Business Valuation Tool:

The Best & Easiest Valuation Tool Ever!

UPDATED -- 2010

Ever wanted an easy way to value your business annually?

Or, value an acquisition target company you're looking at?

Here's the answer: a simple, easy-to-use, one-page valuation tool!

It's known as the "Triangulation-Averaging Valuation Tool" – a fancy name for highly accurate and easy to use.

Just fill in a few numbers from your financial statements on a one-page form, and then be guided instantly in selecting some valuation multipliers…and ***voila!*** → you have your valuation!

The one-page form looks like this

Valuation Tool: example of strong company

Valuation ($000) for: ***Good Corp. (strong-company example)***

FINANCIALS:

(For yrs ending December)	**2002**	**2003**	**2004**	**2005**	**2006**
Net Sales	$11,003	$12,945	$15,123	$17,783	$21,212
Pretax Earnings PTE)	881	1,012	1,199	1,312	1,542
Depreciation	138	141	155	165	186
Interest		31	37	57	64
Stockholders Equity				1687	2,555
Debt (interest-bearing)				803	995
Debt:Equity Ratio				0.5	0.4
Sales Growth Rate - %	---	18%	17%	18%	19%

Triangulation Valuation Information:

PTE 12-mo	**2006**	1542
Recast Items		0
Excess Takeout		0
Other Adj		0
Adj PTE 12-mo		1542

------> Net Income After Tax NIAT = 957 Assumes 38% Corp Combined Tax Rate. (Incorporates 6% State Tax Rate)

Adj Cash Flow:

Depreciation	186	186
Other Depr or Amort	0	0
Adj After Tax Cash Flow T12M -------------------->		1143

EBITDA (earns b4 Int, Tax, Depr,Amtz)

PTE	1542
Interest	64
Depreciation	186
Adj EBITDA	1792

Adj Net Worth:

Book Net Worth	2555
Excess takeout a.t.	---
Other	---
Adj Net Worth	2555

Note: Very consistent, handsome growth for its industry; a leader.
Note: Consistently high profit $ and %-of-sales over time.
Note: Low debt:equity for a manufacturing business.
Note: Company has solid management, guiding growth nicely.
Note: Company is a national leader in a smallish industry.
Note: Industry grows at 8% per year; this company gaining share.
Note: Solid assets with verifiable asset valuations.

Valuation Multipliers:
Multipliers below should be 8-12x for PE, 3-6x for EBITDA, and 1.5-3x for NW, depending on P&L history, debt, etc.

VALUATION SUMMARY:

		Multipliers (X)		**Value ($000)**
Adj NIAT	957	**11.0**	------>	$10,523
Adj EBITDA	1792	**5.5**	------>	$9,856
Adj NW	2555	**3.0**	------>	$7,665
TOTAL VALUE (avg) =				**$9,348**

<--Valuation at Dec 31, 2006.

Valuation is today's market value for 100% of Company's stock.

Valuation Tool.xls

And it's fully detailed in the following pages. Please scroll down to see how it works!

Hope this is really helpful to you. With best wishes, Kraig Kramers, U.S. Corporate Partners, LLLP info@ceotools.com (770) 389-8511.

Valuation Tool: Know Your Company's True Worth!

Ready-to-Use in Excel Format

Use the second page down to value a business; see pages below that for instructions!

Please read & accept Software License below.   Else, please don't use this CEO Tool.   Nothing to sign, we trust you!

Valuation ($000) for *X-Y-Z Manufacturing Company, Inc. (example)*

UPDATED -- 2010

FINANCIALS:

(For yrs ending December)	**2005**	**2006**	**2007**	**2008**	**2009**
Net Sales	$3,223	$3,989	$4,644	$6,022	$8,406
Pretax Earnings PTE)	97	111	309	14	227
Depreciation		39	52	58	53
Interest		31	37	57	64
Stockholders Equity				510	640
Debt (interest-bearing)				955	1,035
Debt:Equity Ratio				1.9	1.6
Sales Growth Rate - %	---	24%	16%	30%	40%

Triangulation Valuation Information:

PTE 12-mo	**2009**	227
Recast Items		0
Excess Takeout		0
Other Adj		0
Adj PTE 12-mo		227

------> Net Income After Tax NIAT = 141   Assumes 38% Corp Combined Tax Rate. (Incorporates 6% State Tax Rate)

Adj Cash Flow:

Depreciation	53	53
Other Depr or Amort	0	0
Adj After Tax Cash Flow T12M	-------------------->	194

EBITDA (earns b4 Int, Tax, Depr,Amtz)

PTE	227
Interest	64
Depreciation	53
Adj EBITDA	344

Adj Net Worth:

Book Net Worth	640
Excess takeout a.t.	---
Other	---
Adj Net Worth	640

Note:	High sales growth but somewhat inconsistent.
Note:	Very inconsistent and low profit-to-sales over time.
Note:	Relatively high debt:equity for a manufacturing business.
Note:	Company has been managed for growth, not profitability.
Note:	Company is a leader in its localized market.
Note:	No major threats to growth or earnings next three years.
Note:	Management fully in place, willing to stay.

