VALUATION & RISK REVIEW REPORT

Discovering the fair market value
of 100.0% Controlling, Non-Marketable
Ownership interest in **Demo-lition, Inc.**
(a fictitious company)

September 25, 2023

PREPARED BY Value Buddy

VALUATION SUMMARY

Prepared for
Bob Ruffs
Underwriting Director
Constructor's Championship Bank
123 Steel Falls Way, Louisville, Kentucky 40018

Re: Valuation of 100.0% Ownership Stake in Demo-lition, Inc.

Dear Mr. Ruffs,

Upon your request, we have conducted a valuation engagement, as defined by the Professional Standards of the National Association of Certified Valuators and Analysts (NACVA), for a **100.0% ownership interest in Demo-lition, Inc.** ("Demo-lition, Inc." or the "Company") as of **September 25, 2023**. This valuation is based on a controlling, non-marketable basis.

The purpose of this business appraisal was to assist the shareholders of Demo-lition, Inc. in evaluating a potential share redemption of the 100.0% equity interest in the company. The resulting estimated value is intended solely for this specific purpose and should not be used by any other party for any other reason. Our valuation engagement adhered to the Professional Standards of NACVA, and the resulting value is presented as a conclusion of value.

We conducted our analysis without any restrictions or limitations on the scope of our work or available data. Based on our assessment detailed in this summary report, the estimated fair market value of the **100.0%** interest in Demo-lition, Inc. as of **September 25, 2023**, on a controlling, non-marketable basis, is **$5,883,314**.

VALUATION SUMMARY

Prepared for
Bob Ruffs
Underwriting Director
Constructor's Championship Bank
123 Steel Falls Way, Louisville, Kentucky 40018

Re: Valuation of 100.0% Ownership Stake in Demo-lition, Inc. (cont.)

Please note that this conclusion is subject to the Statement of Limiting and Limiting Conditions and Statement of Contingencies outlined in Appendix C. We are not obligated to update this report or our conclusion of value for any information that arises after the date of this report.

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INTRODUCTION

Prepared for
Bob Ruffs
Underwriting Director
Constructor's Championship Bank
123 Steel Falls Way, Louisville, Kentucky 40018

Fair Market Value

This report outlines the valuation analysis conducted to determine the fair market value of the common equity of Demo-lition, Inc. (hereinafter referred to as "Demo-lition" or the "Company") as of September 25, 2023 ("Valuation Date"). It is important to note that the valuation of the Subject Interest, as detailed in this report, is prepared in compliance with SBA SOP 50 10 7.1 (see Appendix B). Therefore, this report should not be employed for any other purpose than is expressly defined in SBA SOP 50 10 7.1.

The analysis was prepared in accordance with the guidelines of the American Institute of Certified Public Accountants ("AICPA") Accounting and Valuation Guide: Valuation of Privately-Held-Company Equity Securities Issued as Compensation (the "AICPA Guide") and the guidelines set forth by the National Association of Certified Valuators and Analysts ("NACVA").

The definition of fair market value is based on IRS Revenue Ruling 59-60 (see Appendix A).

INTRODUCTION

Standard of Value

For income tax purposes, the appropriate standard of value is fair market value ("FMV"), which is defined as:

The price, expressed in terms of cash equivalents, at which such property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or to sell, and when both have reasonable knowledge of relevant facts.

For financial reporting purposes, the appropriate standard of value is fair value ("FV"), which is defined as:

The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

As per the FASB Board meeting held on May 7, 2003, the definition of fair value mentioned above aligns with the definition of fair market value in Internal Revenue Ruling 59-60. We have not identified any circumstances that would lead to disparate conclusions between fair market value and fair value. Consequently, it is entirely reasonable for our determination of fair value for financial reporting purposes to be in harmony with our determination of fair market value for tax reporting purposes.

INTRODUCTION

Engagement Scope

This report was prepared in accordance with the valuation methodologies guidance provided by the AICPA and NACVA.

In the course of conducting the underwriting valuation for Demo-lition, we took into account distinctions between the Company's preferred and common shares, as applicable to determine a conclusion of value. This analysis encompassed factors such as liquidation preferences, conversion rights, voting rights, and other relevant features. Additionally, we carefully considered necessary adjustments to account for the lack of marketability associated with the Subject Interest.

Scope of Analysis

Value Buddy, Inc. has compiled this report based on the information provided and represented by the management of Demo-lition, Inc. ("Management"). Our comprehensive review and analysis encompassed a range of steps, including but not limited to:

• Surveying Management to understand the Company's assets, financial and operational history, and projected future operations.

• Conducting an analysis of historical financial statements and forecasted financial data when applicable, along with other financial and operational information related to the Company.

INTRODUCTION

Scope of Analysis (cont.)

- Examining corporate documents, which may include a summary of capitalization for preferred stock ("Preferred Stock" or "Preferred Shares"), Common Stock, options, and warrants.

- Evaluating the Company itself, including its financial and operational history, the nature of its products/services, its technologies, and its competitive positioning within the market.

- Assessing the industry in which the Company operates, considering factors such as the stage of development of the Company's target markets and the pace of adoption of its platforms.

- Conducting research and analysis regarding comparable public companies and transactions involving both public and private companies that are comparable to the Company.

- Analyzing the current economic conditions and providing an outlook for the U.S. economy, as well as considering relevant global economic conditions.

- Conducting an analysis and an arms-length conclusion of the fair market value (FMV) and fair value (FV) of common equity on a non-marketable, interest basis as of the Valuation Date.

APPRAISER OVERVIEW

Verlin Taylor
Head of Valuations
Value Buddy, Inc.
NACVA - CVA Certificate #991494 Member #53252

As the Head of Valuations at Value Buddy, Inc., Verlin Taylor brings a wealth of expertise and experience in the field of financial analysis and business valuations. Verlin has held his Certified Valuation Analyst status from the NACVA for over a decade.

Professional Overview:

- **Value Buddy** - Head of Valuations, works with banks and lenders to prepare valuations and risk advisory for loan underwriting
- **Bank of America** - Vice President, loan trials and credit risk assessment
- **Citi** - Senior Analyst, risk management and lending operations
- Various Companies - Fractional CFO, healthcare and SaaS industries
- Dozens of M&A trials - Expert Witness

Report prepared by	Verlin Taylor
On behalf of	Value Buddy
Date	**September 25, 2023**

VALUATION APPROACH

Approach to Valuation

The Internal Revenue Service has established guidelines for conducting a proper business valuation, which align with the valuation principles followed by Value Buddy. These guidelines, as outlined in Revenue Ruling 59-60, encompass various factors to consider in a business valuation:

Nature and History: Understanding the nature of the business and its historical evolution.

Economic Outlook: Analyzing the broader economic outlook and the specific industry conditions that the firm operates within.

Financial Condition: Evaluating the financial health and condition of the business.

Earnings and Dividends: Assessing the earnings and dividend capacity of the company.

Intangible Value: Recognizing the presence of goodwill or other intangible assets, such as patents.

Ownership Interest: Determining whether the valuation is for the entire company or a minority interest.

Market Comparables: Examining market prices of similar companies with actively traded stocks.

VALUATION APPROACH

Approach to Valuation (cont.)

Fair market value is the standard employed by Value Buddy for valuing Demo-lition, Inc., consistent with IRS guidelines. Fair market value, as defined by the American Society of Appraisers and the IRS, represents the price at which property would change hands between a willing seller and a willing buyer, both acting without compulsion and having reasonable knowledge of the relevant facts.

When valuing an ongoing business like Demo-lition, Inc., the focus is on estimating the price that a willing buyer would pay and a willing seller would accept. The valuation considers the prospective flow of earnings.

Value Buddy utilizes various valuation methods, including market-based and income-based approaches. Market-based methods rely on revenue and EBITDA valuation multiples from comparable companies. Income-based methods involve estimating future earnings and discounting them back to the present using the company's cost of capital.

Every valuation method relies on specific assumptions and data inputs, and their accuracy depends on how well these assumptions align with the real-world conditions. Value Buddy prioritizes discounted cash flow methods for their reliability in predicting values, especially when compared to market multiple methods. However, the choice of method depends on the unique characteristics of each valuation assignment.

VALUATION APPROACH

Factors Impacting Valuation of the Firm

The valuation of Demo-lition, Inc. is influenced by a series of crucial factors:

Business Nature and Financial Condition: The valuation considers the specific nature of the business and its current financial health, which is derived from the latest available company financial data.

Economic Outlook and Industry Prospects: Broader economic conditions and the industry-specific outlook significantly shape the valuation assessment.

Separate Valuation of Non-Business Operations: Cash flows stemming from non-business operations are valued independently from cash flows associated with the core business operations.

Expected Industry Cash Flow Growth: The projected cash flow growth within the industry over the next five years and the expectations for ongoing growth play a vital role in the valuation.

Required Rate of Return: The rate of return expected by potential investors for owning a business with a risk profile similar to Demo-lition, Inc. is considered.

VALUATION APPROACH

Factors Impacting Valuation of the Firm (cont.)

