BUSINESS VALUATION REPORT
SPARTAN TRAVEL LIMITED
AS AT 18 AUGUST 2009

Draft Business Owners Sample Report

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Assumptions

1. The Valuation has been produced using the available financial information as follows:

   12 months ended 31 December 2006 (Actual)
   12 months ended 31 December 2007 (Actual)
   12 months ended 31 December 2008 (Actual)

2. Weighting factors used for each of the above years

   Period ending 31 December 2006 has a weighting factor of 1 which is 1/6 of the total valuation.
   Period ending 31 December 2007 has a weighting factor of 2 which is 2/6 of the total valuation.
   Period ending 31 December 2008 has a weighting factor of 3 which is 3/6 of the total valuation.

   Note: The weighting factor seeks to produce a weighted average of the sustainable profits made by a business. This helps you to weight the relative performance of individual results in terms of their importance as at the valuation date.

3. All values in this report are expressed in British Pounds (£).

Business Details

Current Year End: 31 December

Business Status: Trading

Business Type: Limited Company

Industry Type: Transport & Distribution

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Organisation Ownership

Capital Structure and Ownership

The shares of the company are held as follows:

Name	Shares	Share Percentage
Mr Dunn	90	90%
Mrs Dunn	10	10%

Directorships

The current directors are as follows:

Mr Dunn

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Valuation Summary

Summary of valuations

Valuation Method	Minimum	Maximum	Guide Price
Discounted Cash Flow	224,665	336,997	280,831
Profit Multiples	227,106	757,020	227,106
Net Assets	72,936	109,404	91,170
Industry Specific: EBITDA	337,038	1,123,460	337,038

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Minority Interest Discount Table

This table shows the discounts applied to the value of shares, depending on the amount of shares owned.

Size of Holding	Discount
over 45%	25%
over 25%	40%
over 10%	70%
10% and under	85%
5% and under	90%

Minority Interests Using the suggested company valuation

Company value being used: £280,831

Table showing value of shares, with discount values due to minority interest.

Name	Percent Ownership	Value before Discount	Discount	Value after Discount
Mrs Dunn	10%	28,083	85%	4,212

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Minority Interests Using the maximum company valuation

Company value being used: £1,123,460

Table showing value of shares, with discount values due to minority interest.

Name	Percent Ownership	Value before Discount	Discount	Value after Discount
Mrs Dunn	10%	112,346	85%	16,852

Minority Interests Using the minimum company valuation

Company value being used: £72,936

Table showing value of shares, with discount values due to minority interest.

Name	Percent Ownership	Value before Discount	Discount	Value after Discount
Mrs Dunn	10%	7,294	85%	1,094

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Methods of Valuation

Earnings Basis

Most commercial valuations are based on the level of sustainable business profitability and an earnings multiple or rate of return.

Although the starting point is often historical profits, these need to be adjusted for any exceptional items. For example, excessive director's remuneration and pension costs, income and expenses relating to discontinued or new operations and the profit or loss on the sale of fixed assets. You also need to be careful to add back non-recurring costs such as bad debts, exceptional stock write downs, legal and professional costs. Adjustments should also be made to reflect the impact of any proposed changes in the future. Also, you need to look for areas in the expenses that need to be restated. For example, excessive or inappropriate depreciation charges, lower costs by utilising better purchasing power or economies of scale and increased borrowing costs, redundancy payments, etc.

The level of sustainable business profitability is calculated after allowing for these adjustments and after deducting tax.

We arrive at a commercial valuation by multiplying the sustainable business profitability by an earnings multiple. The usual approach is to apply an appropriate price earnings ratio. This reflects the rate of return that a buyer would require on his or her investment.

Private companies normally have a PE ratio of between 4 and 10 (although there are exceptions). This means that at the lower end sustainable business profits are multiplied by 4 and at the maximum end sustainable business profits are multiplied by 10.

Publicly quoted companies normally have a PE ratio of between 9 and 25 (although there are exceptions). This means that at the lower end sustainable business profits are multiplied by 9 and at the maximum end sustainable business profits are multiplied by 25. The reason why these are higher factors is because the shares are more marketable (ie easy to buy and sell) and therefore more attractive to investors. Typically, the value of an unquoted business is half that of the comparable quoted business in the same industry.

Businesses with more stable sustainable profits generally have higher PE ratios. Also, businesses that are forecasting higher future profitability may mean that a higher PE ratio is more appropriate.

Net Assets Basis

This method of valuing a business takes the individual assets and liabilities and adjusts them for their current market value. For example, the goodwill of a company or business is often ignored and this method of valuation would seek to place a value on goodwill. It is worth noting the fact that businesses are worth so much more than just the sum of the parts.

Normally, this method of valuation does not take into account the future profits of the business.

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This method of valuation simply uses the net assets and liabilities on the company's balance sheet and adjusts each asset/liability to reflect the current market values of the assets in the balance sheet. This method can also be adapted to include a valuation of the goodwill.

Goodwill is normally calculated as multiple of sustainable profits after tax. The most common multiple factor is 3 years (although there are exceptions).

This method of valuation is normally suitable for investment businesses and asset rich businesses. For example, a property letting business.

You need to adjust the book values as stated in the accounts to reflect current market value. Therefore, if the value of properties have gone up then include the current valuation, if there is stock obsolescence then reduce stock to its recoverable amount, if there is a huge bad debt lurking in trade debtors then reduce debtors to their recoverable amount.

Intangible assets, such as existing goodwill or development costs, should not normally be included.

This method may also be suitable for valuing businesses that are no longer going concerns. I.e. businesses that have ceased trading.

DCF Basis

This basis uses the discounted cash flows basis of valuing a business. It looks at the cash flows that are generated by a business as opposed to the profit it makes. Projections are prepared for say 5 to 15 years into the future in order to work out what the potential cash inflows are after tax for the next 5 to 15 years. A discount interest rate factor which reflects risk, inflation and interest rates is then applied to the projected cash inflows and these are then aggregated with the residual continuing value or terminal value of the company to give an overall valuation of the business.

This method of valuation is a very technical way of valuing a business and wholly depends upon a variety of assumptions that are expected to apply for a long period of time.

This method of valuation is more appropriate for cash-generating businesses that are strong and stable and which more often than not are mature.

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Industry Specific Basis

In some industries buying and selling businesses is very common and over time a number of industry specific yardsticks or rules of the thumb have been developed.

Some industries have well established valuation methods, often based on a multiple of turnover. These include, for example, hotels, advertising agencies and professional services firms.

For example, the gross margin % for a telecommunications business, the EBITDA for a care home, the GRF for a professional service business.

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Other Considerations

One of the biggest factors that affect the value of a business is how the business works without the owners day to day involvement. It is much more valuable to a potential buyer if the owners of the business are not involved on a day to day basis in the operational aspects of a business because the business basically runs itself.

Other factors which may affect the commercial value of the business may include, for example, the general economic climate, the state of the particular industry in which the company trades and the business position within it, the level of systemisation of the business, the key relationships with customers and suppliers. Obviously, these factors involve a certain amount of judgement. However, it is also worth noting that the more risks from a purchaser's perspective then the lower the perceived value of the business. These are all matters that need to be accounted for in the valuation process.

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Warnings

If it is important that the valuation is agreed for tax purposes, then it will be necessary to submit the valuation report to the share valuation division of HMRC in order to obtain their approval on the valuation for tax purposes.

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