Valuation Multipliers:

Multipliers below should be 8-14x for PE, 3-6x for EBITDA, and 1.5-3x for NW, depending on P&L history, debt, etc.

VALUATION SUMMARY:

		Multipliers (X)		**Value ($000)**
Adj NIAT	141	**10.0**	------>	$1,408
Adj EBITDA	344	**4.5**	------>	$1,548
Adj NW	640	**2.0**	------>	$1,281
TOTAL VALUE (avg) =				**$1,412**

<--Valuation at Dec 31, 2009.

Valuation is today's market value for 100% of Company's stock.

Valuation For: Your Company or Acquisition Target

Use this Page to Value Your Company!

Valuation ($000):

FINANCIALS:

(For yrs ending December)	2005	2006	2007	2008	2009
Net Sales					
Pretax Earnings					
Depreciation					
Interest					
Stockholders Equity					
Debt (interest-bearing)					
Debt:Equity Ratio				#DIV/0!	#DIV/0!
Sales Growth Rate - %	---	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Triangulation Valuation Information:

PTE 12-mo	**2009**	0
Recast Items		---
Excess Takeout		---
Other Adj		---
Adj PTE TTM		0

------> NIAT = 0

Assumes 38% Corp Combined Tax Rate.
(Incorporates 6% State Tax Rate)

Adj Cash Flow:		
Depreciation	0	0
Other D &/0r A	0	0
Adj After Tax Cash Flow T12M	-------------------->	0

EBITDA:	
PTE	0
Interest	0
Depreciation	0
Adj EBITDA	0

Note:
Note:
Note:
Note:
Note:
Note:
Note:

Adj Net Worth:	
Book Net Worth	0
Excess takeout a.t.	---
Other	---
Adj Net Worth	0

Multipliers below should be 8-14x for PE, 3-6x for EBITDA, and 1.5-3x for NW, depending on P&L history, debt, etc.

VALUATION SUMMARY:

		Multipliers (X)		Value ($000)
Adj NIAT	0	9.5	------>	$0
Adj EBITDA	0	5.0	------>	$0
Adj NW	0	1.8	------>	$0
TOTAL VALUE (avg) =				**$0**

<--Valuation at Dec 31, 2009.

Valuation is today's market value for 100% of Company's stock

Simple, Highly-Accurate ***Triangulation-Averaging Valuation Tool***

How it works: Known as the triangulation-averaging method, this tool takes the current financial performance of a business and calculates a value for the business based on the health of the Income Statement, the Balance Sheet and the Cash Flow. Most other valuation methodologies use only one or two those. And, while based on current performance (to determine current value), the triangulation-averaging method also looks at the amount and consistency of the company's growth, profitability, and leverage performance. Basically, because triangulation-averaging looks at almost everything in a business and because it utilizes the averaging of three separate values, it almost always determines an actual current market price, a value the business would actually transact for (i.e., buyer buy and seller sell).

By entering some simple financial information and looking at the company's performance as described here, you pick three multipliers and the model gives you an overall value for 100% of the company's stock at any point in time. The next page describes how it works. Please read it in detail and understand the examples shown below to help select your valuation multipliers, as described on the next page. Here are examples of valuations of a weak and a strong company.