Liquidity Discount: An adjustment is made to reflect the fact that the market for this firm has a limited number of potential buyers, impacting its liquidity. This discount may either reduce the initial value or be added as a premium, depending on the assessment of the new owner's ability to deploy assets effectively.

Control vs. Minority Interest: The valuation distinguishes between controlling or majority interest and minority interest. Controlling interest holds more value as it grants decision-making authority over asset utilization, while minority interest confers only a pro-rata share of the firm's earnings without decision-making power.

METHODOLOGIES

Valuation Methodology Rationale

Value Buddy, Inc. undertook a comprehensive evaluation of Demo-lition, Inc.'s fair market value, employing two primary valuation approaches to ascertain the company's intrinsic worth:

Market Approach - Guideline M&A Transaction Method: This method involved examining acquisition prices of companies akin to Demo-lition, Inc., coupled with the financials of these acquisition targets to calculate implied exit multiples that were then adjusted based on a qualitative analysis of the company. This approach was selected due to the abundance of comparable private companies and recent M&A activity in this space lending to applicable exit multiples.

Income Approach - Discounted Cash Flow (DCF): The DCF method was selected as one of the core valuation approaches, focusing on the income-generating potential of Demo-lition, Inc.'s business. We reviewed the company's historical financials and any forecasts provided by management. However, it's worth noting that the financial projections exhibited significant upfront growth and uncertainties regarding future growth expectations.

DATA SOURCES

Client Data

This valuation report relied on the client for Income Tax Returns for the prior 3 years and Income Statement and Balance Sheet for the LTM.

Public Company Data

Public company data is used to adjust long-term growth rates and industry-specific cost of capital. The public company data is segmented into nearly 100 different industries and is prepared by renowned valuation professor Aswath Damodoran in partnership with the Stern School of Business at New York University.

Private Company Data

This valuation report heavily relies on the Business Valuation Resources (BVR) DealStats database of over 200K private company transactions each with up to 200 financial datapoints. This data was provided and audited by a network of business brokers and investment bankers. This data is used to create a comparable company set with this data leveraged to set baseline exit multiples, key performance indicators, and adjust short-to-medium-term growth rates.

Macroeconomic Data

A range of public macroeconomic data source such as FRED, the Bureau of Labor Statistics, and the U.S. Treasury Department are leveraged to determine the risk free rate, adjust long-term growth rates, and determine potential systematic risks affecting the valuation target.

MACRO IMPLICATIONS

Macroeconomic Analysis and Implications for Demo-lition, Inc.

In 2023, the U.S. economy has demonstrated exceptional resilience and strong performance across various economic dimensions. These macroeconomic conditions carry significant implications for Demo-lition, Inc., a demolition company operating in this environment:

Strong U.S. GDP Recovery:

- The robust U.S. GDP recovery, with real GDP surpassing pre-pandemic levels, signifies a buoyant construction and real estate sector.
- For Demo-lition, Inc., this translates into an increased demand for demolition services. As construction projects rebound, the need for demolishing existing structures, clearing sites, and preparing for new developments is likely to grow. This heightened demand can positively impact the company's revenue and profitability.

Resilient Labor Markets:

- The resilient labor market in the United States reflects a stable workforce and potential growth in the construction industry.
- Demo-lition, Inc. may benefit from access to a skilled labor force and a reduced risk of labor shortages. This stability can lead to more efficient project execution and potentially improved profit margins.

MACRO IMPLICATIONS

Macroeconomic Analysis and Implications for Demo-lition, Inc. (cont.)

Inflation Control:

- Well-managed inflationary pressures contribute to a predictable business environment for companies like Demo-lition, Inc.
- The company can better plan for cost management and pricing strategies without the disruptive influence of significant inflation. This can help maintain profitability and competitiveness.

Global Economic Strength:

- The U.S. economy's role in supporting global economic strength suggests potential opportunities for international expansion and collaborations.
- Demo-lition, Inc. should consider exploring international markets or partnerships, leveraging the favorable global economic environment to expand its client base and operations.

Challenges in Diverse Economies:

- Recognizing the challenges faced by diverse economies, such as energy price fluctuations due to geopolitical events, is vital for risk assessment.
- Demo-lition, Inc. should carefully monitor international developments that may affect the cost of materials and resources essential to its operations. It should also assess its exposure to global markets and potential risk mitigation strategies.

MACRO IMPLICATIONS

Macroeconomic Analysis and Implications for Demo-lition, Inc. (cont.)

In conclusion, the robust macroeconomic conditions in the United States in 2023 present promising opportunities for Demo-lition, Inc. The strong GDP recovery, stable labor markets, and controlled inflation can boost the company's growth prospects and profitability within the domestic market. Additionally, the potential for international expansion and collaborations opens up avenues for diversification and increased revenue streams. However, the company should remain vigilant in managing potential risks associated with global economic dynamics to ensure sustainable growth and long-term success.

INDUSTRY OUTLOOK

Construction Industry Outlook

Decreased Housing Starts: Housing starts have experienced a 2.0% decrease in June 2023, with a 6.3% decline compared to June 2022. This decline in residential construction may impact the demand for demolition services, as fewer new housing projects are initiated.

Shift in Housing Types: Single-family housing starts saw an 8.1% decrease from May 2023. In contrast, the multifamily sector, comprising buildings with five units or more, showed growth with an increase in building numbers. This shift may affect the types of demolition projects in demand, with more emphasis on multifamily building demolitions.

Building Permit Authorizations: Building permit authorizations, considered an indicator of demand for new homes, have shown a modest year-over-year increase of 1.4%. However, there is a notable drop in permits for single-family housing units, while permits for multifamily units have risen significantly. Demo-lition, Inc. may need to adapt its services accordingly.

Housing Completions: Housing completions in June 2023 remained relatively stable compared to the previous year, with a slight increase of 4.6%. However, there was a decline in both single-family and multifamily housing completions. This could impact the volume of demolition projects related to completed structures.

INDUSTRY OUTLOOK

Construction Industry Outlook (cont.)

Construction Spending: Overall construction spending in June 2023 saw a slight decrease from the previous month but remained 8.2% higher than the same period in 2022. Total construction spending during the first half of 2023 was significantly higher than the previous year. This suggests potential opportunities for Demo-lition, Inc. as increased construction activity may lead to more demolition projects.

Private Residential Construction: Private residential construction spending in June 2023 was 15.6% higher than in June 2022. This sector represents a significant market for demolition services, especially for renovations and rebuilds.

Public Construction: Public construction spending showed a slight increase year-over-year. This may lead to opportunities for Demo-lition, Inc. in the public sector, particularly in projects related to educational and infrastructure construction.

In summary, while housing starts have experienced a recent decline, the construction industry as a whole has shown resilience and growth. Demo-lition, Inc. should remain adaptable to changing market dynamics, with potential opportunities in the multifamily sector, renovation projects, and public construction. Staying informed about local and regional trends will be crucial for strategic planning in 2023.

DEMO-LITION, INC.

Overview

Company Background

Demo-lition, Inc., established in 2004, offers a range of demolition services designed to meet diverse client requirements.

Services:

Demo-lition, Inc. provides the following demolition services:

- Structural Demolition: The company specializes in the safe and efficient demolition of structures of various sizes and complexities.

- Interior Demolition: Demo-lition, Inc. focuses on interior demolition, ensuring the careful removal of interior components while preserving structural integrity.

- Selective Demolition: Clients can opt for selective demolition services to target specific areas or elements within a structure for removal, facilitating renovations or repurposing.

- Environmental Remediation: The company handles environmental remediation, addressing hazardous materials and ensuring compliance with environmental regulations.

DEMO-LITION, INC.

Overview

Clientele

Demo-lition, Inc. serves a diverse range of clients, including:

- Commercial Clients: The company collaborates with commercial property owners and developers for renovations, expansions, or complete demolitions.
- Industrial Clients: Demo-lition, Inc. extends its services to industrial facilities, assisting clients in repurposing or clearing sites for redevelopment.
- Construction Firms: The company partners with construction companies to prepare sites and clear structures for new projects.
- Government Entities: Demo-lition, Inc. is a trusted choice for government agencies seeking demolition and environmental remediation services.
- Residential Clients: Homeowners seeking demolition services for residential properties, whether for renovations or complete removal, also rely on Demo-lition, Inc.

DEMO-LITION, INC.

Overview

Ownership

Name of Owner	Ownership
Robert Buehlder	60%
Emanuel Hansen	40%
Concluded value	**100%**

Acquisition Stake

Based on information from the acquirer, the acquisition would include purchasing Robert Buehlder’s 60% stake in Demo-lition, inc.

Purchasing Robert Buehlder's 60% majority stake in Demo-lition, Inc. carries risks, as he's instrumental in maintaining key client relationships and bringing in substantial business. Buying out an essential executive may disrupt client relationships and operational stability. Additionally, it involves a substantial financial commitment and strategic planning to maintain or replace his contributions to the company's success.

