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The Market Approach Then and Now: What Business Appraisers Need to Know

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Excerpt from

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What It's Worth

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How to Use Transaction Data for Private Company Valuations: A Primer

In recent years, online databases, which cover the details of many thousands of transactions, have become increasingly relevant to the practice of business valuation. When valuing or pricing businesses, appraisers should know how completed transactions have been priced and structured.

Transaction databases relate the price paid in other industry transactions to the respective company's underlying financial data. The results of this research, "valuation multiples," are applied to the subject company's underlying financial data to develop indications of value. See Exhibit 1 on the following page for a checklist for using transaction databases for pricing and valuation.

Exhibit 1. Checklist for Using Transaction Databases for Pricing and Valuation

1. Specify the parameters of the search.
 - a. Industry: Specify a standard industrial classification (SIC) code and/or North American Industry Classification System (NAICS) code or a range of codes.
 - b. Time frame: Specify a beginning and an end date.
 - c. Size: Specify size range as measured by deal value, equity value, sales, assets, earnings before interest, and net income (all of these characteristics are not necessarily available in all databases).
 - d. Specify the database(s) to include in the initial search.
2. Query as to number of transactions meeting the criteria in each selected database.
 - a. If there are not enough transactions, broaden one or more criteria and query again.
 - b. If there are too many transactions, narrow one or more criteria and query again.
3. Before making a final selection of transactions, view or print the details of each transaction under consideration. (Transaction reports available for each database are presented later in this article.) By examining the transaction details, analysts may eliminate some for various reasons:
 - a. Company description not compatible.
 - b. Valuation multiples not meaningful.
 - c. Complicated transaction structure.
4. Select which valuation multiples are most meaningful for the subject.
5. Prepare a table of valuation multiples (see Exhibits 2 and 3).
6. Select multiples to apply to the subject company's fundamental data (see Exhibits 2 and 3).
7. Prepare a valuation table (see Exhibits 4 and 5).
8. It's not necessary to use both an equity and an invested-capital procedure. If you use both, there will be a range of indicated value, which may be satisfactory for some purposes, such as fairness opinions. If it is necessary to develop a point estimate (for estate or gift taxes or property distribution in divorce), reconcile the estimates, choosing one or the other or some point in between.

Exhibit 2. Selection of Guideline Company Equity Multiples

	Equity	Equity/Sales	Equity/GCF	Equity/Net Income	Equity/Book Value of Common Stock
Nimbus	\$6,187,500	0.18	4.46	10.55	4.50
Cirrus	\$13,000,000	0.20	1.82	2.31	6.50
Stratus	\$42,000,000	0.72	12.59	15.84	4.00
Stormy	\$33,675,000	0.35	3.50	7.04	1.50
Mean	\$23,715,625	0.36	5.59	8.93	4.13
Median	\$23,337,500	0.27	3.98	8.80	4.25
Range	\$6.2MM-\$42.0MM	0.18-0.72	1.82-12.59	2.31-10.55	1.50-6.50
Std. Dev.		0.25	4.79	5.71	2.06
C of V		0.70	0.86	0.64	0.50
Multiples selected		0.35(a)	4.5(b)	9.0(b)	4.50(c)

(a) Above median because return on sales above median. (b) Slightly above median because slightly less risk. (c) Above median because above median return on equity.

Definitions:

GCF is Gross Cash Flow = net income + noncash charges

C of V is Coefficient of Variation = standard deviation/mean

Exhibit adapted from: Pratt, S (2005). *The Market approach to valuing businesses*, Second Edition. New York: John Wiley & Sons, Inc. See p. 132.

Exhibit 3. Selection of Guideline Company MVIC Multiples

	MVIC	MVIC/Sales	MVIC/EBITDA	MVIC/EBIT	MVIC/Book Value of Invested Capital
Nimbus	\$13,187,500	0.38	5.99	9.42	1.57
Cirrus	\$28,200,000	0.43	2.37	2.72	1.64
Stratus	\$42,000,000	0.73	8.57	9.94	3.86
Stormy	\$54,675,000	0.57	3.79	5.69	1.26
Mean	\$34,640,625	0.53	5.18	6.94	2.08
Median	\$35,350,000	0.5	4.89	7.55	1.61
Range	\$13.2MM-\$54.7MM	0.38-0.73	2.37-8.57	2.72-9.94	1.26-3.86
Std. Dev.		0.16	2.71	3.39	1.20
C of V		0.30	0.52	0.49	0.57
Multiples selected		0.55(a)	5.00(b)	7.50(b)	1.60(c)

(a) Slightly above median because EBIT/Sales slightly above median. (b) Near median - company quite comparable to group. (c) At median because company return on book value of invested capital near median.

Definitions:

EBITDA = Earnings before interest, taxes, depreciation, and amortization

EBIT = Earnings before interest and taxes

MVIC = Market value of invested capital, computed by (shares of stock outstanding x price per share) + interest bearing debt

Exhibit adapted from: Pratt, S (2005). *The Market approach to valuing businesses*, Second Edition. New York: John Wiley & Sons, Inc. See p. 133.

