

# **BIZCOMPS®**

## Sample Report



800.825.8763 • 719.548.4900

Fax: 719.548.4479

[sales@valusourcesoftware.com](mailto:sales@valusourcesoftware.com)

[www.valusourcesoftware.com](http://www.valusourcesoftware.com)

## BIZCOMPS®

ValuSource's BIZCOMPS® database provides detailed, meaningful financial information on small business transactions. Historically, market data on small business transfers was virtually nonexistent, leaving the investor or advisor to speculate about the fair market value of an enterprise. The BIZCOMPS® studies remove the marketplace uncertainty and provide the user with detailed, meaningful financial information about actual transactions. Since its inception, BIZCOMPS® has accumulated and reported data on almost 8,000 transactions.

### Eliminates the Need for Rule-Of-Thumb Formulae

In the absence of reliable data, investors, appraisers and brokers have developed “rules of thumb” guidelines for appraising small businesses. These generalized “formula” approaches are a poor substitute for comparable sales data. BIZCOMPS® provides market-based comparable sales information and eliminates the need to rely on rule-of-thumb formulae.

### Market Data Appraisal Report

BIZCOMPS® automatically generates a customizable seven page Market Data Appraisal Report in Microsoft® Word, providing a fast, flexible, and cost-effective appraisal report based on BIZCOMPS® comparables. The report template is customizable so you can create reports that meet your firms language, style, and format requirements.

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## Using BIZCOMPS®

BIZCOMPS® allows you to:

- View, print, and analyze BIZCOMPS® data.
- Export BIZCOMPS® data to Microsoft® Excel.
- Download BIZCOMPS® data into ValuSource applications.
- Create a market data appraisal report using BIZCOMPS® data.

You start from the BIZCOMPS® Main Window (see diagram below).

### Selecting an Industry

BIZCOMPS® defines industries by both the North American Industrial Classification System (NAICS) and Standard Industrial Classification (SIC) codes. BIZCOMPS® provides three ways to select an industry. You can:

- Start from an industry group (for example, Retail Trade).
- Sort the industries by NAICS code.
- Sort the industries by SIC code.

## Slicing the Data

BIZCOMPS® allows you to screen transactions by up to ten criteria. You can save the transactions that meet your criteria to a named group for easy reuse.

### BIZCOMPS® Main Window

The screenshot shows the BIZCOMPS 2004 Main Window. The window title is "Bizcomps 2004". The menu bar includes "File", "Selected Records", "Tools", and "Help". The toolbar contains icons for "Download", "Export", "Print", "Analysis", "Custom", "Hide Tree", and "Help". A status bar at the top right indicates "7303 Records".

The main window is divided into two panes. The left pane shows a tree view of "ALL RECORDS" with categories like "Industry", "Manufacturing", "Retail Trade", and "Services". The right pane shows a table of transactions in "Grid View".

	Selected	SIC	NAICS	BUSINESS TYPE	ASKING PRICE	ANN. RE
	Yes	181	111422	Sod Farm/Distr	320	7
	Yes	181	111422	Sod Farm/Distr	630	23
	Yes	181	111421	Nursery Foliage	65	2
	Yes	181	111421	Plant Grower	225	5
	Yes	181	111421	Plant Grower	400	7
	Yes	742	54194	Veterinary Clinic	295	6
	Yes	742	54194	Veterinary Clinic	403	6
	Yes	742	54194	Veterinary Practice	65	1
	Yes	742	54194	Veterinary Clinic	330	5
	Yes	742	54194	Veterinary Practice	135	2
	Yes	742	54194	Veterinary Practice	148	2
	Yes	742	54194	Veterinary Practice	45	3
	Yes	742	54194	Veterinary Practice	85	3
	Yes	742	54194	Veterinary Practice	145	1
	Yes	742	54194	Veterinary Practice	265	3
	Yes	742	54194	Veterinary Practice	273	3
	Yes	752	81291	Pet Grooming	88	3
	Yes	752	81291	Pet Grooming/Kennels	115	1
	Yes	752	81291	Dog Grooming Service	66	1
	Yes	752	81291	Pet Grooming School	60	1
	Yes	752	81291	Pet Boarding/Groom	134	2
	Yes	752	81291	Pet Grooming	123	3
	Yes	752	81291	Pet Grooming	49	1
	Yes	752	81291	Mobile Dog Grooming	69	1
	Yes	752	81291	Dog/Cat Grooming	55	1

Record 1 of ALL RECORDS Sorted by SIC (Ascending)

## Selecting Comparable Transactions

BIZCOMPS® makes it easy to select comparable transactions. You can create multiple groups of transactions for different valuation scenarios.