COMPARABLE SET

Comparable Company Statistics Summary

Company	Description	Valuation
Demolit	Expert teardowns for safe demolitions of residential properties	$2.33M
WreckIt	Reliable demolition for high rises	$4.79M
SmashCo	Industry leader in bridge demolition projects	$19.48M
DemoTech	Tech-driven demolition services focusing on precision and sustainability	$930K
CrushRite	Commercial demolition and disposal services for schools, small office buildings, and parking garages	$5.71M
BreakUp	Small-scale demolition services of residential properties	$1.27M
DemoStar	Eco-friendly demolition practices focused on historic buildings	$2.10M
Demoluxe	Offering eco-conscious demolition solutions through innovative methods	$7.00M

COMPARABLE SET

Comparable Company Statistics Financials Summary (cont.)

Company	Net Sales	Gross Profit	EBITDA	EBIT	Free Cash Flow
Demolit	$1.89M	$1.01M	$812K	$688K	$876K
WreckIt	$3.71M	$1.39M	$944K	$748K	$1.01M
SmashCo	$12.38M	$2.88M	$1.03M	$881K	$1.09M
DemoTech	$890K	$491K	$119K	$103K	$123K
CrushRite	$4.49M	$1.07M	$717K	$670K	$762K
BreakUp	$1.10M	$325K	$143K	$127K	$156K
DemoStar	$1.89M	$516K	$212K	$114K	$242K
Demoluxe	$6.98M	$3.28M	$1.90M	$1.48M	$1.97M

COMPARABLE SET

Comparable Company Statistics Valuation Multiples Summary (cont.)

Company	Net Sales Multiple	Gross Profit Multiple	EBITDA Multiple	EBIT Multiple	Free Cash Flow Multiple
Demolit	1.2	2.3	2.9	3.4	2.7
WreckIt	1.3	3.4	5.1	6.4	4.7
SmashCo	1.6	6.8	18.9	22.1	17.9
DemoTech	1.0	1.9	7.8	9.0	7.6
CrushRite	1.3	5.3	8.0	8.5	7.5
BreakUp	1.2	3.9	8.9	10.0	8.1
DemoStar	1.1	4.1	9.9	18.4	8.7
Demoluxe	1.0	2.1	3.7	4.7	3.6
AVERAGE	1.2	3.7	8.1	10.3	7.6

INCOME STATEMENT

Demo-lition Trailing Twelve Month Income Statement (Aug. ‘22 - Aug. ‘23)

Net Sales	**$5,232,109**
Cost of Goods Sold	$3,790,485
Gross Profit	**$1,441,624**
Selling and Operating Expenses	$562,995
General and Administrative Expenses	$398,660
Other Income	$179,311
EBITDA	**$659,280**
Depreciation and Amortization Expenses	$104,278
EBIT	**$555,002**
Interest Expense	$195,450
Tax Expense	$75,506
Net Income	$284,046
D&A Addback	$104,278
Adjustments for Discretionary / One-time Expenses	$95,670
Free Cash Flow (FCF)	**$483,994**

VALUATION OVERVIEW

Conclusion of Value (summary)

Based on our comprehensive assessment of the available information and our rigorous analysis, and with due regard to the enclosed Statement of Assumptions and Limiting Conditions, our professional judgment is that the fair value and fair market value of Demo-lition, Inc., considering it as a non-marketable, minority interest, as of the Valuation Date, are as follows:

Fair Market Value of Demo-lition, Inc.: $5,883,314

It is essential to emphasize that Value Buddy, Inc. charges a fee for this valuation service, which is entirely independent of the outcomes presented in this valuation report. Furthermore, we would like to underline that this valuation is governed by the terms and conditions outlined in the master subscription agreement between Value Buddy, Inc. and Constructor's Championship Bank executed on January 2, 2022.

Valuation Methodology Summary (Company Value)

Methodology	Value	Weighting
Income approach	$6,638,405	50%
Market approach	$5,128,223	50%
Concluded value	**$5,883,314**	**100%**

LIABILITIES

Impact of Liabilities on the Valuation

While liabilities would typically be deducted from the overall valuation, Demo-lition, Inc. recently paid off all liabilities in preparation for its sale.

Paying off all liabilities not only enhances Demo-lition, Inc.'s valuation but also makes the company more attractive to potential buyers by increasing its leverage capacity. With reduced debt obligations, the company can secure additional financing more easily, providing buyers with greater flexibility for future growth and investment opportunities. This improved leverage potential can be a significant incentive for potential purchasers looking to expand and capitalize on Demo-lition, Inc.'s assets.

OWNERSHIP PREMIUM

Control Premium for Purchasing a Majority Share

The control premium represents an extra amount an investor is willing to pay above the fair market value for a majority interest in a company. For instance, if public stock is selling at $100 per share, but an investor offers $120 per share to purchase all shares, the control premium is 20%. It reflects the investor's willingness to gain control over the company's assets and management, potentially leading to higher cash flows.

In private firms, buying a minority interest is often more complex, as the owner-founder typically holds significant control. In such cases, the valuation expert may conclude that the current and projected cash flows already embody the control value.

Value Buddy evaluates several factors to decide whether to apply a control premium or a minority discount to the initial discounted cash flow results. These factors include the owner's cash flow management, non-operating assets, management quality, synergies, and growth opportunities.

For Demo-lition, Inc., the active owners seem committed to maximizing growth despite market challenges. Therefore, we assume that the initial cash flow value already includes a control premium, as adjustments have been made to reflect financial transparency and the control value of the firm.

RELATIVE VALUATION

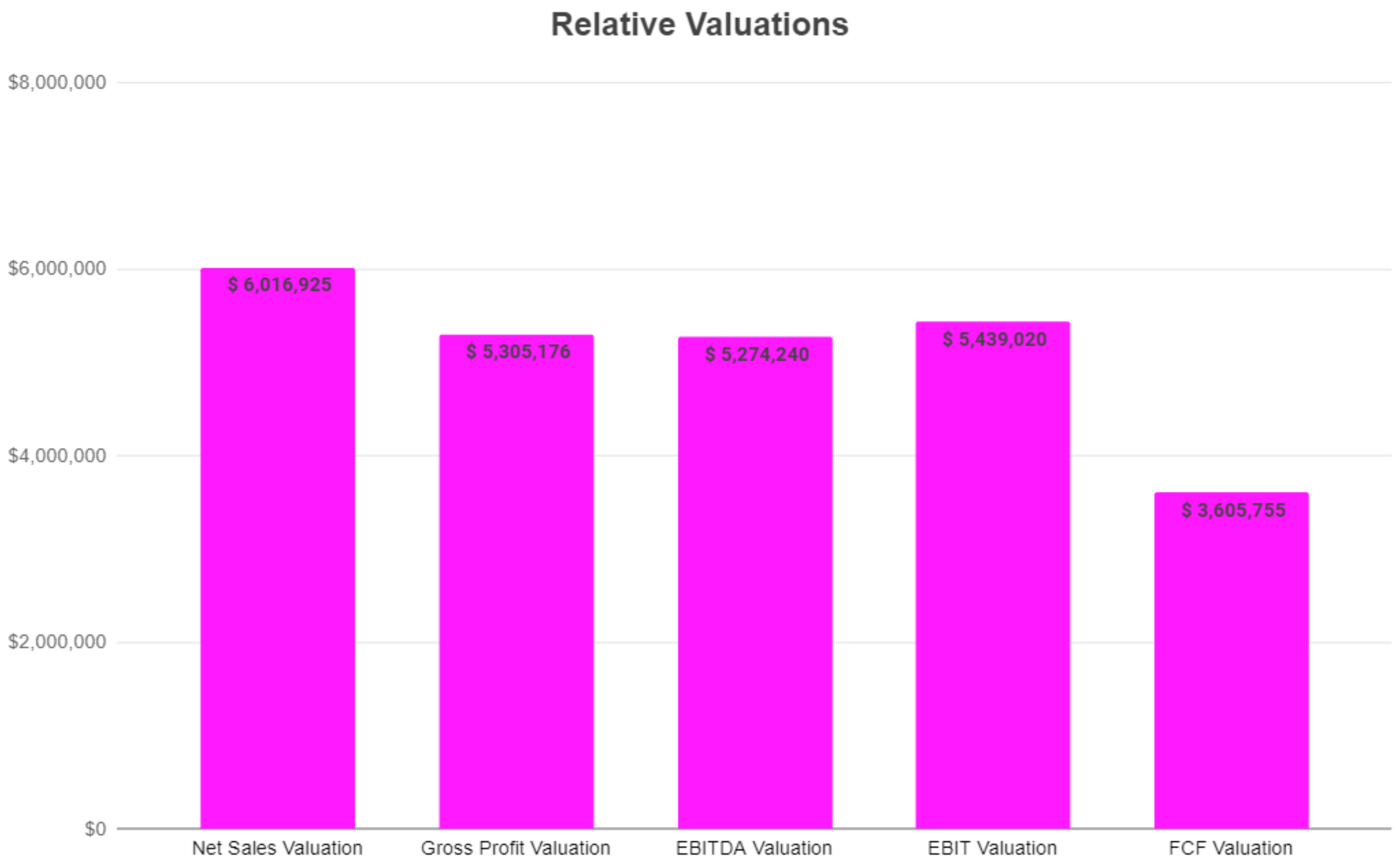
Drivers

Multiple		Driver		Valuation
Net Sales Multiple 1.15	×	Net Sales $5.2M	=	Net Sales Valuation $6.0M
Gross Profit Multiple 3.68	×	Gross Profit $1.4M	=	Gross Profit Valuation $5.3M
EBITDA Multiple 8.00	×	EBITDA $659K	=	EBITDA Valuation $5.3M
EBIT Multiple 9.80	×	EBIT $555K	=	EBIT Valuation $5.4M
FCF Multiple 7.45	×	FCF $484K	=	FCF Valuation $3.6M

VALUATION FOR DEMO-LITION, INC.

