

Sample Pricing and Analysis Report

ABC Sample Company

November 3, 2004

Type of Ownership: S-Corp.

Source of Financial Information: Business Owner



This pricing report is based on information furnished by the owner(s) and/or officer(s) of the business under review. CTX Business Brokers does not assume responsibility for the accuracy or completeness of the information.

Prepared by Steve Crossland



**ABC Sample Company
Adjusted Income Statement
For the Year Ended December 2004**

Income	Statement \$	Adjustment \$	Revised \$
Gross Sales	520,115	0	520,115
Other Income	9,867	0	9,867
Total Income	529,982	0	529,982
Cost of Goods Sold	265,001	0	265,001
Gross Profit	264,981		264,981
Expenses			
Advertising	2,985	0	2,985
Amortization	1,125	0	1,125
Auto	11,859	0	11,859
Bad Debt	1,121	0	1,121
Bank Charges	485	0	485
Depreciation	1,046	1,046 ₁	0
Dues & Subscriptions	487	0	487
Employee Benefits	4,879	0	4,879
Insurance	2,873	0	2,873
Interest	2,154	2,154 ₂	0
Legal & Accounting	3,211	0	3,211
Other Payroll	61,550	0	61,550
Outside Labor	9,899	0	9,899
Owner's Salary	100,000	100,000 ₃	0
Payroll Taxes	6,118	0	6,118
Rent	19,056	-8,000 ₄	27,056
Repairs & Maintenance	4,851	0	4,851
Supplies	5,997	0	5,997
Telephone	3,856	0	3,856
Travel & Entertainment	3,845	0	3,845
Utilities	3,256	0	3,256
Total Expenses	250,653	95,200	155,453
Net Profit / SDE (Before Taxes)	14,328		109,528

1 Non-cash item

2 loan not assumed by buyer

3 SDE assumed owner's salary adjustment

4 adjusted to compensate for discounted rent



ABC Sample Company
Adjusted Income Statement
For the Year Ended December 2003

	Statement	Adjustment	Revised
	\$	\$	\$
Income			
Gross Sales	490,881	0	490,881
Other Income	9,985	0	9,985
Total Income	500,866	0	500,866
Cost of Goods Sold	248,999	0	248,999
Gross Profit	251,867		251,867
Expenses			
Advertising	2,855	0	2,855
Amortization	1,005	0	1,005
Auto	11,865	0	11,865
Bad Debt	809	0	809
Bank Charges	495	0	495
Depreciation	1,002	1,002 ₁	0
Dues & Subscriptions	447	0	447
Employee Benefits	5,562	0	5,562
Insurance	2,866	0	2,866
Interest	1,955	1,955 ₂	0
Legal & Accounting	3,166	0	3,166
Other Payroll	58,254	0	58,254
Outside Labor	9,876	0	9,876
Owner's Salary	95,000	95,000 ₃	0
Payroll Taxes	5,621	0	5,621
Rent	17,854	-6,000 ₄	23,854
Repairs & Maintenance	5,986	0	5,986
Supplies	3,854	0	3,854
Telephone	2,255	0	2,255
Travel & Entertainment	2,500	0	2,500
Utilities	3,258	0	3,258
Total Expenses	236,485	91,957	144,528
Net Profit / SDE (Before Taxes)	15,382		107,339