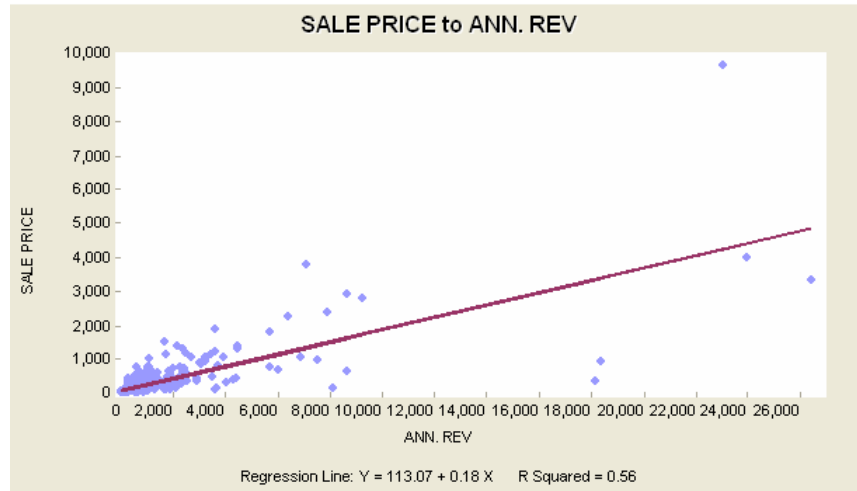
## Analyzing BIZCOMPS® Data

BIZCOMPS® can analyze any group of transactions that you select. The analysis includes statistics on nine transaction parameters, and charts of sale price to annual revenue and sale price to sellers' discretionary earnings (SDE). Examples follow.

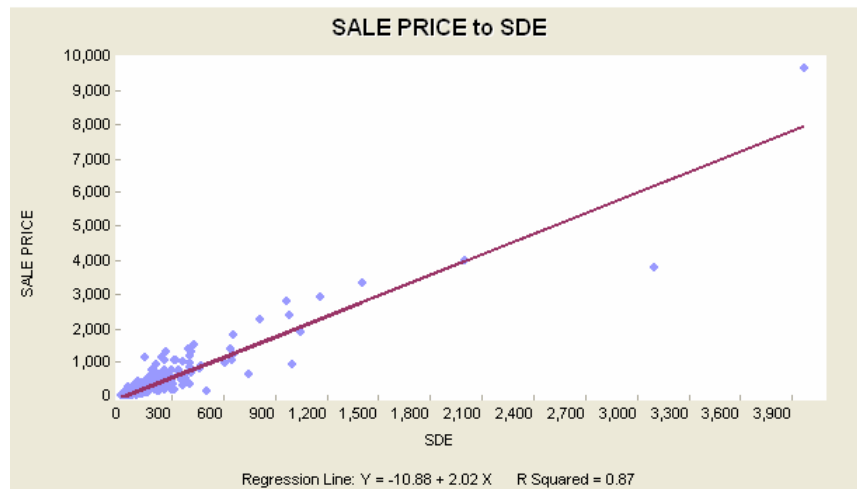
### Transaction Statistics

ANALYSIS OF	LOW	HIGH	MEAN	MEDIAN	STANDARD DEVIATION	RECORDS USED
ASKING PRICE	34	11,632	473	250	863	308
ANN. REV	48	26,451	1,588	689	3,101	302
SALE PRICE	15	9,632	396	206	744	308
% DOWN	1.00%	100.00%	62.20%	56.00%	29.28%	296
SP/REV	0.02	1.38	0.34	0.30	0.22	302
SDE/REV	0.01	0.63	0.19	0.17	0.11	297
SP/SDE	0.28	8.36	1.91	1.74	1.01	303
INVENTORY	1	4,654	210	80	434	282
FF&E	1	950	71	35	112	283