RELATIVE VALUATION

Our valuation multiples are calculated and adjusted based on proprietary models that analyze comparable companies and the qualitative business inputs.



The valuation of Demo-lition based on the relative valuation model is $5,128,223.

"Time is the friend of the wonderful company and the enemy of the mediocre one."
-Warren Buffett

Value Buddy

RELATIVE VALUATION

Explained

Relative valuation, also known as comparative valuation, is a fundamental approach used in the valuation of companies and assets. It involves assessing the value of a subject company or asset by comparing it to similar entities or assets in the same industry or market. This method relies on the premise that the market values comparable assets or companies similarly based on their financial performance, characteristics, and market conditions.

Key Components of Relative Valuation:

Comparable Companies Analysis (CCA): CCA involves the comparison of the subject company to a group of peer companies that share similarities in terms of industry, size, and other relevant factors. Financial metrics such as price-to-earnings (P/E) ratios, price-to-sales (P/S) ratios, and enterprise value-to-EBITDA (EV/EBITDA) ratios are commonly used for comparison.

Comparable Transactions Analysis (CTA): CTA, also known as precedent transactions analysis, assesses the subject company's value by examining historical transactions of similar companies. This approach considers factors like acquisition prices, deal structures, and terms of previous transactions.

RELATIVE VALUATION

Explained

Relative valuation offers several advantages in the valuation process:

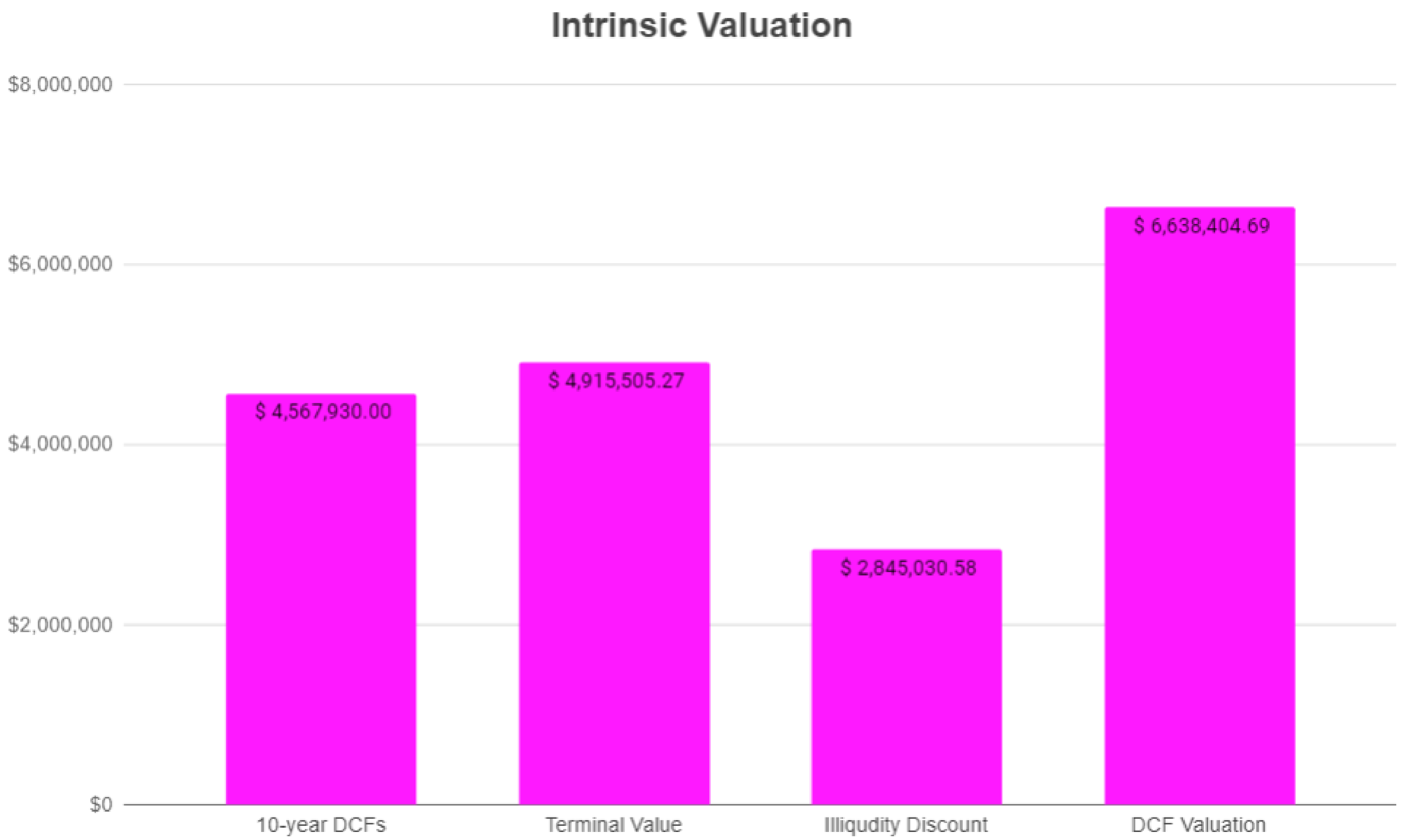
- Simplicity: It is a straightforward and easy-to-understand method, making it accessible to a wide range of stakeholders, including investors, analysts, and business professionals.
- Market Realism: Relative valuation accounts for market sentiment and real-time market conditions, as it relies on current market prices and multiples of comparable entities.
- Benchmarking: It provides a valuable benchmark for assessing whether a company is undervalued or overvalued relative to its peers or historical transactions.

While relative valuation is a valuable tool, it has some limitations:

- Reliance on Comparable Data: The accuracy of relative valuation depends on the availability of reliable and relevant data on comparable companies or transactions. If there are limited or no suitable comparables, the analysis may be less meaningful.
- Market Fluctuations: Market conditions can be volatile, leading to fluctuations in the valuation multiples of comparable companies. This can impact the accuracy of the valuation.
- Differences in Business Models: Companies may have different business models, growth prospects, or risk profiles, making direct comparisons challenging. Adjustments may be needed to account for these differences.
- Subjectivity: The selection of comparable companies or transactions, as well as the choice of valuation multiples, can involve subjective judgment, potentially leading to different valuation outcomes.

INTRINSIC VALUATION

Our intrinsic valuation model forecasts and discounts the cash flows based on the industry peers, historic financial inputs, and qualitative factors.



The valuation of Demo-lition based on the intrinsic valuation model is $6,638,405.

"Being at least as good as the leader is the prerequisite to being competitive."
-Peter Drucker

Value Buddy

INTRINSIC VALUATION

Explained

Intrinsic valuation, often referred to as fundamental valuation, is a method used to determine the inherent or intrinsic value of an asset, such as a company's stock or a business as a whole. Unlike relative valuations that rely on market prices and comparisons to other entities, intrinsic valuation seeks to assess the true worth of an asset by examining its fundamental characteristics, financial performance, and future cash flows.

Key Components of Intrinsic Valuation:

1. **Discounted Cash Flow (DCF) Analysis:** DCF analysis is one of the primary techniques used in intrinsic valuation. It involves estimating the future cash flows expected from an asset, discounting those cash flows to their present value using an appropriate discount rate (usually the cost of capital), and arriving at the intrinsic value.
2. **Earnings-Based Models:** Intrinsic valuation can also employ earnings-based models such as the Price-to-Earnings (P/E) ratio, Price-to-Earnings Growth (PEG) ratio, and Price-to-Book (P/B) ratio. These models evaluate the asset's value based on its earnings or book value in relation to its expected growth.
3. **Asset-Based Valuation:** In cases where the asset's market value is closely tied to its tangible assets, asset-based valuation calculates intrinsic value by assessing the net value of the company's assets, which may include tangible assets like property and equipment and intangible assets like patents or trademarks.

INTRINSIC VALUATION

Explained

Intrinsic valuation offers several advantages in the valuation process:

- **Focus on Fundamentals:** It places a strong emphasis on understanding the underlying fundamentals of the asset or company, making it a valuable tool for long-term investors and stakeholders interested in assessing the true worth of an investment.
- **Tailored Analysis:** Intrinsic valuation can be tailored to specific industries and asset types, allowing for a more customized and accurate assessment of value.
- **Long-Term Perspective:** By evaluating the expected future cash flows and performance of an asset, intrinsic valuation provides insights into its potential long-term value, helping investors make informed decisions.