Exhibit 4. Valuation Using Equity Multiples

	Sales	Cash Flow	Net Income	Book Value	Weighted Value
Company Fundamentals	\$48,000,000	\$3,848,750	\$2,648,750	\$5,000,000	
Selected Multiple (from Exhibit 2)	0.35	4.5	9.0	4.5	
Indicated value	\$16,800,000	\$17,319,375	\$23,838,750	\$22,500,000	
Weight	x 0 (a)	x 0.10 (b)	x 0.50 (c)	x 0.40 (d)	
Weighted value	0	\$1,731,938	\$11,919,375	\$9,000,000	= \$22,651,313

(a) No weight because of great differences among subject and guideline companies. (b) Only 10% because of very high coefficient of variation among guideline companies. (c) Most weight because market places high weight and second lowest coefficient of variation. (d) More weight than normal because of low coefficient of variation.

Exhibit 5. Valuation Using Invested-Capital Multiples					
	Sales	EBITDA	EBIT	Book Value of Invested Capital	Weighted Value
Company Fundamentals	\$48,000,000	\$5,800,000	\$4,600,000	\$16,000,000	
Selected Multiple (from Exhibit 2)	0.55	5.0	7.5	1.6	
Indicated value	\$26,400,000	\$29,000,000	\$34,500,000	\$25,600,000	
Weight	x 0.25 (a)	x 0.30 (b)	x 0.20 (c)	x 0.25 (d)	
Weighted value	\$6,600,000	\$8,700,000	\$6,900,000	\$6,400,000	= \$28,600,000
Less: Long-term debt					\$7,500,000
					<u>\$21,000,000</u>

(a) Lowest coefficient of variation. (b) EBITDA usually most important variable. (c) EBIT important but less so than EBITDA. (d) Asset value somewhat important.

There are many benefits to using comparable transactions from databases. If your valuation is part of litigation, valuation multiples derived from transacted businesses are easy to explain to juries and judges. Further, courts have expressed a preference toward real-world transactions. As the Honorable Christopher S. Sontchi, U.S. bankruptcy judge for the District of Delaware, put it: “Courts have consistently held that the use of actual market data is the preferred method to value an asset.”¹ Further, he says that the comparable transactions method is considered one of the “standard methodologies” for valuing a business. When pricing a business for sale, using real-world transactions as a basis for pricing your subject business lends credibility to your work product in discussions with buyers and/or sellers.

Equity Versus Invested Capital

The two procedures used for valuation with almost all transaction databases are equity and invested capital.

In the equity procedure, the price paid for all common equity (stock, partnership interests, and sole proprietorships) is divided by some measure of return to equity or some balance sheet measure relating to equity. The resulting ratio is a valuation multiple applicable to common equity.

In the invested capital procedure, the price paid for all invested capital is referred to as the market value of invested capital (MVIC). This usually includes interest-bearing debt, preferred equity, and common equity. In the invested-capital procedure, the price paid for all invested capital (“price” includes debt assumed in the transaction) is divided by some measure of return available to all stakeholders (debt and equity) or some balance sheet measure relating to all stakeholders.

Generally, invested capital multiples are preferred because they mitigate the differences between the capital structures of the comparable transactions and that of the subject company to which the valuation multiples are applied. Applying equity multiples assumes the same capital structure and proportion of debt between the subject company and the comparables. This is often not the case. It is advisable to apply an invested capital multiple to the subject and then subtract the subject’s interest-bearing liabilities (note that the user should next review what is transferred in the comparable sale and make adjustments accordingly to the subject’s final value). Guidance to

1 “Valuation Methodologies: A Judge’s View,” *American Bankruptcy Institute Law Review*, Spring 2012, page 14.

apply invested capital multiples and adjust the derived result to determine the subject company's equity value is discussed later in this article.

Market Valuation Multiples

A list of equity and invested capital multiples computed by each database is shown in Exhibit 6. In addition to the computed multiples, the databases give enough information to compute more valuation multiples, if desired.

Exhibit 6. Equity and Invest Capital Multiples				
	<i>Pratt's Stats</i>	<i>BIZCOMPS</i>	<i>Public Stats</i>	<i>Mergerstat/BVR Premium Study</i>
Equity Multiples				
Equity/Sales				x
Equity/Net Income (P/E)				x
Equity/Book Value of Equity				x
Equity/Discretionary Earnings				
Invested-Capital/Multiples				
Invested-Capital/Sales	x	x	x	
Invested-Capital/Gross Profit	x		x	
Invested-Capital/Earnings Before Interest and Taxes (EBIT)	x		x	x
Invested-Capital/Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	x		x	x
Invested-Capital/Book Value of Invested Capital	x		x	
Invested-Capital/Discretionary Earnings	x	x		

Exhibit compiled from databases available online at www.BVMarketData.com

When invested capital multiples are used, the value of the interest-bearing debt must be subtracted from the market value of the invested capital derived for the subject company to arrive at the indicated value of the equity for the subject company, as shown in Exhibit 5.

Most valuation analysts prefer invested capital price/sales over equity price/sales because all capital, not just equity, supports sales. Equity price/sales multiples can be highly misleading if compared among companies with disparate leverage factors. "Sales," as used here, is a synonym for revenue.

A fundamental performance measure, perhaps unfamiliar to some readers, is "discretionary earnings." This is equal to earnings before interest, taxes, depreciation, and amortization (EBITDA) plus *all* compensation, benefits, and perks to one owner/operator. Business brokers widely use discretionary earnings for pricing and valuing small companies. BIZCOMPS calls it "seller's discretionary earnings" (SDE), while Pratt's Stats calls it by "discretionary earnings," as listed in the International Business Brokers Association glossary. One difference between BIZCOMPS's SDE and Pratt's Stats' discretionary earnings is that Pratt's Stats includes the owner's salary in the calculation (i.e., EBITDA + owner's compensation) but does not include additional benefits or perks to the owner, as BIZCOMPS does.

