BIZ|EQUITY®

What's Your Business Worth? ™

BizEquity®
## METHODOLOGY

Our Approach to Business Valuation

Our valuation process is similar to the process used by professional appraisers. A BizEquity valuation begins by gathering as many as 150 different data fields throughout the 7-Step online framework. Users input up to three years of historical and/or projected financial data related to revenues, expenses, profits, assets and liabilities. The format we use is designed to facilitate the application of valuation methodologies from the three major valuation approaches - Income, Market, and Asset - and to provide the information needed to produce four estimates of value, formatted financial statements (income statement and balance sheet) and a series of 19 different key performance indicators.

Overall, BizEquity has gathered financial and operational data for more than 33 million private businesses and several hundreds of thousands of market-based "deal multiples" from throughout the world. In addition, our system has garnered more
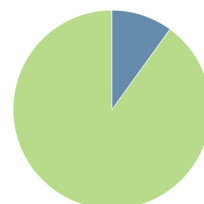
than 1.2 million pieces of data in the form of algorithm hits, making us the largest real-time database of primary and curated comparables.
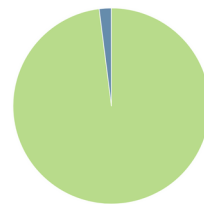
98% of private business owners don't know their business value
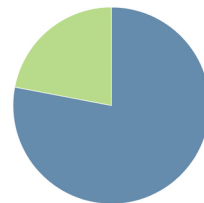
78% of business owners plan to fund their retirement through the sale of their business

90% of business owners have not protected their business value with insurance

The BizEquity algorithm incorporates the all-important financial metric, **seller's discretionary earnings,** as well as a forward looking variant of **net cash flows to invested capital** and **discounted cash flow analysis**. This dual method is necessary in order to properly value both the typical owner-operated business on Main Street and the less common high tech or high growth enterprise. The algorithm also distinguishes between smaller, single owner-dependent businesses and larger, middle-market businesses with layers of management, i.e. a distinction is made between a **return on owner's labor perspective** and a **return on investment** perspective. In the former case, owner compensation is a "financial benefit" available to the hypothetical buyer whereas management compensation in the latter case is a "financial cost" to the hypothetical buyer.

A precise and generally accepted measure of income, **seller's discretionary earnings** or **SDE** is commonly used by both business appraisers and business brokers for estimating business value. Also referred to as **adjusted cash flow** or simply **discretionary earnings,** SDE is calculated as the sum of pretax income and a series of add backs such as owner's salary and payroll taxes, owner's perks, depreciation and amortization expense, interest expense and any one-time, non-recurring expenses.

$$S.D.E. = \text{Pretax Income} + \begin{cases} \text{owner's salary} \\ \text{payroll taxes} \\ \text{owner's perks} \\ \text{depreciation and amortization expense} \\ \text{interest expense} \\ \text{non-recurring expenses} \end{cases}$$

Not only is SDE used directly within the **income approach** by way of a *risk-adjusted multiple or capitalization rate*, it is also used indirectly in both rules of thumb and with market comparable sales data. The BizEquity system encompasses all of these uses with an emphasis on market-based multiples which are adjusted to reflect size, profitability and growth (among other factors captured through the use of online sliders related to customer concentration, importance of owner, etc.).

As a necessary compliment to the use of revenue and SDE multiples within the income and market approaches, our system also identifies and treats uniquely various high tech and high growth industries. In addition, companies which are generating or are expected to generate high profit margins and high rates of growth are also treated uniquely via our **discounted cash flow** modeling.