While intrinsic valuation is a robust method, it has some limitations:

- **Subjectivity:** Estimating future cash flows and selecting appropriate discount rates can involve subjectivity and assumptions, which may impact the accuracy of the valuation.
- **Data Reliability:** The quality and reliability of financial data, as well as the accuracy of growth rate projections, can significantly affect the results of intrinsic valuation.
- **Market Sentiment:** Intrinsic valuation may not capture short-term market sentiment or speculative factors that can influence asset prices in the short run.
- **Complexity:** Some intrinsic valuation methods, particularly DCF analysis, can be complex and require a deep understanding of financial modeling and industry dynamics.

DRIVER ADJUSTMENTS

Explained

Value Buddy employs a relative valuation methodology that distinguishes it from traditional auditing or financial statement adjustment practices. Value Buddy does not directly audit or adjust the financial statements provided by the client. Instead, the core of its approach lies in the adjustment of exit multiples derived from a comparable company set. These adjustments are informed by a comprehensive qualitative assessment of various factors related to the valuation target.

Value Buddy conducts a thorough qualitative analysis that encompasses over 15 key factors. These factors encompass critical aspects of the valuation target, such as its management team, customer profile, customer concentration, competitive advantage, risk management strategies, governance policies, and more. By evaluating these factors, Value Buddy aims to gain a holistic understanding of the valuation target's unique qualities and characteristics.

This qualitative assessment informs the adjustments made to the exit multiples, reflecting the specific attributes and competitive position of the valuation target. By tailoring the valuation to these qualitative factors, Value Buddy ensures that the final valuation is more closely aligned with the intrinsic value and potential of the target company. This approach allows Value Buddy to provide a nuanced and customized valuation that goes beyond the mere adjustment of financial statements, enabling clients to make informed decisions based on a comprehensive understanding of their investment or business.

OTHER ADJUSTMENTS

Non-recurring events

As part of our valuation analysis process, we have scrutinized the company's income statement to assess the necessity of adjustments for non-recurring revenues or expenses during the valuation base year. After a thorough review of the financials and confirmation from the client, we concluded that there are no significant non-recurring events that would require adjustments to the base year figures for valuation purposes.

Owner compensation and discretionary spending

In our valuation analysis of Demo-lition, Inc., we found that owner compensation was in line with market averages for the industry, geographic area, and firm size. The benchmark for owner salaries in this context was $150,000 per owner, and although there were minor fluctuations in ownership salaries over the past four years, they remained approximately in line with this benchmark. Consequently, there is no need to add back any owner compensation to normalize earnings for valuation purposes. Furthermore, we no significant owner discretionary spending, including business gifts and charitable contributions, which were not deemed essential for business operations.

VALUATION SUMMARY

For the purpose of achieving a "safe harbor" status with the IRS, the value per share must be derived from our valuations:

Income Approach (DCF) Valuation

$6,638,405

Market Approach (multiples) Valuation

$5,128,223

Income Approach Weighting

50%

Market Approach Weighting

50%

Fair Market Value

$5,883,314

ASSUMPTIONS

Short-term Cash Flow Growth (Years 1-5)-Computed using business' trailing twelve months (TTM) revenue growth, the short-term growth estimate, and the industry's average growth rate

Growth Rate Used in Model: 6.7%

Long-term Revenue Growth (Years 6-10)-Computed using long-term growth estimate and the industry's average growth rate

Growth Rate Used in Model: 3.6%

Terminal Growth Rate (Years 10+) - The average growth rate of publicly traded companies in the construction industry

Growth Rate Used in Model: 3.1%

Discount Rate - Computed using Professor Damodaran's base rate of 28% for small, private companies and adjusted based on the valuation target's qualitative strength analysis and its industry's average discount rate

Discount Rate Used in Model: 26.1%

ASSUMPTIONS

Illiquidity Discount-A proxy for the cost of "buyer's remorse". If an investor wanted to immediately sell their equity in the company, there would be a loss due to illiquidity since the valuation target is not actively and publicly traded. Value Buddy uses the guidelines set by Professor Damodaran and the NACVA.

Illiquidity Discount Used in Model: 30%

DCF Structure-The DCF model analyzes financial inputs to calculate free cash flows. The model is segmented into short-term (Years 1-5), long-term (Years 6-10), and terminal (Years 11+) cash flows

Multiples-Estimated using valuations of comparable companies

DISCOUNT RATE

Introduction / Cost of Equity

Introduction to WACC and Discount Rates

Value Buddy employs a Weighted Average Cost of Capital ("WACC") to determine the specific risk associated with this enterprise and its capital structure to discount future cash flows appropriately. Generally, a higher WACC implies a greater expected return and risk for investors considering investment in the enterprise. In our Discounted Cash Flow (DCF) analysis, Value Buddy calculates a unique WACC using the Capital Asset Pricing Model ("CAPM").

CAPM formula

$$Ke = CSRP + SP + Rf + B * (Rm)$$

Where:

Ke = Cost of equity

CSRP = Company-specific risk premium

SP = Size premium

Rf = Risk-free rate

B = Beta

Rm = Market risk premium

Cost of Equity

The Cost of Equity (Ke) is the minimum threshold for the required rate of return for equity investors, which is a function of the risk profile of the company.

DISCOUNT RATE

Cost of Equity

Company-specific Risk Premium

Value Buddy utilizes a proprietary approach to calculate the company-specific risk premium. This premium is determined based on qualitative inputs from the client, encompassing factors like the strength of the management team, financial standing, customer concentration, and more. Additionally, to account for the heightened risk associated with investing in smaller, less profitable, and less mature companies, an extra company-specific risk premium may be applied in the calculation of cost of equity. This risk premium captures the additional risk tied to the enterprise's revenue in comparison to the broader market, providing a more comprehensive assessment of the company's risk profile.

Size Premium

Size premium (SP) reflects the additional return investors seek for the added risk associated with investing in smaller companies compared to larger, more established ones.

Risk-free Rate

The risk-free rate (Rf) is determined by the interest rate associated with a three-month U.S. Treasury Bill (T-bill). This rate is commonly employed as the risk-free rate for U.S.-based investors due to its close alignment with the market's perception that the U.S. government carries an extremely low risk of defaulting on its financial obligations. At the time of this valuation, the T-bill rate is **5.35%**.

DISCOUNT RATE

Cost of Equity

Beta

Beta (B) measures a company's responsiveness to market fluctuations, known as systematic risk, relative to the broader market, serving as the reference point.

Market Risk Premium

The market risk premium represents the additional return that investors expect to earn above the risk-free rate as compensation for bearing the overall market risk.

DISCOUNT RATE

Cost of Debt / Summary

Debt-to-equity ratio

Unless provided with a specific debt-to-equity ratio for the valuation target, Value Buddy leverages the debt-to-equity ratios of the comparable private companies analyzed for this valuation.

Cost of Debt

To estimate cost of debt, Value Buddy analyzes lending data from a variety of sources. The first being the Federal Reserve Bank of Kansas City's Small Business Lending Survey which showed a weigted average interest rate of **11.92%** for outstnading variable-rate loans made under commitment. Another source of data used to triangulate an appropriate cost of debt is the SBA's guidelines for its 7a lending program's interest rates which is currently the Prime Rate + 3% for loans over $350K. Given that the prime rate is 8.50% at the time of this valuation, that would imply an **11.50%** interest rate on large SBA 7a loans.

Tax Rate

Value Buddy leverages tax rate data compiled by FreshBooks Accounting that shows the effective tax rate is 19.8% for all small businesses, 13.3% for sole proprietorships, 23.6% for small partnerships, 26.9% for small S corporations, and 21% for C corporations.

Discount Rate Summary

Based on the above outlined WACC methodology, the discount rate used in this valuation is **26.1%**.

GLOSSARY

DCF-Discounted cash flow; a valuation summing the future cash flows of a business discounted for how far into the future the cash flows are
Discount Rate-A rate used to discount future cash flows based on risk, access to capital, and other factors
EBITDA-Earnings before interest, tax, depreciation, amortization
EBIT-Earnings before interest and tax
FCF-Free cash flow, the amount of cash inflows a business has after paying all of its operating expenses and capital expenditures
Intrinsic Valuation-Relates the value of a business to its internal operating abilities: its capacity to generate cash flows and the risks involved in the cash flows
Multiples-The 'variable' used in relative valuation that is multiplied by a common metric to estimate a business valuation
Net Sales-Total revenue minus returns and allowances
Gross Profit-Net sales minus cost of goods sold
Relative Valuation-Estimates the value of a business relative to common variables of comparable companies

RISK REVIEW

In this section we will summarize our risk review of the valuation targeting including KPI benchmarking against comparable companies and analysis of qualitative risk factors to supplement the underwriter's due diligence.