It is important to note that invested capital multiples are applied to returns that are preinterest expense, as this reflects returns to both equity and debt holders. Some examples are invested capital

price/EBITDA and invested capital price/EBIT. An invested capital multiple would not be derived for returns post-interest expense, such as net income, as this reflects returns to equity holders (e.g., equity price/net income would be appropriate).

Asset Sales Versus Stock Sales

When reviewing transactions of comparable companies, it is important to notice that some transactions are “asset sales” and others are “stock sales.” In an asset sale, the buyer *typically* purchases the inventory, fixed assets, and intangibles (both identifiable and unidentifiable/goodwill). In an asset sale, a buyer *typically* does not purchase any cash and equivalents or accounts receivable, nor does the buyer *usually* assume any liabilities. In a stock sale, the buyer acquires the entire legal entity of the company, which includes all assets and liabilities unless otherwise specified in the purchase agreement. Small businesses are typically sold as asset sales as opposed to stock sales.

Selecting The Multiples

If the analyst selects more than one multiple, which is typical, he or she must select how much weight to give to each multiple. He or she must also decide where the selected multiple should fall within (or even outside of) the range of observed multiples.

Generally, the multiples with the least dispersion (the tightest range) are those on which the market relies in that particular industry. A handy statistical tool to measure dispersion is the “coefficient of variation,” which is the standard deviation divided by the mean. Importantly, the number of observations and the coefficient of variation are positively correlated. In other words, as the number of observations increases, the coefficient of variation increases, and vice versa. Therefore, three observations with an invested capital/EBITDA price may have a lower coefficient of variation than 10 observations of invested capital/sales yet have the potential to be a worse predictor of value. Be aware of the differences in the number of observations among the observed measures of the coefficients of variation (e.g., every reported valuation multiple may not be constructed from the same number of observations). Also, become knowledgeable about the pricing dynamics for the subject company’s industry.

Most practitioners believe the median (the middle observation) is a better measure of central tendency for valuation multiples than the mean (the arithmetic average) because a few outliers can distort the mean. Comparative financial analysis between the subject and guideline companies can provide guidance as to whether to select the “median,” “above the median,” or “below the median.” For example, a company with a high return on sales relative to the guideline companies normally would deserve an above average price/sales multiple. Similarly, a company with a below average return on equity is usually accorded a below average price/book value multiple.

Another measure of central tendency becoming increasingly common, but has yet to gain wide spread adoption—at least at the time of this writing—is the harmonic mean. The harmonic mean can be used when the practitioner wishes to calculate the average of a group of rates/ratios (e.g., invested capital price/sales) but is not appropriate to use when computing the average of nonrate

metrics (e.g., the average revenues for a group of comparable transactions). As the harmonic mean tends strongly toward the least elements of the list, it may (compared to the arithmetic mean) mitigate the influence of large outliers and increase the influence of small values.

The selection of multiples should be explained and justified in the valuation report. In this article’s exhibits, brief explanations are included in the footnotes to Exhibits 2, 3, 4, and 5, but you should include more complete explanation in the text of most valuation reports.

Deriving Equity Values

After applying invested capital multiples—the common practice when using the transaction databases—many appraisers are ultimately attempting to reach an equity value for their subject company. Doing so requires adding back some assets and subtracting some liabilities and is dependent on whether asset sales or stock sales were used as comparative transactions. The typical treatment of the derived invested capital price is outlined in Exhibit 7 and is based on *The Comprehensive Guide to the Use and Application of the Transaction Databases*, by Nancy J. Fannon and Heidi P. Walker.

Exhibit 7. Typical Application of Asset Multiples and Stock Multiples			
<p style="text-align: center;"><u>Asset Multiples</u></p> <div style="border: 1px solid black; padding: 5px;"> Subject Company Revenue or Earnings □ X Pricing Multiple (as selected by appraiser) = Indicated Market Value of Invested Capital + Assets not included in the multiple (usually AR and cash) - Liabilities excluded from the multiple (usually all) + Real estate + Non-operating assets - Non-operating liabilities = Indicated Value of Equity </div>		<p style="text-align: center;"><u>Stock Multiples</u></p> <div style="border: 1px solid black; padding: 5px;"> Subject Company Revenue or Earnings X Pricing Multiple (as selected by appraiser) = Indicated Market Value of Invested Capital - Interest bearing debt + Real estate + Non-operating assets - Non-operating Liabilities = Indicated Value of Equity </div>	
<u>Using Asset Sales</u>		<u>Using Stock Sales</u>	
Derived Invested Capital Value	<input type="text"/>	Derived Invested Capital Value	<input type="text"/>
+ Assets not included in the multiple	<input type="text"/>	- Interest bearing debt	<input type="text"/>
- Liabilities excluded from the multiple	<input type="text"/>	+ Real estate	<input type="text"/>
+ Real estate	<input type="text"/>	+ Non-operating assets	<input type="text"/>
+ Non-operating assets	<input type="text"/>	- Non-operating Liabilities	<input type="text"/>
- Non-operating liabilities	<input type="text"/>	= Indicated Value of Equity	<input type="text"/>
= Indicated Value of Equity	<input type="text"/>	Minority interest?	<input type="text"/>
Minority interest?	<input type="text"/>	= Pro Rata Equity Value	<input type="text"/>
= Pro Rata Equity Value	<input type="text"/>	Lack of control discount	<input type="text"/>
Lack of control discount	<input type="text"/>	Marketable Minority Value	<input type="text"/>
Marketable Minority Value	<input type="text"/>	Lack of marketability discount	<input type="text"/>
Lack of marketability discount	<input type="text"/>	= Non-Marketable Minority Value	<input type="text"/>
= Non-Marketable Minority Value	<input type="text"/>	Appraiser Selected Final Value*	<input type="text"/>
Appraiser Selected Final Value*	<input type="text"/>		