1 Non-cash item

2 Loan not to be assumed by buyer

3 SDE assumes owner's salary adjustment

4 Adjusted to compensate for discounted rent

ABC Sample Company
Adjusted Income Statement
For the Year Ended December 2002

Income	Statement	Adjustment	Revised
	\$	\$	\$
Gross Sales	470,108	0	470,108
Other Income	10,005	0	10,005
Total Income	480,113	0	480,113
Cost of Goods Sold	232,005	0	232,005
Gross Profit	248,108		248,108
Expenses			
Advertising	2,755	0	2,755
Amortization	989	0	989
Auto	11,568	0	11,568
Bad Debt	1,568	0	1,568
Bank Charges	445	0	445
Depreciation	895	895 ¹	0
Dues & Subscriptions	258	0	258
Employee Benefits	3,695	0	3,695
Insurance	2,823	0	2,823
Interest	1,845	1,845 ²	0
Legal & Accounting	2,285	0	2,285
Other Payroll	59,999	0	59,999
Outside Labor	9,844	0	9,844
Owner's Salary	95,000	95,000 ³	0
Payroll Taxes	5,288	0	5,288
Rent	17,000	-6,000 ⁴	23,000
Repairs & Maintenance	6,528	0	6,528
Supplies	5,984	0	5,984
Telephone	3,128	0	3,128
Travel & Entertainment	1,800	0	1,800
Utilities	3,188	0	3,188
Total Expenses	236,885	91,740	145,145
Net Profit / SDE (Before Taxes)	11,223		102,963

1 Non-cash item

2 Loan not assumed by buyer

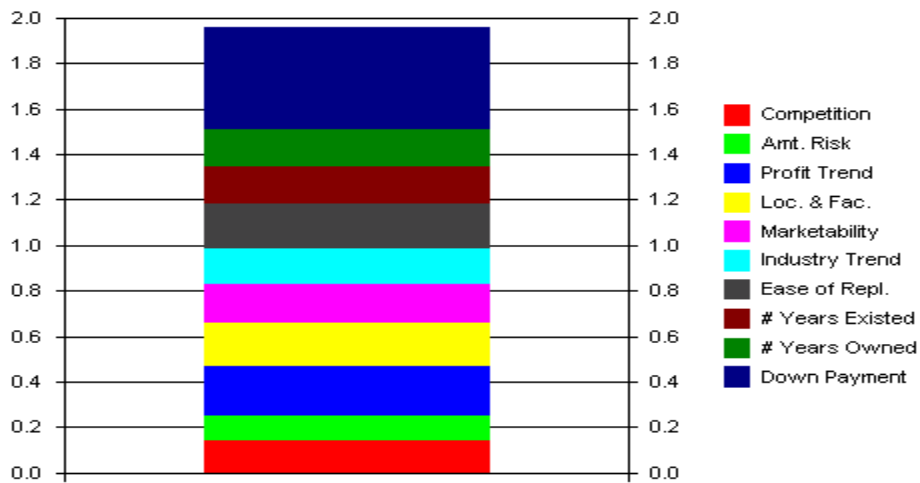
3 SDE assumes owner's salary adjustment

4 Adjusted to compensate for discounted rent



Key Factor Analysis

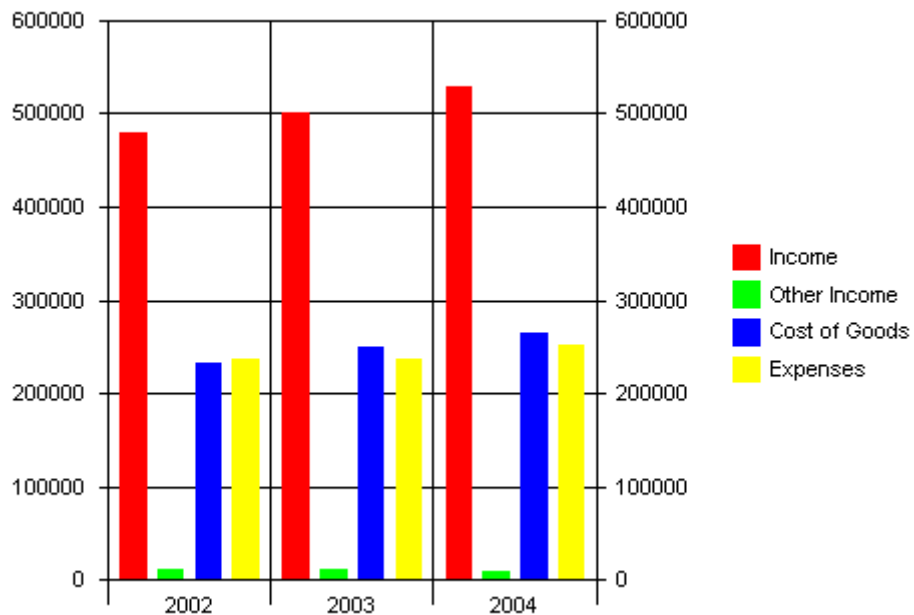
Number of Years Business Has Operated:	5
Number of Years Owner Has Operated Business:	5
Owner's Required Down Payment Percentage:	30%
Amount of Competition:	1.60
Industry Trend:	1.70
Location & Facilities:	2.10
Marketability:	1.90
Historical Profit Trend:	2.40
Ease of Replication:	2.20
Amount of Risk:	1.20
Key Factor Multiplier:	1.96