KPI BENCHMARKING

Our benchmarking compares the business' performance to that of industry peers of approximately the same scale.

TARGETS ACHIEVED	HEALTH SCORE	HEALTH STATUS
8/11	71	

Growth	Demo-lition, Inc.	Target	Importance
Trailing Revenue Growth	7.5%	1.0%	Medium
Forward Revenue Growth	6.0%	3.3%	High
Efficiency			
Inventory Turnover	10.14	9.67	Medium
COGS/Sales	53.0%	48.1%	Critical
Lease Expense/Sales	3.2%	7.0%	Low
Tax Rate	19.7%	21%	Low
Margins			
Gross Profit Margin	37.0%	44.2%	High
EBITDA Margin	15.2%	7.7%	Medium
Operating Profit Margin	9.6%	5.1%	High
Net Profit Margin	5.4%	3.7%	High
Free Cash Flow Margin	7.4%	7.7%	Critical

RISK ASSESSMENT

Supply Chain Disruptions

Demo-lition, Inc. operates with a relatively low susceptibility to supply chain disruptions. The core operations of the company primarily involve demolition services, which are less reliant on intricate supply chains compared to manufacturing or retail businesses. Key materials, such as heavy machinery and safety equipment, are sourced locally and from reliable suppliers with whom the company has established long-term relationships. This strategy minimizes the risk of significant supply chain disruptions affecting day-to-day operations. Additionally, Demo-lition, Inc. maintains a contingency plan to address potential disruptions swiftly, ensuring the continuity of critical services.

COVID-19 Impact

The COVID-19 pandemic had a notable impact on Demo-lition, Inc.'s operations. The onset of the pandemic led to temporary project delays and a shift in safety protocols to protect the health of employees and clients. The company swiftly adapted by implementing remote work arrangements for administrative staff and enhancing safety measures at project sites. While the initial phase posed challenges, the demand for demolition services remained steady, driven by the need for property repurposing and development. As restrictions eased and safety measures were reinforced, Demo-lition, Inc. managed to regain its pre-pandemic operational efficiency. The company remains vigilant and adaptable, ready to respond to any future developments related to the pandemic or similar crises.

RISK ASSESSMENT

Environmental Impact

The nature of Demo-lition, Inc.'s business inherently involves environmental considerations. The company has established environmentally responsible demolition practices, including material recycling and waste reduction, to mitigate its impact.

Social Risk Management

Demo-lition, Inc. has robust controls in place for social risk management. It prioritizes safety and follows strict protocols to protect employees and stakeholders. The company also places high importance on diversity and employee satisfaction.

Governance Risk Management

Governance risk is well-managed at Demo-lition, Inc. The company complies with industry regulations and has stringent anti-fraud measures in place to safeguard against any irregularities.

Certifications

While Demo-lition, Inc. may not hold specific differentiating certifications like B Corp or Minority Business Enterprise, its commitment to safety, sustainability, and innovation sets it apart in the demolition industry.

Inflation Impact

Inflation has had a moderate impact on Demo-lition, Inc.'s core operations. Rising material and equipment costs have been managed through strategic sourcing and pricing adjustments.

RISK ASSESSMENT

Financial Resilience

Demo-lition, Inc.'s cautious financial practices, while limiting risks, may hinder seizing unexpected growth opportunities during upswings, potentially challenging rapid scalability. The company's conservative debt approach minimizes interest rate risks but may restrict its ability to leverage debt for expansion, potentially impeding growth. While having an emergency fund is prudent, it might not suffice during prolonged economic downturns or simultaneous crises, posing financial stability risks. Diversifying services across sectors helps mitigate sector-specific risks. The company’s aggressive cost management measures are essential but may compromise service quality or innovation, heightening operational risks.

Product Offering in a Recession

Demolition is an essential service that should largely continue with the company’s government clients, however, smaller commercial projects could slow during a recession which would significantly impact Demo-lition’s core business. Further, economic uncertainties may lead clients to delay or cancel projects, affecting revenue and introducing project risks. Clients' priority on cost savings over sustainability during downturns may impact demand for eco-friendly services which Demo-lition has historically leveraged to increase project billing.

ASSUMPTIONS

Target Revenue Growth Rates-the revenue growth rate targets are based on analyst expectations of the expected growth rate of publicly traded companies in the business' industry which are adjusted for the maturity phase of the business

Target Efficiency and Margins-the targets for efficiency and margins are based on data from transactions of comparable companies which is then tailored to match the company's maturity profile

Target Adjustments-the targets of the business can be adjusted based on the input in the Value Buddy Pro package

Importance Adjustments-the importance of each KPI (low, medium, high, critical) are standardized for all businesses. If the importance of specific KPIs is different for the business, they can be adjusted in the Value Buddy Pro package

GLOSSARY

COGS-Cost of goods sold; the direct costs of producing the products sold by a company
EBITDA-Earnings before interest, tax, depreciation, amortization
EBIT-Earnings before interest and tax
Free Cash Flow-The amount of cash inflows a business has after paying all of its operating expenses and capital expenditures
Inventory Turnover-The number of times that a business sells its inventory in a year
Margin-In the context of this report, a term including "margin" means that the figure was divided by the business' net sales
Net Sales-Total revenue minus returns and allowances
Gross Profit-Net sales minus cost of goods sold
Trailing Revenue Growth-Revenue growth over the previous year

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60

1959-1 C.B. 237, Sec. 1001
Caution:Amplified by Rev. Rul. 83-120
Caution:Amplified by Rev. Rul. 80-213
Caution:Amplified by Rev. Rul. 77-287
Caution: Modified by Rev. Rul. 65-193

IRS Headnote

In valuing the stock of closely held corporations, or the stock of corporations where market quotations are not available, all other available financial data, as well as all relevant factors affecting the fair market value must be considered for estate tax and gift tax purposes. No general formula may be given that is applicable to the many different valuation situations arising in the valuation of such stock. However, the general approach, methods, and factors which must be considered in valuing such securities are outlined.

Revenue Ruling 54-77, C.B. 1954-1, 187, superseded.

SECTION 1. PURPOSE

The purpose of this Revenue Ruling is to outline and review in general the approach, methods and factors to be considered in valuing shares of the capital stock of closely held corporations for estate tax and gift tax purposes. The methods discussed herein will apply likewise to the valuation of corporate stocks on which market quotations are either unavailable or are of such scarcity that they do not reflect the fair market value.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

SECTION. 2. BACKGROUND AND DEFINITIONS

01 All valuations must be made in accordance with the applicable provisions of the Internal Revenue Code of 1954 and the Federal Estate Tax and Gift Tax Regulations. Sections 2031(a), 2032 and 2512(a) of the 1954 Code (sections 811 and 1005 of the 1939 Code) require that the property to be included in the gross estate, or made the subject of a gift, shall be taxed on the basis of the value of the property at the time of death of the decedent, the alternate date if so elected, or the date of gift.

02 Section 20.2031-1(b) of the Estate Tax Regulations (section 81.10 of the Estate Tax Regulations 105) and section 25.2512-1 of the Gift Tax Regulations (section 86.19 of Gift Tax Regulations 108) define fair market value, in effect, as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

03 Closely held corporations are those corporations the shares of which are owned by a relatively limited number of stockholders. Often the entire stock issue is held by one family. The result of this situation is that little, if any, trading is the shares takes place. There is, therefore, no established market for the stock and such sales as occur at irregular intervals seldom reflect all of the elements of a representative transaction as defined by the term `fair market value.'

SECTION. 3. APPROACH TO VALUATION

01 A determination of fair market value, being a question of fact, will depend upon the circumstances in each case. No formula can be devised that will be generally applicable to the multitude of different valuation issues arising in estate and gift tax cases. Often, an appraiser will find wide differences of opinion as to the fair market value of a particular stock. In resolving such differences, he should maintain a reasonable attitude in recognition of the fact that valuation is not an exact science. A sound valuation will be based upon all the-relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

02 The fair market value of specific shares of stock will vary as general economic conditions change from `normal' to `boom' or `depression,' that is, according to the degree of optimism or pessimism with which the investing public regards the future at the required date of appraisal. Uncertainty as to the stability or continuity of the future income from a property decreases its value by increasing the risk of loss of earnings and value in the future. The value of shares of stock of a company with very uncertain future prospects is highly speculative. The appraiser must exercise his judgment as to the degree of risk attaching to the business of the corporation which issued the stock, but that judgment must be related to all of the other factors affecting value.