Source: Pratt’s Stats Analyzer, available from www. BVMarketData.com

Further, *most* transaction databases are comprised of 100% private business sales (more on this below), and some appraisers seek to value a minority interest. As a result, some appraisers valuing a minority interest may wish to apply a discount for lack of marketability and/or a discount for lack of control to a pro rata value resulting from the application of the Pratt's Stats valuation multiples. Exhibit 7 provides a general template to consider and is sourced directly from the Pratt's Stats Analyzer, which is included with a Pratt's Stats subscription or a Pratt's Stats single-use purchase. The template in Exhibit 7 is put forth as a guideline—while it provides considerations, it is not all-inclusive. Ultimately, the appraiser is responsible for considering all relevant factors in determining the value of a business interest.

About the Databases

The database summary (see Exhibit 8) contains the number of data fields in each database, the earliest transaction, and the total number of transactions in each, broken down by the number of transactions in each size category by sale price. Note that this totals to over 44,000 total transactions as of the publication date. Pratt's Stats, Public Stats, and BIZCOMPS only include 100% transactions. This is not entirely true of the Factset Mergerstat/BVR Control Premium Study (as of the publication date, only 75% of the transactions were 100% interest purchases).

A *BVWire* survey found that 95.6% of business valuation professionals routinely use the market approach (i.e., the application of private company transactions data as well as guideline public

Exhibit 8. Database Summary				
BVMarketData.com				
Quantity of Transactions Sorted by Sale Price				
	Pratt's Stats	BIZCOMPS	Public Stats	Mergerstat/BVR Control Premium Study
Data Fields per Transaction	89	21	64	57
Earliest Transaction	1990	1995	1995	1998
Sale Price				
\$250,000 and Under	7,710	8,685	0	9
\$250,001 - \$500,000	2,499	2,398	0	10
\$500,001 - \$1 million	1,617	1,263	3	29
\$1,000,001 - \$2 million	1,127	510	9	66
\$2,000,001 - \$5 million	1,278	190	73	241
\$5,000,001 - \$10 million	1,063	40	99	371
\$10,000,001 - \$20 million	1,107	7	193	609
\$20,000,001 - \$50 million	1,321	4	437	1,272
\$50,000,001 - \$100 million	745	0	448	1,163
\$100,000,001- \$500 million	783	0	1,059	2,484
Over \$500,000,001	243	0	970	2,254
Total	19,493	13,097	3,290	8,507
				44,387
Notes:				
All data is of 3/1/2013				
BIZCOMPS Sale Price = Actual Sale Price plus transferred inventory				
Pratt's Stats Sale Price = All consideration paid plus assumed interest-bearing liabilities.				
Mergerstat/BVR Control Premium Study Sale Price = The aggregate purchase price given to shareholders of the target company's common stock by acquiring company.				
This may not represent 100% of the company value.				
Sources:				
BIZCOMPS (Las Vegas: BIZCOMPS) found at www.BVMarketData.com sm				
Pratt's Stats and Public Stats (Portland, OR: Business Valuation Resources, LLC) found at www.BVMarketData.com sm				
Mergerstat/BVR Control Premium Study (Los Angeles: Mergerstat LP) found at www.BVMarketData.com				

company data) in their valuations, with 85% using Pratt's Stats and 62% using BIZCOMPS. Pratt's Stats is the leading private company transaction database. Started in 1996, proprietary transaction data are gathered from business brokers, intermediaries, and other sources, including the Securities and Exchange Commission (SEC), when a public company acquires a private company. As of the

Exhibit 9. A Pratt's Stats SEC-sourced Transaction Report

2/28/13

BVMarketData | Transaction Report

Pratt's Stats® Transaction Report Prepared: 2/28/2013 2:57:08 PM (PST)

Seller Details		Source Data	
Target Name:	Michael's Finer Meats, LLC.	Public Buyer Name:	Chefs' Warehouse, Inc.
Business Description:	Produces Meat, Seafood, and Specialty Food Products for Restaurants, Steakhouses, Clubs, Hotels, Caterers, and Consumers	8-K Date:	N/A
SIC:	5147 Meats and Meat Products	8-K/A Date:	10/25/2012
NAICS:	311612 Meat Processed from Carcasses	Other Filing Type:	N/A
Sale Location:	Columbus, OH, United States	Other Filing Date:	N/A
Years in Business:	50	CIK Code:	0001517175
Number Employees:	N/A		

