>	No <input type="checkbox"/>
h. Union or other collective or individual employment agreements	Yes <input type="checkbox"/>	No <input type="checkbox"/>
i. Any employee without proper legal status documentation	Yes <input type="checkbox"/>	No <input type="checkbox"/>

Business Name: _____ Page #2 of 3 pages Seller's Initials: _____



Consolidated Asset List (use these forms or attach your data)

ASSET LIST

Name of Business: _____ Listing #: _____

Intellectual Property -- List trade names, trademarks, service marks, copyrights, patents, trade secrets, etc.

<u>Item Description</u>	<u>Approximate fair market value, if known</u>
TOTAL FMV, if known	\$

Web Sites

<u>Domain Name</u>	<u>Approximate development cost</u>
TOTAL Development Cost	\$

Licenses & Permits (*Transferable only*)

<u>Description</u>	<u>Approximate fair market value, if known</u>
TOTAL FMV, if known	\$



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Name of Business: _____ Listing #: _____

ASSETS – SUMMARY & TOTALS

Intellectual Property	\$
Web Sites	\$
Licenses & Permits	\$
Furniture	\$
Equipment	\$
Trade Fixtures	\$
Leasehold Improvements/Fixtures	\$
Franchise Fee (if applicable) <small>Cost of a new franchise, not the transfer fee to a new franchisee.</small>	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
Other (SPECIFY)	\$
TOTAL	\$

APPENDIX:

The Business Broker's Small Business Valuation Process

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The objective of the broker's small business valuation process is to determine the likely range of price that a business will command in a competitive marketplace with as much precision as reasonably possible.

So, how do we do that?

Because so much of business valuation is subjective and based upon actual business sales experience, often we begin with a SWOT (strengths, weaknesses, opportunities, & threats) analysis of the business, both historical and projected. This gives us a "feel" for the overall attractiveness of the business to the market and helps us determine the comparative weight or relevance of the different valuation calculations.

Then, various methods are used to determine a market value. The traditional, usual, and customary are a multiple of the "Seller's Discretionary Earnings" ["SDE"] and a percentage of the gross annual revenue (total sales). (In some instances, EBIDTA is preferable.) But, we will see there are other ways, such as "Make or Buy" and "Return on Investment."

(The SDE used is for one owner-operator; if there are other owner-operators, adjustments need to be made. The complexities of SDE are discussed elsewhere.)

In using the SDE and the Gross Revenue, the analysis can be based on the most recent complete year or, in a fast-evolving industry or market, even the extrapolated SDE from the current year. The SDE & Gross Revenue method most preferred, though, is to calculate a weighted average of the last three years of the company's numbers with the greatest weight on the most recent year (50%), lesser weight on the previous year (33.3%), and even less on the third year back (16.7%). Then, based on the company's industrial class and on comparable sales in the past, we apply a factor: a multiple of SDE (e.g., 1.5X, 2.2X) and a percentage of gross revenue (e.g., 40%, 65%). This yields two preliminary market values to consider and weigh—SDE-based and revenue-based.

There are several other factors that come into play as well, including such things as increasing or decreasing sales (gross revenue) or profits, and the rate of those changes, year-to-year performance anomalies (like the 2020 Covid-19 pandemic), market share, employee strengths and weaknesses, concentration or diversity of customers and/or suppliers, most likely type of buyer, lease and facility concerns, etc.

But, in our experience two of the most important bases for valuation, sometimes more so than the SDE & Gross Revenue methods, are “Make or Buy” and “ROI” (return on investment).

By “make or buy” is meant the cost of replicating a business for sale, rather than buying it. This is both an objective and a subjective calculation. There are the direct costs: building out an empty space to meet the specific needs of the business; acquisition of furniture, fixtures and equipment (“FF&E”); advertising and other prospecting costs to hire personnel; marketing costs to build a customer base and market presence from scratch; unrealized “lost opportunity” revenues; even possibly the cost of acquiring the rights to produce or deliver a certain product or service.

But, more costly and more difficult to ascertain are the many indirect costs, such as: the rental costs of the premises during the build out time (it could be months before the doors even open); negative cashflow for months or years while the customer base, market presence, and sales grow to cover costs and generate a profit; time and energy devoted to finding and training inexperienced personnel, to finding suppliers of raw materials and services, and to promote sales. If honestly projected, including assigning a realistic financial cost to “time to market” and lost opportunity, the prospective business owner can find these numbers daunting.