03 Valuation of securities is, in essence, a prophesy as to the future and must be based on facts available at the required date of appraisal. As a generalization, the prices of stocks which are traded in volume in a free and active market by informed persons best reflect the consensus of the investing public as to what the future holds for the corporations and industries represented. When a stock is closely held, is traded infrequently, or is traded in an erratic market, some other measure of value must be used. In many instances, the next best measure may be found in the prices at which the stocks of companies engaged in the same or a similar line of business are selling in a free and open market.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

SECTION. 4. FACTORS TO CONSIDER

01 It is advisable to emphasize that in the valuation of the stock of closely held corporations or the stock of corporations where market quotations are either lacking or too scarce to be recognized, all available financial data, as well as all relevant factors affecting the fair market value, should be considered. The following factors, although not all-inclusive are fundamental and require careful analysis in each case:

(a) The nature of the business and the history of the enterprise from its inception.
(b) The economic outlook in general and the condition and outlook of the specific industry in particular.
(c) The book value of the stock and the financial condition of the business. (d) The earning capacity of the company.
(e) The dividend-paying capacity.
(f) Whether or not the enterprise has goodwill or other intangible value.
(g) Sales of the stock and the size of the block of stock to be valued.
(h) The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

02 The following is a brief discussion of each of the foregoing factors:

(a) The history of a corporate enterprise will show its past stability or instability, its growth or lack of growth, the diversity or lack of diversity of its operations, and other facts needed to form an opinion of the degree of risk involved in the business. For an enterprise which changed its form of organization but carried on the same or closely similar operations of its predecessor, the history of the former enterprise should be considered. The detail to be considered should increase with approach to the required date of appraisal, since recent events are of greatest help in predicting the future; but a study of gross and net income, and of dividends covering a long prior period, is highly desirable. The history to be studied should include, but need not be limited to, the nature of the business, its products or services, its operating and investment assets, capital structure, plant facilities, sales records and management, all of which should be considered as of the date of the appraisal, with due regard for recent significant changes. Events of the past that are unlikely to recur in the future should be discounted, since value has a close relation to future expectancy.

(b) A sound appraisal of a closely held stock must consider current and prospective economic conditions as of the date of appraisal, both in the national economy and in the industry or industries with which the corporation is allied. It is important to know that the company is more or less successful than its competitors in the same industry, or that it is maintaining a stable position with respect to competitors.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

Equal or even greater significance may attach to the ability of the industry with which the company is allied to compete with other industries. Prospective competition which has not been a factor in prior years should be given careful attention. For example, high profits due to the novelty of its product and the lack of competition often lead to increasing competition. The public's appraisal of the future prospects of competitive industries or of competitors within an industry may be indicated by price trends in the markets for commodities and for securities. The loss of the manager of a so-called `one-man' business may have a depressing effect upon the value of the stock of such business, particularly if there is a lack of trained personnel capable of succeeding to the management of the enterprise. In valuing the stock of this type of business, therefore, the effect of the loss of the manager on the future expectancy of the business, and the absence of management-succession potentialities are pertinent factors to be taken into consideration. On the other hand, there may be factors which offset, in whole or in part, the loss of the manager's services. For instance, the nature of the business and of its assets may be such that they will not be impaired by the loss of the manager. Furthermore, the loss may be adequately covered by life insurance, or competent management might be employed on the basis of the consideration paid for the former manager's services. These, or other offsetting factors, if found to exist, should be carefully weighed against the loss of the manager's services in valuing the stock of the enterprise.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

(c) Balance sheets should be obtained, preferably in the form of comparative annual statements for two or more years immediately preceding the date of appraisal, together with a balance sheet at the end of the month preceding that date, if corporate accounting will permit. Any balance sheet descriptions that are not self-explanatory, and balance sheet items comprehending diverse assets or liabilities, should be clarified in essential detail by supporting supplemental schedules. These statements usually will disclose to the appraiser (1) liquid position (ratio of current assets to current liabilities); (2) gross and net book value of principal classes of fixed assets; (3) working capital; (4) long-term indebtedness; (5) capital structure; and (6) net worth. Consideration also should be given to any assets not essential to the operation of the business, such as investments in securities, real estate, etc. In general, such nonoperating assets will command a lower rate of return than do the operating assets, although in exceptional cases the reverse may be true. In computing the book value per share of stock, assets of the investment type should be revalued on the basis of their market price and the book value adjusted accordingly. Comparison of the company's balance sheets over several years may reveal, among other facts, such developments as the acquisition of additional production facilities or subsidiary companies, improvement in financial position, and details as to recapitalizations and other changes in the capital structure of the corporation. If the corporation has more than one class of stock outstanding, the charter or certificate of incorporation should be examined to ascertain the explicit rights and privileges of the various stock issues including: (1) voting powers, (2) preference as to dividends, and (3) preference as to assets in the event of liquidation.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

(d) Detailed profit-and-loss statements should be obtained and considered for a representative period immediately prior to the required date of appraisal, preferably five or more years. Such statements should show (1) gross income by principal items; (2) principal deductions from gross income including major prior items of operating expenses, interest and other expense on each item of longterm debt, depreciation and depletion if such deductions are made, officers' salaries, in total if they appear to be reasonable or in detail if they seem to be excessive, contributions (whether or not deductible for tax purposes) that the nature of its business and its community position require the corporation to make, and taxes by principal items, including income and excess profits taxes; (3) net income available for dividends; (4) rates and amounts of dividends paid on each class of stock; (5) remaining amount carried to surplus; and (6) adjustments to, and reconciliation with, surplus as stated on the balance sheet. With profit and loss statements of this character available, the appraiser should be able to separate recurrent from nonrecurrent items of income and expense, to distinguish between operating income and investment income, and to ascertain whether or not any line of business in which the company is engaged is operated consistently at a loss and might be abandoned with benefit to the company. The percentage of earnings retained for business expansion should be noted when dividend-paying capacity is considered. Potential future income is a major factor in many valuations of closely-held stocks, and all information concerning past income which will be helpful in predicting the future should be secured.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

Prior earnings records usually are the most reliable guide as to the future expectancy, but resort to arbitrary five-or-tenyear averages without regard to current trends or future prospects will not produce a realistic valuation. If, for instance, a record of progressively increasing or decreasing net income is found, then greater weight may be accorded the most recent years' profits in estimating earning power. It will be helpful, in judging risk and the extent to which a business is a marginal operator, to consider deductions from income and net income in terms of percentage of sales. Major categories of cost and expense to be so analyzed include the consumption of raw materials and supplies in the case of manufacturers, processors and fabricators; the cost of purchased merchandise in the case of merchants; utility services; insurance; taxes; depletion or depreciation; and interest.

(e) Primary consideration should be given to the dividend-paying capacity of the company rather than to dividends actually paid in the past. Recognition must be given to the necessity of retaining a reasonable portion of profits in a company to meet competition. Dividend-paying capacity is a factor that must be considered in an appraisal, but dividends actually paid in the past may not have any relation to dividend-paying capacity. Specifically, the dividends paid by a closely held family company may be measured by the income needs of the stockholders or by their desire to avoid taxes on dividend receipts, instead of by the ability of the company to pay dividends. Where an actual or effective controlling interest in a corporation is to be valued, the dividend factor is not a material element, since the payment of such dividends is discretionary with the controlling stockholders.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

The individual or group in control can substitute salaries and bonuses for dividends, thus reducing net income and understating the dividend-paying capacity of the company. It follows, therefore, that dividends are less reliable criteria of fair market value than other applicable factors.

(f) In the final analysis, goodwill is based upon earning capacity. The presence of goodwill and its value, therefore, rests upon the excess of net earnings over and above a fair return on the net tangible assets. While the element of goodwill may be based primarily on earnings, such factors as the prestige and renown of the business, the ownership of a trade or brand name, and a record of successful operation over a prolonged period in a particular locality, also may furnish support for the inclusion of intangible value. In some instances it may not be possible to make a separate appraisal of the tangible and intangible assets of the business. The enterprise has a value as an entity. Whatever intangible value there is, which is supportable by the facts, may be measured by the amount by which the appraised value of the tangible assets exceeds the net book value of such assets.

(g) Sales of stock of a closely held corporation should be carefully investigated to determine whether they represent transactions at arm's length. Forced or distress sales do not ordinarily reflect fair market value nor do isolated sales in small amounts necessarily control as the measure of value. This is especially true in the valuation of a controlling interest in a corporation. Since, in the case of closely held stocks, no prevailing market prices are available, there is no basis for making an adjustment for blockage.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

It follows, therefore, that such stocks should be valued upon a consideration of all the evidence affecting the fair market value. The size of the block of stock itself is a relevant factor to be considered. Although it is true that a minority interest in an unlisted corporation's stock is more difficult to sell than a similar block of listed stock, it is equally true that control of a corporation, either actual or in effect, representing as it does an added element of value, may justify a higher value for a specific block of stock.

(h) Section 2031(b) of the Code states, in effect, that in valuing unlisted securities the value of stock or securities of corporations engaged in the same or a similar line of business which are listed on an exchange should be taken into consideration along with all other factors. An important consideration is that the corporations to be used for comparisons have capital stocks which are actively traded by the public. In accordance with section 2031(b) of the Code, stocks listed on an exchange are to be considered first. However, if sufficient comparable companies whose stocks are listed on an exchange cannot be found, other comparable companies which have stocks actively traded in on the over-the-counter market also may be used. The essential factor is that whether the stocks are sold on an exchange or over-the-counter there is evidence of an active, free public market for the stock as of the valuation date. In selecting corporations for comparative purposes, care should be taken to use only comparable companies.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

Although the only restrictive requirement as to comparable corporations specified in the statute is that their lines of business be the same or similar, yet it is obvious that consideration must be given to other relevant factors in order that the most valid comparison possible will be obtained. For illustration, a corporation having one or more issues of preferred stock, bonds or debentures in addition to its common stock should not be considered to be directly comparable to one having only common stock outstanding. In like manner, a company with a declining business and decreasing markets is not comparable to one with a record of current progress and market expansion.