### Sale Price to Annual Revenue



### Sale Price to Sellers' Discretionary Earnings (SDE)



## Using BIZCOMPS® Data in ValuSource Applications

You can download BIZCOMPS® data into ValuSource applications, including ValuSource Pro and Express Business Valuation. The downloaded data automatically appears in the correct lines on the

appropriate schedules. In the following example, the price to revenue (P/R) multiple was downloaded from BIZCOMPS®.

<b>Price to Revenue Indicated Value Schedule (Example)</b>	
	BIZCOMPS
Revenue Base	3,481,000
P/R Multiple	0.31
Sub-Total	1,090,084
Adjustment	<u>777,760</u>
Sub-Total	1,867,844
Less Minority Interest Discount	<u>31.3%</u>
Sub-Total	1,283,208
Less Marketability Discount	<u>28.0%</u>
Operating Value	923,910
Excess/Non-Operating Assets(adjusted for prem/disc)	423,178
Indicated Value	<u>1,347,088</u>
Selected Value	<u>1,347,100</u>

## Exporting BIZCOMPS® Data to Excel

You can export BIZCOMPS® data to an Excel workbook. You can export a single transaction or a group of transactions. An example follows.

### Export of Current Data View

	A	B	C	D	E	F	G	H	I
1	Selected	SIC	NAICS	BUSINESS TYPE	ASKING PRICE	ANN. REV	SDE	SALES DATE	SALE PRICE %
2	No	752	81291	Pet Grooming	88	334	49	10/31/2000	73
3	No	752	81291	Pet Grooming/Kennels	115	144	50	8/18/2000	110
4	No	752	81291	Dog Grooming Service	66	137	33	11/1/1999	44
5	No	752	81291	Pet Grooming School	60	108	47	3/22/1999	60
6	No	752	81291	Pet Boarding/Groom	134	203	73	9/3/1998	150
7	No	752	81291	Pet Grooming	123	389	91	3/31/1998	123
8	No	752	81291	Pet Grooming	49	111	45	1/31/1997	40
9	No	752	81291	Mobile Dog Grooming	69	60	36	9/30/1996	69
10	No	752	81291	Dog/Cat Grooming	55	56	36	9/16/1996	52
11	No	752	81291	Dog Grooming Service	40	108	28	7/9/1996	13
12	No	752	81291	Dog Grooming Service	38	112	26	7/9/1996	40
13	No	752	81291	Dog Grooming Service	40	113	28	6/28/1996	40
14	No	752	81291	Mobile Dog Grooming	62	61	49	2/28/1996	57
15	No	752	81291	Pet Boarding/Grooming	289	146	66	12/31/2003	289
16	No	752	81291	Pet Boarding	180	163	77	6/30/2003	170
17	No	752	81291	Pet Grooming	90	357	14	4/2/2003	90
18	No	752	81291	Pet Grooming	53	168	38	10/16/2003	53
19									
20									
21									
22									
23									
24									

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## Creating a Market Data Appraisal Report

In less than thirty minutes, you can use BIZCOMPS® to generate a market data appraisal report in Microsoft® Word. Have you ever had an attorney or client ask you for a quick and inexpensive benchmark appraisal? BIZCOMPS® lets you offer this service, and you can charge between \$500 and \$1,000 per report. There are just five easy steps to creating an appraisal report:

1. Select appropriate comparable transactions.
2. Enter the business's name and address, your name and firm name, and the date and purpose of the appraisal.
3. Select the appropriate valuation ratio – price to revenue, or price to seller's discretionary earnings (SDE).
4. Enter the business's summary financials.
5. Click a button to generate the report.

An example report follows.