Income Data		Asset Data		Transaction Data	
Data is "Latest Full Year" Reported	Yes	Data is Latest Reported	Yes	Date Sale Initiated:	N/A
Data is Restated (see Notes for any explanation)	No	Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No	Date of Sale:	8/10/2012
Income Statement Date	12/31/2011	Balance Sheet Date	6/24/2012	Days to Sell:	N/A
Net Sales	\$81,334,260	Cash Equivalents	\$2,562,170	Asking Price:	N/A
COGS	<u>\$62,164,697</u>	Trade Receivables	\$7,208,775	Market Value of Invested Capital*	\$54,617,000
Gross Profit	\$19,169,563	Inventory	\$8,852,279	Debt Assumed:	\$350,000
Yearly Rent	N/A	Other Current Assets	N/A	Employment Agreement Value:	N/A
Owner's Compensation	N/A	Total Current Assets	\$18,623,224	Noncompete Value:	\$1,817,000
Other Operating Expenses	\$13,920,569	Fixed Assets	\$2,274,947	Amount of Down Payment:	\$54,267,000
Noncash Charges	N/A	Real Estate	\$0	Stock or Asset Sale:	Stock
Total Operating Expenses	<u>\$13,920,569</u>	Intangibles	\$30,484,918	Company Type:	LLC
Operating Profit	\$5,248,994	Other Noncurrent Assets	<u>\$965,007</u>	Was there an Employment/Consulting Agreement?	No
Interest Expenses	<u>\$1,989,185</u>	Total Assets	<u>\$52,348,096</u>	Was there an Assumed Lease in the sale?	No
EBT	\$3,847,705	Long-term Liabilities	\$11,862,537	Was there a Renewal Option with the Lease?	No
Taxes	<u>N/A</u>	Total Liabilities	<u>\$20,533,066</u>		
Net Income	<u>\$3,847,705</u>	Stockholder's Equity	<u>\$31,815,030</u>	*Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.	

Additional Transaction Information

Was there a Note in the consideration paid? No Was there a personal guarantee on the Note? No

Terms:

Consideration: \$54,267,000 in cash and the assumption of interest-bearing liabilities in the amount of \$350,000.

Assumed Lease (Months): N/A Terms of Lease: N/A

Noncompete Length (Months): N/A Noncompete Description: N/A

Employment/Consulting Agreement Description:

Additional Notes:

EBT includes other income of \$587,896.

Allocation of the Purchase Price:

Accounts receivable, net \$7,209,000; Inventories, net \$8,852,000; Equipment and leasehold improvements, net \$2,701,000; Other assets \$130,000; Accounts payable (\$2,301,000); Accrued liabilities (\$360,000); Accrued compensation (\$388,000); Capital lease obligation (\$350,000); Customer relationships \$11,741,000 with an estimated useful life of 10 years; Trade names and trademarks \$12,724,000 with an estimated useful life of 12-20 years; Covenants not-to-compete \$1,817,000 with an estimated useful life of 5 years; Goodwill \$12,492,000

Michael's Finer Meats, LLC, produces meat, seafood, and specialty food products for restaurants, steakhouses, clubs, hotels, caterers, and consumers in the United States. The company offers ground beef, striploins, tenderloin steaks, top butt, cube steaks, angus products, ribs, strip steaks, shortloins, top butt steaks, short ribs, ribeye steaks, tenderloins, T-bones, porterhouses, and ball tips; breads, veal, gourmet soups/sauces, pasta, and desserts; and turkey, lamb, seafood, pork, duck, and chicken products. The company, formerly known as The Union Meat Company, was founded in 1962 and is headquartered in Columbus, Ohio.

Valuation Multiples		Profitability Ratios		Leverage Ratios	
MVIC/Net Sales	0.67	Net Profit Margin	0.05	Fixed Charge Coverage	2.64
MVIC/Gross Profit	2.83	Operating Profit Margin	0.06	Long-Term Debt to Assets	0.23
MVIC/EBITDA	N/A	Gross Profit Margin	0.24	Long-Term Debt to Equity	0.37
MVIC/EBIT	10.34	Return on Assets	0.07		
MVIC/Discretionary Earnings	N/A	Return on Equity	0.12		
MVIC/Book Value of Invested Capital	1.24				

Earnings		Liquidity Ratios		Activity Ratios	
EBITDA	N/A	Current Ratio	2.15	Total Asset Turnover	1.55
Discretionary Earnings	N/A	Quick Ratio	1.13	Fixed Asset Turnover	35.75
				Inventory Turnover	9.19

N/A = Not Available

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1/1

publication date, it covers over 19,500 transactions of privately held companies and contains six valuation multiples and 13 financial ratios computed for each transaction. With about 89 data fields for each transaction, including income statement data, asset data, and purchase price allocation data, it is by far the most comprehensive of the private transaction databases. It includes whether there was a noncompete and/or employment agreement and, if so, the terms and the amount of purchase consideration allocated to each. It also includes how the payment of the purchase price was structured and all of the terms relating to the purchase price. Also, an extensive amount of

Exhibit 10. A Pratt's Stats business Intermediary-Sourced Transaction Report

Pratt's Stats® Transaction Report Prepared: 9/18/2012 9:48:19 AM (PST)

