



CAROLINA

INVESTMENT BROKERS LLC

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WHAT IS A BUSINESS VALUATION?

A Business Valuation is a process used to estimate the economic value of an Owner's interest in a business. Valuations are used by buyers and sellers to determine the price they might be willing to pay or receive to buy or sell a business. There are several approaches used for a Valuation. The asset value approach is least common and usually used when a seller wants to liquidate and move on or close the business. The market value approach combined with income producing approach is the most common for small businesses managed by owner-operators and the approach we use most often and used herein.

WHAT DOES A VALUATION REPORT MEAN TO YOU?

Since we have not verified or audited any documents provided by the Owner, we can only assume that information is provided in good faith. We recommend potential buyers and sellers seek advice from attorneys and other professionals prior to making a sale or purchase. Our report is only a snapshot of how the current market is trending with similar businesses in the market. A Valuation Report doesn't serve as a guarantee of what a business is worth and can vary based on the information the Owner provides to us.

WHAT IS FF&E IN A VALUATION?

FF&E stands for furniture, fixtures and equipment – the business' assets. FF&E can have various impacts on a Valuation while most are very minor. Just because you paid \$5,000 for a piece of equipment five years ago (which has produced income for you) doesn't necessarily mean it's worth \$5,000 today. It may be worth \$500. Furthermore, most assets have already been depreciated over time, which has usually benefitted the Owner, so it might be unreasonable to expect to sell them for what you paid for them. We value FF&E on a case-by-case basis.

WHAT IS CASH FLOW?

You will find several definitions of cash flow, but for our Valuation purposes, we equate cash flow to the net amount of cash moving in and out of a business that directly benefits the Owner(s). When valuing cash flow, we add back certain expenses that are Owner benefits and might be different for a new owner, such as Owners' payroll, personal use of vehicles and their associated expenses, interest expense, and depreciation. In addition, they may enjoy other benefits, such as life, health and auto insurance, meals, entertainment, travel, etc. In our Valuation, we assume that the buyer of the business will be an owner-operator and will not be an absentee owner, which is why we may add back some or all of the Owners' payroll, and sometimes we add back for managers' and employees' wages that would be eliminated or replaced by a new owner or a family member. REMEMBER: We don't value cash we can't prove.

HOW DO WE DETERMINE WHICH BUSINESSES TO COMPARE TO?

We compare similar businesses for sale in the geographical area of the subject business to see advertised sales volumes, cash flow and asking prices. Granted, we don't have audited financials and can only go by what they are stating in their listings. We also don't know what final sales prices of businesses are, but we use the asking price as a way to estimate the current market trends. If there are very few similar businesses in the market which revealed their cash flow and gross sales, we expand the region to find comparable businesses with comparable numbers. We don't use any business listing that doesn't reveal cash flow and gross sales. We typically use the best and most trusted business brokerage websites such as bizbuysell.com, bizquest.com, and businessmart.com.

WHAT DO WE NEED TO DO THE VALUATION?

- a) Business tax returns and profit and loss statements for the last three years and current sales numbers
- b) Bank statements from the last several months – preferably a year
- c) A copy of your current lease (we never contact the landlord without your permission)
- d) Employee information – such as number of employees, wages, hours, duties, payroll reports, etc.
- e) A brief history of how long you have owned the business and why you are selling

HOW WILL WE KEEP THIS CONFIDENTIAL?

We know how important it is to keep all records and communications confidential. We advise not notifying a landlord until we have an accepted offer to purchase a business. We recommend that no customer, employee, landlord, competitor, family member, or anyone not directly involved in the decision making process know that a business is for sale, especially a manager. The last thing a business owner wants is for an employee to get spooked and look for another job, or for a competitor to start false rumors about someone "going out of business." At CarolinaInvestmentBrokers.com, all of our listings are generic so the prospect has to contact us for details and all prospects must sign a Non-Disclosure Agreement before any information is revealed. We don't even reveal the name of the business without a signed agreement and then we only give basic financial information. We don't reveal sensitive financial documents until the candidate has seen the location as a "secret shopper" and has expressed interest in moving forward.

HOW DO YOU FIND BUYER CANDIDATES?

We use the websites mentioned above in addition to several other global websites where people go to when looking to buy a business. We also have our own database of investors who are waiting for us to find the right fit for them. We live in an area that attracts people from all over the world who want to move here and live the American dream. They are out there and we know how to find them!

HOW DO YOU KNOW IF A BUYER CANDIDATE IS QUALIFIED?

All candidates are screened and qualified both financially and on their level of experience. We don't want to present an unqualified candidate who lacks experience in the field and we don't want to waste anyone's time with a candidate who can't afford to buy a business. It is very difficult to obtain traditional financing for a business that has no real estate, even if the cash flow is great - but with the right candidate, we can provide some very unique options through our relationships with investors and lenders.

HOW LONG WILL IT TAKE TO SELL A BUSINESS?

There are several factors that can affect the marketability of a business. Sometimes a business can sell in 60 days and sometimes it can take more than a year. However, if it takes us longer than six months to sell a business, we can usually narrow it down to a handful of the most common reasons:

- a) The business is priced too high. (Buyers are shopping for the best return on their investment.)
- b) The financials aren't current or can't be well-documented. (Slow response will lose a warm prospect!)
- c) Too much cash is being skimmed off the top. (We can't value what we can't prove!)
- d) The rent is too high. (Rent more than 10% of sales is one of the toughest sales to make.)
- e) The business isn't presentable or isn't clean. (You'll have secret shoppers so always be prepared.)

WHAT IS OUR ROLE DURING AND AFTER THE SALE

All communication will go through the Broker so everyone is comfortable and on the same page. Once an offer is negotiated and accepted, we advise that the parties still communicate through the Broker and that the buyer not visit the business until after closing the sale, unless agreed upon by all parties. Some buyers expect a seller to stay on for a few days to train at no charge, and some may even offer a job for the seller to stay. A Non-Competition Agreement will almost always be a part of the transaction. A buyer doesn't want to buy a business and later find out that the seller has set up shop again nearby.

PREFACE & DISCLAIMER FOR VALUATION REPORTS

A Valuation Report is intended for the sole, confidential, and exclusive use and benefit of the business Owner under a written Exclusive Right To Sell And Listing Agreement. The report is not intended for the benefit of, and may not be relied upon by any other party. The disclosure or distribution of the report and supporting documents to the current Owner(s) of the subject business, to any prospective buyers of the business, to any financial consultant, or to any real estate agent will not make those persons intended beneficiaries of the report. The Broker assumes no liability to any party for any loss, damage or expense (including, without limitation, attorney fees) arising from any claim relating to the report.

Broker has not conducted any independent investigation whatsoever of the business or of the information provided by Owner, advertisements, or other statements contained herein. You should consult with your accountant, advisor, attorney, and/or other professional service provider before making any decisions about buying or selling a business or its assets. Broker does not represent any parties and only serves as a conduit for information passed between prospective buyers and sellers and their consultants.