Income Summary

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
Total Income	\$480,113	\$500,866	\$529,982	\$503,654
Cost of Goods	\$232,005	\$248,999	\$265,001	\$248,668
Gross Profit	\$248,108	\$251,867	\$264,981	\$254,985
Total Expenses	\$236,885	\$236,485	\$250,653	\$241,341
Net Profit	\$11,223	\$15,382	\$14,328	\$13,644

Income





Asking Price

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
Seller's Discretionary Earnings	\$102,963	\$107,339	\$109,528	\$106,610
SDE Weighting	25%	25%	50%	

Adjusted SDE **\$107,340**

Suggested Selling Price **\$235,385** (Based on Multiple of 1.96)

Includes the following:

Inventory	\$20,000 ₁
Other	\$5,000 ₂

Price Comparables

Multiple of SDE **\$250,413** (Based on Multiple of 2.1)

Multiple of Gross Sales **\$210,494** (Based on Multiple of .35)

1 Products or materials available for use

2 Current Franchise fee



Terms of Payment

<u>Percent Down</u>	<u>Price</u>	<u>Down Payment</u>	<u>Loan Amount</u>
0%	\$246,119	\$0	\$246,119
10%	\$242,899	\$24,290	\$218,609
20%	\$238,606	\$47,721	\$190,884
30%	\$235,385	\$70,616	\$164,770
40%	\$231,092	\$92,437	\$138,655
50%	\$224,651	\$112,326	\$112,326
60%	\$217,138	\$130,283	\$86,855
70%	\$209,624	\$146,737	\$62,887
80%	\$202,110	\$161,688	\$40,422
90%	\$195,670	\$176,103	\$19,567
100%	\$188,156	\$188,156	\$0