Seller Details Target Name: N/A Business Description: Advertising Agency SIC: 7311 Advertising Agencies NAICS: 541810 Advertising Agencies Sale Location: OH, United States Years in Business: 30 Number Employees: 9		Source Data Broker Name: Sircl, Randy Broker Firm Name: Keate Partners Ltd.			
Income Data Data is "Latest Full Year" Reported Yes Data is Restated (see Notes for any explanation) No Income Statement Date 12/31/2010 Net Sales \$2,580,481 COGS <u>\$929,669</u> Gross Profit \$1,650,811 Yearly Rent \$125,790 Owner's Compensation \$347,692 Other Operating Expenses \$765,059 Noncash Charges \$3,008 Total Operating Expenses <u>\$1,241,549</u> Operating Profit \$409,262 Interest Expenses <u>\$1,314</u> EBT \$407,948 Taxes <u>\$0</u> Net Income <u>\$407,948</u>		Asset Data Data is Latest Reported Yes Data is "Purchase Price Allocation agreed upon by Buyer and Seller" No Balance Sheet Date 12/31/2010 Cash Equivalents \$81,438 Trade Receivables \$237,825 Inventory \$0 Other Current Assets <u>\$173,810</u> Total Current Assets \$493,072 Fixed Assets \$53,688 Real Estate \$0 Intangibles \$0 Other Noncurrent Assets <u>\$0</u> Total Assets <u>\$546,760</u> Long-term Liabilities \$139,895 Total Liabilities <u>\$494,952</u> Stockholder's Equity <u>\$51,808</u>		Transaction Data Date Sale Initiated: 6/19/2011 Date of Sale: 10/13/2011 Days to Sell: 116 Asking Price: \$925,000 Market Value of Invested Capital*: \$925,000 Debt Assumed: \$0 Employment Agreement Value: \$240,000 Noncompete Value: N/A Amount of Down Payment: \$786,250 Stock or Asset Sale: Asset Company Type: S Corporation Was there an Employment/Consulting Agreement? Yes Was there an Assumed Lease in the sale? Yes Was there a Renewal Option with the Lease? Yes *Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.	
Additional Transaction Information Was there a Note in the consideration paid? No Was there a personal guarantee on the Note? No Terms: Seven years - interest only - 2 years - 5% interest. For the first two years of the note, the seller gets interest payments only (no principal payments). The final five years of the note, the principal is amortized (payments are the same as a five year note). Assumed Lease (Months): 24 Terms of Lease: \$77,922 per year + \$2,000 per month for second location Noncompete Length (Months): 60 Noncompete Description: United States Employment/Consulting Agreement Description: 1 year for both owners - full time - \$240,000 Additional Notes: The business's main office is in Cincinnati and the rent for that location is \$77,922 per year. The buyer assumed that lease. The company also does a lot of business in the Phoenix area and the owners (husband and wife) lease a condo there for \$4,000 per month. The buyer agreed to pay 1/2 the lease payments (the \$2,000 per month note) and the sellers are going to pay the other \$2,000 per month, as they also use the condo as a second home.					
Valuation Multiples MVIC/Net Sales 0.36 MVIC/Gross Profit 0.56 MVIC/EBITDA 2.24 MVIC/EBIT 2.26 MVIC/Discretionary Earnings 1.22 MVIC/Book Value of Invested Capital 4.83		Profitability Ratios Net Profit Margin 0.16 Operating Profit Margin 0.16 Gross Profit Margin 0.64 Return on Assets 0.75 Return on Equity 7.87		Leverage Ratios Fixed Charge Coverage 311.46 Long-Term Debt to Assets 0.26 Long-Term Debt to Equity 2.70	
Earnings EBITDA \$412,270 Discretionary Earnings \$759,962		Liquidity Ratios Current Ratio 1.39 Quick Ratio 1.39		Activity Ratios Total Asset Turnover 4.72 Fixed Asset Turnover 48.06 Inventory Turnover N/A	

N/A = Not Available
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additional notes are included for many of the transactions. It is searchable by Standard Industrial Classification (SIC) code, North American Industry Classification System (NAICS) code, time period, and each of several size criteria. Currently the database covers 779 unique SIC codes. Pratt's Stats includes both stock and asset sales. A Pratt's Stats SEC-sourced Transaction Report is shown as Exhibit 9, and a business intermediary-sourced Transaction Report is shown as Exhibit 10. While the Pratt's Stats database consists solely of transactions of privately held companies, a separate database was created for public companies (titled Public Stats).

Public Stats contains 64 data fields detailing the financial and transaction details of the sales of 100% interest purchases of publicly held companies. Each transaction report also includes an income statement, balance sheet, purchase price allocation when available, company description,