So, a prospective business buyer is usually prepared to pay a premium over the cost to “make” a business in order to “buy” the business instead. What is that premium? It depends on the industry and the current market conditions; it could be as low as 20% to as much as 200%. But definitely a factor we consider in valuing a business is the cost to “make” or replicate the business from scratch and then assigning a premium to that cost based on our experience in and analysis of the current market.



For a simple Return on Investment (“ROI”) valuation, we take the SDE and adjust it for the cost of replacing the owner-manager (even if it could very well be that a new owner would take over that role). We determine the fair market annual cost of hiring that hypothetical manager and deduct that amount from the SDE. The result is the true benefit accruing to the owner after providing for the management of the business (roughly equivalent to EBITDA). That number divided by the cost to buy the business would result in the ROI.

Here’s a simple example: Assume a business that will cost the buyer \$400,000, with SDE of \$180,000 for the owner-operator. Assume that the fair market cost to replace the owner operator is \$80,000. Deduct that from the SDE ($\$180,000 - \$80,000 = \$100,000$), divide that number by the purchase price ($\$100,000/\$400,000 = 25\%$) to find the return on investment—in this example, 25%.

The inverse of this process is used in valuation. We determine a reasonable ROI, divide the EBITDA by that ROI percentage, and reach an approximate market value. (P=Price; $EBITDA = 20\%P$; $EBITDA/.20 = P$.)

How much ROI is enough? Again, that depends. If a prospective business is going to yield a 7%, or 8%, or 9% ROI, generally speaking, the prospective buyer may be better off investing in real estate. But if the ROI is at least in the mid to high teens, that is an attractive ROI for a small business; the higher the ROI the better the value. The realistic ROI takes into consideration the potential for that business to grow. A business with an ROI of 30% for example but with no opportunity to significantly grow sales, profit, and ROI (e.g., a fast-food venue in a shopping mall) may in fact be worth considerably less than another business with an ROI of say 18% that has great potential for growing revenues, profits, and ROI. That business with a lower ROI (e.g., a manufacturing company with under-utilized proprietary technology) could conceivably in the next year or two be generating an ROI of 40%, 60%, even 100%, while the fast-food restaurant has ROI still hovering around 30%.

What do we use to make our calculations? We use profit and loss statements, balance sheets, and tax returns from the past 3-4 years, along with detailed answers from the business owner regarding critical information, such as employees' experience, tenure, and pay, SDE “add-backs”, rent and facility costs, physical assets, intangible assets (e.g., intellectual property), market share, competition, composition and concentration of the customer base, and diversification and sustainability of the supply chain. We also use databases of comparable business sales and additional proprietary algorithms.



Important Note: For most businesses, the value of the physical/tangible assets is not of significant importance. —“The assets are worth the profits they generate.” Most of our valuations (and actual values in the market) are not based on the valuation of physical assets. However, in asset-rich companies, particularly those with intrinsic real estate (e.g., a motel) or proprietary technology (e.g., a patent), an asset-based component can be relevant to the over-all valuation.

In some cases, a strategic acquirer (one already in the same business field) will pay a premium for a business because of its strategic value to them. When appropriate and it is likely there will be a strategic buyer, we take that into consideration as well.

The goal of a business broker’s opinion of the fair market value of a business is to establish a reasonable estimate of the price that the market will pay for the business and, in light of that, to establish a reasonable asking price for purposes of marketing and selling the business. It is not intended for the purposes of lending, litigation, expert witness testimony, or tax resolution proceedings where a more formal valuation conducted by a professional valuation specialist is required.

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About Tim Cunha:

With more than four decades of experience as an entrepreneurial manager, Tim Cunha has developed, purchased, and sold businesses in various fields, including computer hardware and software development, instrument manufacturing, biotech, wholesale distribution, publishing, marketing, and retail.

He founded Artronics, Inc., a graphic arts computer and software development company, in central New Jersey. Five years later, he sold it to Genigraphics Corporation, a former GE subsidiary, for several million dollars and corporate stock, and then served on their board of directors. He went on to handle numerous business transactions, including the transfer of intellectual property and the sale and acquisition of manufacturing businesses.

Tim earned a BA from Rutgers and a JD from Georgetown, is licensed to practice law in New Jersey (retired), and is a licensed California real estate (business) broker. He was the host of “The Business Beat” radio program on AM1220/KDOW.

Prof. Cunha taught undergraduate and MBA students on the faculty of the College of Business at Eastern New Mexico University, and prior to that was an adjunct professor at Stockton State College, Raritan Valley College, and Rutgers University. Currently, he teaches MBA students part-time as a Senior Lecturer on the Management faculty of a prestigious West Coast graduate school.