Valuation Tool: example of weak company

Valuation ($000) for *DEF Corp. (weak-company example)*

FINANCIALS:

(For yrs ending December)	2002	2003	2004	2005	2006
Net Sales	$3,223	$3,289	$2,975	$3,107	$3,129
Pretax Earnings PTE)	61	59	49	55	59
Depreciation	38	39	41	47	49
Interest		31	37	57	64
Stockholders Equity				302	333
Debt (interest-bearing)				687	795
Debt:Equity Ratio				2.3	2.4
Sales Growth Rate - %	---	2%	-10%	4%	1%

Triangulation Valuation Information:

PTE 12-mo **2006** 59
Recast Items 0
Excess Takeout 0
Other Adj 0 Net Income After Tax
Adj PTE 12-mo 59 ------> NIAT = 37 Assumes 38% Corp Combined Tax Rate. (Incorporates 6% State Tax Rate)

Adj Cash Flow:
Depreciation 49 49
Other Depr or Amort 0 0
Adj After Tax Cash Flow T12M --------------------> 86

EBITDA (earns b4 Int, Tax, Depr,Amtz)
PTE 59
Interest 64
Depreciation 49
Adj EBITDA 172

Note: No sales growth and no apparent strategy.
Note: Consistently very low profit over time.
Note: High debt:equity for a distribution business.
Note: Company just exists, no real direction or management.
Note: Company is a "me-too" player in its industry.
Note: Industry grows at 8% per year; this company losing share.
Note: Despite a $400K valuation, who would buy this business?

Adj Net Worth:
Book Net Worth 333
Excess takeout a.t. ---
Other ---
Adj Net Worth 333

Valuation Multipliers:
Multipliers below should be 8-12x for PE, 3-6x for EBITDA, and 1.5-3x for NW, depending on P&L history, debt, etc.

VALUATION SUMMARY:

		Multipliers (X)		Value ($000)
Adj NIAT	37	**8.0**	------>	$293
Adj EBITDA	172	**3.0**	------>	$516
Adj NW	333	**1.5**	------>	$500
TOTAL VALUE (avg) =				**$436**

<--Valuation at Dec 31, 2006.

Valuation is today's market value for 100% of Company's stock.

Valuation Tool.xls

Valuation Tool: example of strong company

Valuation ($000) for *Good Corp. (strong-company example)*

FINANCIALS:

(For yrs ending December)	2002	2003	2004	2005	2006
Net Sales	$11,003	$12,945	$15,123	$17,783	$21,212
Pretax Earnings PTE)	881	1,012	1,199	1,312	1,542
Depreciation	138	141	155	165	186
Interest		31	37	57	64
Stockholders Equity				1687	2,555
Debt (interest-bearing)				803	995
Debt:Equity Ratio				0.5	0.4
Sales Growth Rate - %	---	18%	17%	18%	19%

Triangulation Valuation Information:

PTE 12-mo **2006** 1542
Recast Items 0
Excess Takeout 0
Other Adj 0 Net Income After Tax
Adj PTE 12-mo 1542 ------> NIAT = 957 Assumes 38% Corp Combined Tax Rate. (Incorporates 6% State Tax Rate)

Adj Cash Flow:
Depreciation 186 186
Other Depr or Amort 0 0
Adj After Tax Cash Flow T12M --------------------> 1143

EBITDA (earns b4 Int, Tax, Depr,Amtz)
PTE 1542
Interest 64
Depreciation 186
Adj EBITDA 1792

Note: Very consistent, handsome growth for its industry; a leader.
Note: Consistently high profit $ and %-of-sales over time.
Note: Low debt:equity for a manufacturing business.
Note: Company has solid management, guiding growth nicely.
Note: Company is a national leader in a smallish industry.
Note: Industry grows at 8% per year; this company gaining share.
Note: Solid assets with verifiable asset valuations.

Adj Net Worth:
Book Net Worth 2555
Excess takeout a.t. ---
Other ---
Adj Net Worth 2555

Valuation Multipliers:
Multipliers below should be 8-12x for PE, 3-6x for EBITDA, and 1.5-3x for NW, depending on P&L history, debt, etc.

VALUATION SUMMARY:

		Multipliers (X)		Value ($000)
Adj NIAT	957	**11.0**	------>	$10,523
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TOTAL VALUE (avg) =				**$9,348**

<--Valuation at Dec 31, 2006.

Valuation is today's market value for 100% of Company's stock.

Valuation Tool.xls

Guidelines for Working with this Valuation Tool:

Preparing a valuation using this tool is a pretty simple three-step process: a) enter some basic financial information in the table, b) make some re-cast adjustments as described below, then c) make some judgments about growth and profit consistency, profitability, debt-equity appropriateness, as well as balance sheet and cash flow health, then d) pick your valuation multiples from a range, as described below.