Exhibit 11. Public Stats Transaction Report					
2/28/13		Business Valuation Market Data Transaction Report			
Public Stats™ Transaction Report Prepared: 2/28/2013 3:16:35 PM (PST)					
Seller Details			Source Data		
Target Name: Vertro, Inc. Business Description: Internet Marketing and Advertising Services SIC: 7311 Advertising Agencies NAICS: 541810 Advertising Agencies Sale Location: New York, NY, United States			Purchaser Name: Inuvo, Inc. Filing Type: 10-Q Filing Date: 5/15/2012 CIK Code: 0000829323		
Income Data		Asset Data		Transaction Data	
Data is "Latest Full Year" Reported	Yes	Data is "Latest Full Year" Reported	Yes	Date of Sale:	3/1/2012
Data is Restated (see Notes for any explanation)	No	Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No	Market Value of Invested Capital*:	\$12,442,196
Income Statement Date	12/31/2010	Balance Sheet Date	9/30/2011	Debt Assumed:	\$1,000,000
Net Sales	\$35,894,000	Cash Equivalents	\$4,016,000	Employment Agreement Value:	N/A
COGS	<u>\$1,908,000</u>	Trade Receivables	\$2,315,000	Noncompete Value:	N/A
Gross Profit	\$33,986,000	Inventory	N/A	Amount of Down Payment:	\$11,442,196
Noncash Charges	\$30,000	Total Current Assets	\$7,186,000	Stock or Asset Sale:	Stock
Total Operating Expenses	<u>\$32,816,000</u>	Fixed Assets	\$308,000	Company Type:	C Corporation
Operating Profit	\$1,170,000	Intangibles	N/A	Was there an Employment/Consulting Agreement?	No
Interest Expenses	\$0	Total Assets	<u>\$9,264,000</u>	*Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.	
EBT	\$1,492,000	Long-term Liabilities	\$737,000		
Taxes	\$0	Total Liabilities	<u>\$6,245,000</u>		
Net Income	<u>\$2,858,000</u>	Stockholder's Equity	<u>\$3,019,000</u>		
Additional Transaction Information					
Terms: Consideration: 12,713,552 shares of the Buyer's common stock with a fair market value of \$11,442,196 and the assumption of interest-bearing debt in the amount of \$1,000,000. The company also incurred \$687,679 in stock issuance costs relating to the merger. Additional Notes: Net income includes income from discontinued operations, net of income taxes \$998,000. Allocation of the Purchase Price: Cash \$3,127,037; Accounts receivable, net \$2,093,845; Other current assets \$520,342; Property and equipment \$2,059,729; Other assets \$283,911; Goodwill \$4,286,206; Intangible assets \$11,857,537; Accounts payable (\$3,753,613); Outstanding balance on credit facility (\$1,000,000); Accrued expenses (\$2,779,807); Deferred tax liability (\$4,543,000); Other long-term liabilities (\$709,991) Vertro, Inc., an Internet company, owns and operates the ALOT product portfolio. Its products include ALOT Home, a customizable homepage product; and ALOT Toolbar, a software that installs into users' Web browsers. The company's products are used to display apps that help consumers to access online content. Its ALOT products also include a search box. Vertro, Inc. was formerly known as MIVA, Inc. and changed its name to Vertro, Inc. in June 2009. The company was founded in 1995 and is based in New York, New York.					
Valuation Multiples		Profitability Ratios		Leverage Ratios	
MVIC/Net Sales	0.35	Net Profit Margin	0.08	Fixed Charge Coverage	N/A
MVIC/Gross Profit	0.37	Operating Profit Margin	0.03	Long-Term Debt to Assets	0.08
MVIC/EBITDA	10.37	Gross Profit Margin	0.95	Long-Term Debt to Equity	0.24
MVIC/EBIT	10.63	Return on Assets	0.31		
MVIC/Book Value of Invested Capital	3.31	Return on Equity	0.95		
Earnings		Liquidity Ratios		Activity Ratios	
EBITDA	\$1,200,000	Current Ratio	1.30	Total Asset Turnover	3.87
EBIT	\$1,170,000	Quick Ratio	N/A	Fixed Asset Turnover	116.54
				Inventory Turnover	N/A
N/A = Not Available					
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consideration, notes, five valuation multiples, and 13 financial ratios. As of the publication date, Public Stats had compiled details on over 3,300 public company business sales from 1995 to present over a broad range of sale prices. The industries represented in Public Stats are no less diverse, as evidenced by the roughly 453 unique SIC codes. Public Stats includes both stock and asset sales. A Public Stats Transaction Report is shown as Exhibit 11.

As of the publication date, the Factset Mergerstat/BVR Control Premium Study covers over 8,500 completed acquisitions of public company takeovers from January 1998 forward. The data are gathered from SEC filings. The criteria for inclusion are that the acquirer ends up with over 50% of the voting equity as a result of the transaction. Fifty-one data fields for each transaction include a brief company description, SIC code, five valuation multiples, and “control premia”—percentage of price paid for stock above (or below) public trading price as of each of five dates before announcement. The database also computes an “implied minority discount,” which is derived from the observed control premiums. The database is searchable by SIC code, time period, and size of company (measured by deal value, equity value, revenue, and assets). The Factset Mergerstat/BVR Control Premium Study database only includes stock sales. A Factset Mergerstat/BVR Control Premium Study Transaction Report is shown in Exhibit 12.