Amortization Table

Loan Amount: **\$164,770**

Interest Rate: **8.00%**

Length of Loan: **7 Years**

#	Interest Rate	Loan Amount	Payment	Applied Principal	Applied Interest	Total Interest	Total Principal
1	0.006667	\$163,300.12	\$2,568.14	\$1,469.67	\$1,098.47	\$1,098.47	\$1,469.67
2	0.006667	\$161,820.65	\$2,568.14	\$1,479.47	\$1,088.67	\$2,187.13	\$2,949.14
3	0.006667	\$160,331.32	\$2,568.14	\$1,489.33	\$1,078.80	\$3,265.94	\$4,438.47
4	0.006667	\$158,832.06	\$2,568.14	\$1,499.26	\$1,068.88	\$4,334.81	\$5,937.74
5	0.006667	\$157,322.80	\$2,568.14	\$1,509.26	\$1,058.88	\$5,393.69	\$7,446.99
6	0.006667	\$155,803.48	\$2,568.14	\$1,519.32	\$1,048.82	\$6,442.51	\$8,966.31
7	0.006667	\$154,274.03	\$2,568.14	\$1,529.45	\$1,038.69	\$7,481.20	\$10,495.76
8	0.006667	\$152,734.39	\$2,568.14	\$1,539.64	\$1,028.49	\$8,509.70	\$12,035.40
9	0.006667	\$151,184.48	\$2,568.14	\$1,549.91	\$1,018.23	\$9,527.92	\$13,585.31
10	0.006667	\$149,624.24	\$2,568.14	\$1,560.24	\$1,007.90	\$10,535.82	\$15,145.55
11	0.006667	\$148,053.60	\$2,568.14	\$1,570.64	\$997.49	\$11,533.32	\$16,716.19
12	0.006667	\$146,472.49	\$2,568.14	\$1,581.11	\$987.02	\$12,520.34	\$18,297.31
13	0.006667	\$144,880.83	\$2,568.14	\$1,591.65	\$976.48	\$13,496.82	\$19,888.96
14	0.006667	\$143,278.57	\$2,568.14	\$1,602.27	\$965.87	\$14,462.70	\$21,491.23
15	0.006667	\$141,665.62	\$2,568.14	\$1,612.95	\$955.19	\$15,417.89	\$23,104.17
16	0.006667	\$140,041.92	\$2,568.14	\$1,623.70	\$944.44	\$16,362.32	\$24,727.87
17	0.006667	\$138,407.40	\$2,568.14	\$1,634.52	\$933.61	\$17,295.94	\$26,362.40
18	0.006667	\$136,761.97	\$2,568.14	\$1,645.42	\$922.72	\$18,218.65	\$28,007.82
19	0.006667	\$135,105.58	\$2,568.14	\$1,656.39	\$911.75	\$19,130.40	\$29,664.21
20	0.006667	\$133,438.15	\$2,568.14	\$1,667.43	\$900.70	\$20,031.10	\$31,331.64
21	0.006667	\$131,759.60	\$2,568.14	\$1,678.55	\$889.59	\$20,920.69	\$33,010.19
22	0.006667	\$130,069.86	\$2,568.14	\$1,689.74	\$878.40	\$21,799.09	\$34,699.93
23	0.006667	\$128,368.85	\$2,568.14	\$1,701.00	\$867.13	\$22,666.22	\$36,400.94
24	0.006667	\$126,656.51	\$2,568.14	\$1,712.34	\$855.79	\$23,522.01	\$38,113.28
25	0.006667	\$124,932.75	\$2,568.14	\$1,723.76	\$844.38	\$24,366.39	\$39,837.04
26	0.006667	\$123,197.50	\$2,568.14	\$1,735.25	\$832.88	\$25,199.27	\$41,572.30
27	0.006667	\$121,450.68	\$2,568.14	\$1,746.82	\$821.32	\$26,020.59	\$43,319.12
28	0.006667	\$119,692.21	\$2,568.14	\$1,758.47	\$809.67	\$26,830.26	\$45,077.58
29	0.006667	\$117,922.02	\$2,568.14	\$1,770.19	\$797.95	\$27,628.21	\$46,847.77
30	0.006667	\$116,140.03	\$2,568.14	\$1,781.99	\$786.15	\$28,414.36	\$48,629.76
31	0.006667	\$114,346.16	\$2,568.14	\$1,793.87	\$774.27	\$29,188.62	\$50,423.63
32	0.006667	\$112,540.33	\$2,568.14	\$1,805.83	\$762.31	\$29,950.93	\$52,229.46
33	0.006667	\$110,722.46	\$2,568.14	\$1,817.87	\$750.27	\$30,701.20	\$54,047.33
34	0.006667	\$108,892.47	\$2,568.14	\$1,829.99	\$738.15	\$31,439.35	\$55,877.32
35	0.006667	\$107,050.29	\$2,568.14	\$1,842.19	\$725.95	\$32,165.30	\$57,719.51
36	0.006667	\$105,195.82	\$2,568.14	\$1,854.47	\$713.67	\$32,878.97	\$59,573.98
37	0.006667	\$103,328.99	\$2,568.14	\$1,866.83	\$701.31	\$33,580.27	\$61,440.81
38	0.006667	\$101,449.71	\$2,568.14	\$1,879.28	\$688.86	\$34,269.13	\$63,320.09
39	0.006667	\$99,557.90	\$2,568.14	\$1,891.81	\$676.33	\$34,945.46	\$65,211.89
40	0.006667	\$97,653.48	\$2,568.14	\$1,904.42	\$663.72	\$35,609.18	\$67,116.31
41	0.006667	\$95,736.37	\$2,568.14	\$1,917.11	\$651.02	\$36,260.21	\$69,033.42
42	0.006667	\$93,806.48	\$2,568.14	\$1,929.89	\$638.24	\$36,898.45	\$70,963.32
43	0.006667	\$91,863.71	\$2,568.14	\$1,942.76	\$625.38	\$37,523.83	\$72,906.08
44	0.006667	\$89,908.00	\$2,568.14	\$1,955.71	\$612.42	\$38,136.25	\$74,861.79
45	0.006667	\$87,939.25	\$2,568.14	\$1,968.75	\$599.39	\$38,735.64	\$76,830.54
46	0.006667	\$85,957.38	\$2,568.14	\$1,981.88	\$586.26	\$39,321.90	\$78,812.42