# Market Data Appraisal

## **Performed For:**

Smith & Smith General Accounting  
12345 Counted Bean Street  
Middleville, IN 56545

## **Performed By:**

**Numbercrunch Associates**  
Horace Numbercrunch

on 1-Jun-05

For the purpose of Sale

Date

Smith & Smith General Accounting  
12345 Counted Bean Street  
Middleville, IN 56545

Dear John Smith, CPA:

## Overview

As you have requested, we have valued your company using the direct market comparables from BIZCOMPS®. BIZCOMPS® is a database of almost 8,000 closely held business sales. BIZCOMPS® data contains both Price to Revenue (P/R) and Price to Seller Discretionary Earnings (P/SDE) ratios, which we have used as the basis to determine the fair market value of Smith & Smith General Accounting.

## What is Valued in this Report

The appraiser was asked to value the subject company, including all assets and liabilities of the business, both tangible and intangible.

- Smith & Smith General Accounting is the valued entity and owned by John Smith, CPA. Please refer to the section entitled “Clarification of Value” for a detailed analysis of assets included in this valuation report.
- Assets (including A/R and Inventory) are included in the final company value but have not been verified by the appraiser.
- Liabilities (including A/P and notes payable) are included in the final company value but have not been verified by the appraiser.
- Real estate and improvements have *not* been valued by the appraiser and are *not* included in the final value (Real Estate has been subtracted from the final value).

## Appraisal Methodology and Value

BIZCOMPS® provides P/R and P/SDE ratios, which are based on intangibles and furniture, fixtures and equipment (FF&E) ONLY. In other words, all the sales prices reported in the BIZCOMPS® database are based on a buyer purchasing a businesses intangibles and FF&E only, all other assets and liabilities are NOT reflected in BIZCOMPS® statistics.

Therefore, in order to use BIZCOMPS® ratios to calculate a company’s value, we used the company’s net asset value (minus FF&E and Real Estate) and added it to the value we calculated from the BIZCOMPS® multiples.

Specifically, we compared the net gross revenues and re-cast net income before taxes (Sellers Discretionary Earnings or SDE) of Smith & Smith General Accounting to the BIZCOMPS® transaction data. The result is a range of values based on gross revenues and SDE. The range of value for the gross revenues is between \$278,665 and \$320,614 and the range of values for SDE (or profit) is between \$172,305 and \$198,244. After considering the ranges based on these two criteria, it is our opinion that the Price to Revenue multiple is the most relevant estimate of value and therefore we used it in our appraisal analysis. You need to be aware that these ranges of values derived from BIZCOMPS® data are estimates only and this should NOT be considered a formal appraisal.

**The estimated value of Smith & Smith General Accounting is between \$278,665 and \$320,614.**

Sincerely,

Numbercrunch Associates  
Horace Numbercrunch

## Clarification of Value

The value of the subject company has been stated on the cover letter. This value does not include real estate or improvements, which are considered to be investment assets. The following should clarify how the final business value was calculated:

<b>Current Assets</b>	
Cash on Hand	\$563
Cash in Bank	\$12,056
Accounts Receivable	\$38,129
Inventory	\$3,482
Other Current Assets	\$6,007
Real Estate (Fair Market Value)	\$0
<b>Other Assets</b>	
Furniture, Fixtures & Equipment	\$14,712
Patents	\$0
Investments	\$0
Security Deposits	\$0
Other Assets	\$6,007
<b>Total Assets</b>	<b>\$80,956</b>
<b>Liabilities</b>	
Accounts Payable	\$2,612
Notes Payable	\$10,969
Deferred Income Taxes	\$0
Other Liabilities	\$20,700
<b>Total Liabilities</b>	<b>\$34,281</b>
<b>Net Asset Value (Equity)</b>	<b>\$46,675</b>
<b>Net Asset Value Less FF&amp;E and Real Estate</b>	<b>\$31,963</b>
<b>Calculate BIZCOMPS® Multiple</b>	
Revenue	\$257,877
P/R Ratio	1.04
<b>BIZCOMPS® Multiple Value</b>	<b>\$267,676</b>
<b>Comparative Company Value</b>	
Low Value	\$278,665
High Value	\$320,614

## P/R and P/SDE Ratio Calculation and Selection

After selecting appropriate comparable business sales data from BIZCOMPS®, the following P/R and P/SDE ratios were calculated. We selected a P/R ratio of 1.04 and a P/SDE ratio of 1.98 to be used in calculating the final business value. However, after considering the ranges of value based on these two ratios, it is our opinion that the Price to Revenue multiple is the most relevant estimate of value, that is the one we used to calculate the final value of the company.