Exhibit 12. Factset Mergerstat/BVR Control Premium Study Transaction Report						
2/28/13		Business Valuation Market Data Transaction Report				
Factset Mergerstat® / BVR Control Premium Study™ Transaction Report Prepared: 2/28/2013 3:18:42 PM (PST)				 Global Mergers & Acquisitions Information		
Transaction Details						
SIC	Acquiror			Target		
NAICS	2836 Biological Products, Except Diagnostic Substances			2835 In Vitro and In Vivo Diagnostic Substances		
Name	--No description--			--No description--		
Business Description	GlaxoSmithKline PLC			Human Genome Sciences, Inc.		
Stock Exchange	Develops, manufactures and distributes vaccines and other pharmaceutical products			Provides pharmaceutical and diagnostic products		
Nation	London Stock Exchange			NASDAQ		
	United Kingdom			United States		
Premiums				Discount		
2 Month	1 Month	1 Week	1 Day	MergerStat Control Premium		
0.541	0.755	0.923	0.987	0.211		
Implied Minority Discount						
0.211						
Target Stock Prices (per share) (Home Currency)						
CUSIP	Target Stock Ticker	Unaffected Price	Announce Day Price	1 Day Price	1 Week Price	1 Month Price
444903108	HGSI	11.250	14.170	7.170	7.410	8.120
						9.250
Sale Details				Target Financial Data (\$mil-US)		
Date Announced	4/19/2012			LTM Net Sales	151.530	
Date Effective	8/3/2012			LTM EBITDA	-254.957	
Deal Value (\$mil-US)	\$2,836.76			LTM EBIT	-277.448	
Deal Currency	U.S. Dollar			LTM Net Income	-343.606	
% of Shares Acquired	100.0			BV Target Common Equity	376.672	
% of Shares Held at Date Announced	N/A			Target Invested Capital	3,909.334	
% of Shares Held after Acquisition	100.0			Book Value Per Share	1.893	
Purchase Price Per Share (\$'s-US)	\$14.25			Common Shares Outstanding (000's)	198,972	
Common Shares Acquired (mil)	199.071			Operating Profit Margin	-1.831	
Deal Exchange Rate	1.000			Net Profit Margin	-2.268	
Purchase Price/Share (Home currency)	14.25			Target Pricing Multiples		
Consideration	C			Implied MVE (\$mil-US)	2,835.354	
Attitude	Hostile			Price/Sales		
Form	Acq-TO			Price/Income		
Transaction Purpose	Horizontal			Price/Book Value	7.527	
				Target Invested Capital/EBIT		
				Target Invested Capital/EBITDA		
N/A = Not Available						
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Exhibit 13. BIZCOMPS Transaction Report			
2/28/13		Business Valuation Market Data Transaction Report	
BIZCOMPS® Transaction Report Prepared: 2/28/2013 3:19:34 PM (PST)			
Transaction Details			
Business Description	Retail-Bicycles		
SIC	5941 Sporting Goods Stores and Bicycle Shops		
NAICS	45111 Sporting Goods Stores		
Location	Florida, United States		
Number Of Employees	6		
Transaction Data			
Sale Date	1/31/2012		
Days On Market	120		
Ask Price (000)	\$261.0		
Sale Price (000) (Excludes Inventory)	\$225.0		
Percent Down	88.0%		
Terms on Outstanding Consideration	3 Yrs		
Income Data (\$000's)		Asset Data (\$000's)	
Annual Gross Sales	\$648.0	Inventory Value	\$75.0
Franchise Royalty	No	Furniture, Fixtures and Equipment	\$5.0
SDE	\$112.0	Value Of Real Estate	N/A
Operating Ratios		Valuation Multiples	
SDE/Annual Gross Sales	0.17	Sale Price/Annual Gross Sales	0.35
Rent/Annual Gross Sales	N/A	Sale Price/SDE	2.01
N/A = Not Available			
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BIZCOMPS is a small-company database (sometimes referred to as a “main street” company database), with about 85% of the transactions having a deal value under \$500,000. As of the publication date, the database comprises over 13,000 transactions. Unlike Pratt’s Stats and Factset Mergerstat/BVR Control Premium Study, which specify whether the transaction is an asset or stock sale and what liabilities were assumed, if any, BIZCOMPS classifies all transactions as asset sales. A BIZCOMPS transaction report is shown in Exhibit 13.

Selling Prices—Differences Among the Databases

Prior to using the databases, understand what is included in the selling prices from the various databases.

In both the Pratt’s Stats and Public Stats databases, the MVIC price includes the noncompete agreement value and the assumption of interest-bearing liabilities and excludes: (1) any real estate value included with the sale; (2) any earn-outs (because they have not yet been earned, and they may not be earned); and (3) the employment/consulting agreement values. In an asset sale, the assumption is that all or substantially all operating assets are transferred in the sale.

BIZCOMPS includes the noncompete agreement value in the database’s selling price and excludes the value of real estate. In contrast to the Pratt’s Stats and Public Stats databases, it also includes the value of employment/consulting agreements. Also, BIZCOMPS selling prices do not include the value of purchased inventory (but that information is included in the sale details in a separate field).

The Factset Mergerstat/BVR Control Premium Study makes no adjustment to the purchase price.

To learn more about reported selling prices for each database, visit www.BVMarketData.com, and read each of the respective databases’ FAQ pages.

Naics Versus SIC Industry Classification Codes

Late in 1998, the U.S. Census Bureau introduced the new industrial classification system called “NAICS.” As the name implies, it is a joint effort of Mexico, the United States, and Canada. It is projected that the NAICS system will eventually replace the SIC system.

The biggest advantage of the NAICS system is its breadth of coverage, especially in new service sectors of the economy (such as technology). The U.S. Census Bureau updates NAICS codes every five years. While the NAICS directory has been updated numerous times to reflect new sectors, the last time being in 2012, the SIC directory has remained unchanged since 1987.

Pratt’s Stats, BIZCOMPS, and Public Stats cross-classify by both SIC and NAICS codes. Lists of industry descriptions and their SIC and NAICS codes are online at the site of the databases, www.BVMarketData.com.

Keeping Up With Pricing

Pricing in some industries depends on certain multiples, while pricing in other industries depends on other multiples. Pricing in some industries is relatively stable over time, which implies that multiples observed in past years may still be valid today, while pricing in other industries (e.g., almost all aspects of healthcare and technology) are quite volatile over time, which implies that one must rely on only relevant transactions around the time of the valuation date. Constant analysis of the databases will reveal these and other relationships.

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