#	InterestRate	Loan Amount	Payment	Applied Principal	Applied Interest	Total Interest	Total Principal
47	0.006667	\$83,962.29	\$2,568.14	\$1,995.09	\$573.05	\$39,894.95	\$80,807.51
48	0.006667	\$81,953.90	\$2,568.14	\$2,008.39	\$559.75	\$40,454.70	\$82,815.89
49	0.006667	\$79,932.12	\$2,568.14	\$2,021.78	\$546.36	\$41,001.06	\$84,837.67
50	0.006667	\$77,896.86	\$2,568.14	\$2,035.26	\$532.88	\$41,533.94	\$86,872.93
51	0.006667	\$75,848.04	\$2,568.14	\$2,048.82	\$519.31	\$42,053.25	\$88,921.75
52	0.006667	\$73,785.56	\$2,568.14	\$2,062.48	\$505.65	\$42,558.90	\$90,984.24
53	0.006667	\$71,709.32	\$2,568.14	\$2,076.23	\$491.90	\$43,050.81	\$93,060.47
54	0.006667	\$69,619.25	\$2,568.14	\$2,090.08	\$478.06	\$43,528.87	\$95,150.55
55	0.006667	\$67,515.24	\$2,568.14	\$2,104.01	\$464.13	\$43,993.00	\$97,254.56
56	0.006667	\$65,397.20	\$2,568.14	\$2,118.04	\$450.10	\$44,443.10	\$99,372.59
57	0.006667	\$63,265.05	\$2,568.14	\$2,132.16	\$435.98	\$44,879.08	\$101,504.75
58	0.006667	\$61,118.68	\$2,568.14	\$2,146.37	\$421.77	\$45,300.85	\$103,651.12
59	0.006667	\$58,958.00	\$2,568.14	\$2,160.68	\$407.46	\$45,708.31	\$105,811.80
60	0.006667	\$56,782.91	\$2,568.14	\$2,175.08	\$393.05	\$46,101.36	\$107,986.88
61	0.006667	\$54,593.33	\$2,568.14	\$2,189.58	\$378.55	\$46,479.91	\$110,176.47
62	0.006667	\$52,389.15	\$2,568.14	\$2,204.18	\$363.96	\$46,843.87	\$112,380.65
63	0.006667	\$50,170.27	\$2,568.14	\$2,218.88	\$349.26	\$47,193.13	\$114,599.52
64	0.006667	\$47,936.60	\$2,568.14	\$2,233.67	\$334.47	\$47,527.60	\$116,833.19
65	0.006667	\$45,688.04	\$2,568.14	\$2,248.56	\$319.58	\$47,847.17	\$119,081.75
66	0.006667	\$43,424.49	\$2,568.14	\$2,263.55	\$304.59	\$48,151.76	\$121,345.30
67	0.006667	\$41,145.85	\$2,568.14	\$2,278.64	\$289.50	\$48,441.26	\$123,623.94
68	0.006667	\$38,852.02	\$2,568.14	\$2,293.83	\$274.31	\$48,715.56	\$125,917.78
69	0.006667	\$36,542.89	\$2,568.14	\$2,309.12	\$259.01	\$48,974.58	\$128,226.90
70	0.006667	\$34,218.38	\$2,568.14	\$2,324.52	\$243.62	\$49,218.20	\$130,551.42
71	0.006667	\$31,878.36	\$2,568.14	\$2,340.01	\$228.12	\$49,446.32	\$132,891.43
72	0.006667	\$29,522.75	\$2,568.14	\$2,355.61	\$212.52	\$49,658.84	\$135,247.05
73	0.006667	\$27,151.43	\$2,568.14	\$2,371.32	\$196.82	\$49,855.66	\$137,618.37
74	0.006667	\$24,764.30	\$2,568.14	\$2,387.13	\$181.01	\$50,036.67	\$140,005.49
75	0.006667	\$22,361.26	\$2,568.14	\$2,403.04	\$165.10	\$50,201.76	\$142,408.54
76	0.006667	\$19,942.20	\$2,568.14	\$2,419.06	\$149.08	\$50,350.84	\$144,827.60
77	0.006667	\$17,507.01	\$2,568.14	\$2,435.19	\$132.95	\$50,483.79	\$147,262.79
78	0.006667	\$15,055.58	\$2,568.14	\$2,451.42	\$116.71	\$50,600.50	\$149,714.21
79	0.006667	\$12,587.82	\$2,568.14	\$2,467.77	\$100.37	\$50,700.87	\$152,181.98
80	0.006667	\$10,103.60	\$2,568.14	\$2,484.22	\$83.92	\$50,784.79	\$154,666.20
81	0.006667	\$7,602.82	\$2,568.14	\$2,500.78	\$67.36	\$50,852.15	\$157,166.98
82	0.006667	\$5,085.36	\$2,568.14	\$2,517.45	\$50.69	\$50,902.83	\$159,684.43
83	0.006667	\$2,551.13	\$2,568.14	\$2,534.23	\$33.90	\$50,936.73	\$162,218.66
84	0.006667	\$.00	\$2,568.14	\$2,551.13	\$17.01	\$50,953.74	\$164,769.79