1. Valuations should be based on the company's ***current performance*** (on an actual Trailing-12-Months, T12M, basis), with earnings "re-cast" to reflect a normal operation. This means, remove positive and negative one-time costs and revenues, as well as unusual non-GAAP entries (Generally Accepted Accounting Principles). For example, if the owner has a "sweetheart" deal on renting the building (assuming s/he or a relative owns it), then adjustments to the ***current performance*** should be made to reflect market.
2. First, fill in the entries in the table **(a = highlighted in green)** for actual financial performance over the past four or so years, and then identify re-cast adjustments **(b = also highlighted in green)** to be made. Some examples of re-cast items include: excess CEO compensation, payments to family members who really serve no legitimate function in the business, a one-time EEOC claim (assuming it only happened once the past five years), etc. Be straight-arrow in selecting re-casts…Buyers and Sellers can tell if over-stated or fallacious and will react accordingly! Now fill in some comments in the box on the valuation model page as described there **(c = green highlighted)**.
3. The valuation model uses three separate values for the business and then averages them. This technique has been found to work in tens of thousands of valuations over a 35 year period. Now, select your ***valuation multipliers*** from the figures shown below the box on the valuation model page **(d = highlighted with blue)**; these are for privately-owned businesses and they would be 35% to 60% higher for public companies. To fine-tune your multipliers, an investment banker or acquisition consultant can give you the ranges at any point in time – these multipliers do change substantially depending on financial market performance and current business trends in the mergers-and-acquisitions field. These same advisors can do a like-kind sampling of the market for recent transactions in your industry, to further fine-tune the multiples used. In 2006, there is a very unusual trend toward significantly higher EBITDA multiples (as high as 7 – 11x) in some industries, but this is an abnormality that will probably not continue for too long.
4. To select a multiplier from each range for PTE, Net Worth, and EBITDA, an objective look at the business needs to be viewed, taking into account the company's growth record (higher multiple for consistent, high growth over several years), it's profitability (higher multiple for better-than-industry and consistent profits), and steadiness and size of EBITDA relative to the Balance Sheet and cash needs of the business. Good growth would be 15% a year or more, consistently for three years or more. Good profitability would typically be 8% pretax Profit on Sales consistently over three years or more. Good EBITDA would be 20% or more consistently over three years or more, but this one depends varies more by industry-type than the other two. These are just guidelines, so an independent look at your industry and its averages is always a good idea.
5. Despite all that "fine-tuning" and "judgment" listed above, if a person is consistent and conservative in picking multiples from the ranges, the valuation determination will be highly accurate. It almost always will reflect what an actual transaction could be expected to yield in terms of purchase price for 100% of the stock of the company.

How to Improve the Value of Your Company or an Acquired Company:

Please understand how the Valuation Tool works, since it will guide you toward improving pretax earnings, EBITDA, and net worth. Some wonderful tools to help with those improvements include: Trailing 12-Month Charts, What Causes Sales, the Quarterly Priorities Manager, the Trailing 4-Quarter Chart, and the 1-Page Business Plan including Unique Business Proposition.

All of these tools for increasing performance of businesses are discussed in depth in the book "CEO Tools…the Nuts-n-Bolts of Business for Every Manager's Success" which is available from your favorite dot.com bookseller. The book includes a CD for your computer with many tools that will help you increase the profitability and value of a business. You can get the best price and find out more about this book by visiting www.ceotools.com and reviewing the information there as well as clicking through (click on the book symbol or Order Book) to Amazon.com or whichever bookseller you like best.

In addition, the website www.ceotools.com contains a New Tools Catalog (over to the left of the homepage) which has many of the tools as quick downloads for a modest fee.

Here are some other ideas to get you started with dramatically improved company value over time:

1. Grow sales aggressively, but not so fast that you run out of cash, in order to improve profits and EBITDA. Growth in these two areas significantly improves a company's value (many ideas available in the What Causes Sales Tool at www.ceotools.com).
2. Manage your cash flow tighter to reduce the debt:equity ratio (many tips are available in the Cash Manager Tool at www.ceotools.com).
3. Improve equity (net worth) by not distributing much in the last few years before putting a company on the market to sell it.
4. Dress the company up for sale, which means getting everything looking and working just great! Many tips are available in the "CEO Tools" book and by reading the "best practices" area on ***Mergers & Acquisitions*** as well as ***Exit Planning*** at the website www.VistageView.com which is available to the public. Best of all would be to join a Vistage or TEC group in your area; details are available at that same website.
5. Manage "operating expenses as a % of sales" which is a tool that can pay for an entire acquisition – tool available on the CD in the back of the "CEO Tools" book.

Hope this is helpful to you!

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for <u>CEO Tools</u>

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