### PRICE/SDE

High	3.12
Low	1.273
Median	1.98
Mean	1.978
Selected P/SDE	1.98
Company SDE	\$77,430

### PRICE/Gross Revenue

High	1.667
Low	0.455
Median	1.038
Mean	1
Selected P/Revenue	1.04
Company Revenue	\$257,877

## BIZCOMPS® Transaction Data Overview

### What Is BIZCOMPS®?

The BIZCOMPS® studies of small business sales were initiated in 1990 to investigate and report financial information about small business transactions in the marketplace. Historically, market data on small business transfers has been virtually nonexistent, leaving the investor or advisor to speculate about the fair market value of the enterprise. The BIZCOMPS® studies remove the marketplace uncertainty and provide the user with detailed, meaningful financial information about these “real world” transactions. Since its inception, BIZCOMPS® has accumulated and reported data on almost 8,000 transactions in the United States.

## Eliminates the Need for Rule-Of-Thumb Formula

Small business transaction information that is not readily available because it is not required to be publicly reported. In the absence of reliable data, investors, appraisers and brokers have attempted to develop universal valuation formulae or “rules of thumb” to set guidelines for appraising small businesses. These generalized “formula” approaches are chastised in most valuation literature and are a poor substitute for comparable sales data. A careful analysis of the BIZCOMPS® database provides market-based comparable sales information and eliminates the need to rely on rule-of-thumb formulae.

## About the Study

The objective of BIZCOMPS® is to accumulate reliable comparable business sale information for entrepreneurs, investors and advisors trying to estimate the fair market value of small businesses. Within this study, a “small business” is generally defined as less than \$5 million in actual company value, and more realistically, is probably less than \$1 million in value.

## Data Sources

The study collects and reports the most relevant financial information available on small business transactions in the United States. Because the information is not required to be publicly reported, BIZCOMPS® obtains its financial information from business brokers and transaction intermediaries. These financial consultants are considered to be reliable and disinterested and their valuable input provides the basis of the BIZCOMPS® study.

## Time Period

BIZCOMPS® is based on the analysis of almost 8,000 recent small business sales. Within this study, “recent” is defined as having occurred since 1990. This time period is considered relevant for current analysis and the user may choose to selectively analyze data within narrower time periods.

## General Sales Parameters

Note that all included businesses were reported by business brokers and, of course, actually were sold. This fact may establish some financial parameters for “sale ability” by a business broker. Specifically, the ultimate sale price of a business sold should be from thirty percent to one hundred percent of Annual Revenues and from 1.5 to 3.5 times Seller’s Discretionary Earnings. This generalization would exclude service stations and travel agencies.

## Sales Basis

BIZCOMPS®' philosophy is to present as much information as possible so that the user can selectively analyze the data based on individual need.

**Please Note:** All sales are shown as asset transactions and do not include cash, accounts receivable, or accounts payable. Inventory has also been excluded (see Exclusion of Inventory below), but the actual amount of inventory at the time of sale is shown for each business sale.

## Exclusion of Inventory

The exclusion of inventory from the financial averages requires further discussion. In business sale transactions, inventory transfers at the date of closing based on the wholesale cost of "good" inventory existing at that date. Since the amount of inventory can vary so significantly from business to business, BIZCOMPS® believes that the financial ratios of the selling price of a business should exclude this relatively volatile asset. Also, there may be external reasons to manipulate the amount of inventory at the time of closing that, if included, would distort the selling price of the business.

If it could be assumed that the "optimal" level of inventory as included in every business sale transaction or that the aggregate statistics would produce the optimal level of inventory, then inventory could be meaningfully included. The author does not believe this is a safe assumption and therefore inventory is excluded from the statistical averages.