Justification

	<u>Justification Scenario</u>	<u>Actual PricePoint</u>
Available for Debt Service	\$35,780	
Monthly Payment	\$2,982	
Note Amount	\$191,323	\$164,770
Down Payment	\$71,560	\$70,615
Selling Price	\$262,883	\$235,385
Buyer Income After Loan	\$71,560	\$76,522
Monthly Income After Loan	\$5,963	\$6,377
Multiple of SDE	2.45	2.19

Both Down Payment and Buyer Income are Justified. - The above scenario is not meant to place a price on the business; rather, it is a sanity check based on industry rules of thumb that measure whether the chosen price and terms can be justified to potential buyers. The price calculation considers a multiple of seller's discretionary earnings (SDE). SDE is based on adjustments made to the net profit of the business and represents income that will be available to the new owner. Unless you are evaluating an all-cash deal, there will be a monthly loan payment due. The monthly loan payment should be subtracted from the SDE figure to determine the actual take home amount available to a potential buyer. The above scenario uses an accepted rule of thumb that suggests taking one third of SDE, \$107,340, for debt service, which equates to \$35,780 annually. Based on the chosen terms outlined in the amortization section, a 7 year loan at 8.00 percent interest can justify a loan amount of \$191,323. Using another commonly accepted rule of thumb, the down payment should equate to two thirds of SDE, in this case \$71,560. After debt service the buyer is left with \$71,560 in annual earnings, or \$5,963/month. Using the same deal structure with the computed asking price, it could be justified to a potential buyer that \$70,615 is a reasonable down payment, an amount which is less than the justification scenario. In addition, the buyer will be making \$76,522 a year, or \$6,377/ month, which is also more per year than the justification scenario. If the buyer take-home is too high or the down payment is too low, adjustments should be made to the down payment and/ or the terms of the loan to make the deal more realistic. In some cases, it may be necessary to lower the selling price. If changes are made, the justification scenario should be run again to ensure that the adjusted deal structure can be justified. Continue to adjust the down payment and terms of the loan to make the justification.

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