SECTION. 5. WEIGHT TO BE ACCORDED VARIOUS FACTORS

The valuation of closely held corporate stock entails the consideration of all relevant factors as stated in section 4. Depending upon the circumstances in each case, certain factors may carry more weight than others because of the nature of the company's business. To illustrate:

(i) Earnings may be the most important criterion of value in some cases whereas asset value will receive primary consideration in others. In general, the appraiser will accord primary consideration to earnings when valuing stocks of companies which sell products or services to the public; conversely, in the investment or holding type of company, the appraiser may accord the greatest weight to the assets underlying the security to be valued.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

(j) The value of the stock of a closely held investment or real estate holding company, whether or not family owned, is closely related to the value of the assets underlying the stock. For companies of this type the appraiser should determine the fair market values of the assets of the company. Operating expenses of such a company and the cost of liquidating it, if any, merit consideration when appraising the relative values of the stock and the underlying assets. The market values of the underlying assets give due weight to potential earnings and dividends of the particular items of property underlying the stock, capitalized at rates deemed proper by the investing public at the date of appraisal. A current appraisal by the investing public should be superior to the retrospective opinion of an individual. For these reasons, adjusted net worth should be accorded greater weight in valuing the stock of a closely held investment or real estate holding company, whether or not family owned, than any of the other customary yardsticks of appraisal, such as earnings and dividend paying capacity.

SECTION. 6. CAPITALIZATION RATES

In the application of certain fundamental valuation factors, such as earnings and dividends, it is necessary to capitalize the average or current results at some appropriate rate. A determination of the proper capitalization rate presents one of the most difficult problems in valuation. That there is no ready or simple solution will become apparent by a cursory check of the rates of return and dividend yields in terms of the selling prices of corporate shares listed on the major exchanges of the country. Wide variations will be found even for companies in the same industry.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

Moreover, the ratio will fluctuate from year to year depending upon economic conditions. Thus, no standard tables of capitalization rates applicable to closely held corporations can be formulated. Among the more important factors to be taken into consideration in deciding upon a capitalization rate in a particular case are: (1) the nature of the business; (2) the risk involved; and (3) the stability or irregularity of earnings.

SECTION. 7. AVERAGE OF FACTORS

Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair market value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

SECTION. 8. RESTRICTIVE AGREEMENTS

Frequently, in the valuation of closely held stock for estate and gift tax purposes, it will be found that the stock is subject to an agreement restricting its sale or transfer. Where shares of stock were acquired by a decedent subject to an option reserved by the issuing corporation to repurchase at a certain price, the option price is usually accepted as the fair market value for estate tax purposes.

IRS REV. RUL. 59-60

Appendix A

IRS Revenue Ruling 59-60 (cont.)

See Rev. Rul. 54-76, C.B. 1954-1, 194. However, in such case the option price is not determinative of fair market value for gift tax purposes. Where the option, or buy and sell agreement, is the result of voluntary action by the stockholders and is binding during the life as well as at the death of the stockholders, such agreement may or may not, depending upon the circumstances of each case, fix the value for estate tax purposes. However, such agreement is a factor to be considered, with other relevant factors, in determining fair market value. Where the stockholder is free to dispose of his shares during life and the option is to become effective only upon his death, the fair market value is not limited to the option price. It is always necessary to consider the relationship of the parties, the relative number of shares held by the decedent, and other material facts, to determine whether the agreement represents a bona fide business arrangement or is a device to pass the decedent's shares to the natural objects of his bounty for less than an adequate and full consideration in money or money's worth. In this connection see Rev. Rul. 157 C.B. 1953-2, 255, and Rev. Rul.189, C.B. 1953-2, 294.

SECTION. 9. EFFECT ON OTHER DOCUMENTS

Revenue Ruling 54-77, C.B. 1954-1, 187, is hereby superseded.

SBA SOP 50 10 7.1

Appendix B

Excerpt from Section B, Ch 1

1. *Business Valuation Requirements – Change of Ownership:*
    a. *Determining the value of a business (not including real estate which is separately valued through a real estate appraisal) is the key component to the analysis of any loan application for a change of ownership. An accurate business valuation is required because the change in ownership will result in new debt unrelated to business operations and potentially the creation of intangible assets. A business valuation assists the buyer in making a determination that the seller's asking price is supported by an independent Qualified Source (see definition in Appendix C).*
    b. *In order for the individual performing the business valuation to identify the scope of work appropriately, the business valuation must be requested by and prepared for the Lender. The scope of work should identify whether the transaction is an asset purchase or stock purchase and be specific enough for the individual performing the business valuation to know what is included in the sale (including any assumed debt). The business valuation must include the individual's conclusion of value, the qualifications of the individual performing the business valuation and their signature certifying to the information contained in the business valuation. The Lender may not use a business valuation prepared for the Applicant or the seller. The cost of the business valuation may be passed on to the Applicant.*

SBA SOP 50 10 7.1

Appendix B

Excerpt from Section B, Ch 1 (cont.)

i. *Non-Special Purpose Properties:*
   1. *If the amount being financed (including any 7(a), 504, seller, or other financing) minus the appraised value of real estate and/or equipment being financed is $250,000 or less, the Lender may perform its own valuation of the business being sold, unless the Lender's internal policies and procedures require an independent business valuation from a Qualified Source.*
   2. *If the amount being financed (including any 7(a), 504, seller, or other financing) minus the appraised value of real estate and/or equipment is greater than $250,000 or if there is a close relationship between the buyer and seller (for example, transactions between existing owners or family members), the Lender must obtain an independent business valuation from a Qualified Source.*

ii. *Special Purpose Properties: A "Special Purpose Property" is a limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the specific use for which it was built.*
   1. *If the amount being financed (including any 7(a), 504, seller, or other financing) minus the appraised value of real estate and/or equipment being financed is $250,000 or less, the Lender may perform its own valuation of the business being sold, unless the Lender's internal policies and procedures require an independent business valuation from a Qualified Source.*

SBA SOP 50 10 7.1

Appendix B

Excerpt from Section B, Ch 1 (cont.)

2. *If the amount being financed (including any 7(a), 504, seller, or other financing) minus the appraised value of real estate and/or equipment being financed is over $250,000 or if there is a close relationship between the buyer and seller (for example, transactions between existing owners or family members) and the business operates from a Special Purpose Property, the Lender must obtain an independent business valuation performed by a Certified General Real Property Appraiser. The appraiser must be independent of the loan production function, not involved in the approval of the transaction, and must not have the appearance of a conflict of interest.*
3. *The business valuation must allocate separate values to the individual components of the transaction including land, building, equipment, and intangible assets.*
4. *The Certified General Real Property Appraiser must have completed no less than four going concern appraisals of equivalent special use property as the property being appraised, within the last 36 months, as identified in the qualifications portion of the Appraisal Report.*
5. *Each business valuation assignment under this section must be undertaken with a specific instruction for the Certified General Real Property Appraiser to conduct the appraisal in compliance with current USPAP guidelines.*

SBA SOP 50 10 7.1

Appendix B

Excerpt from Section B, Ch 1 (cont.)

i. *If the application will be submitted to the LGPC, the business valuation must be submitted as part of the loan application.*
ii. *If the application will be submitted under PLP authority, the business valuation may be obtained and reviewed after the issuance of an SBA Loan Number and prior to closing. If the Lender is processing the application under PLP authority and requests the business valuation after issuance of an SBA Loan Number, the credit memorandum must include an estimate of the value of the business. The credit memorandum must be updated after receipt of the business valuation to include a comparison of the loan amount and the business valuation.*
iii. *Any amount(s) of the loan proceeds that will be used to facilitate a change of ownership may not exceed the business valuation.*
iv. *Lender Verification of Business valuation Financial Data: Lender must obtain a copy of the financial information relied upon by the individual who performed the business valuation and verify that information against the seller's IRS transcripts to ensure the accuracy of the information.*

SBA SOP 50 10 7.1

Appendix B

Excerpt from Appendix C

1. *Qualified Source: (With respect to business valuations) 7(a):*
    a. *A "qualified source" is an individual who regularly receives compensation for business valuations and is accredited by one of the following recognized organizations and is independent of the loan production function, not involved in the approval of the transaction, and must not have the appearance of a conflict of interest:*
    b. *Accredited Senior Appraiser (ASA) accredited through the American Society of Appraisers;*
    c. *Certified Business Appraiser (CBA) accredited through the Institute of Business Appraisers;*
    d. *Accredited in Business Valuation (ABV) accredited through the American Institute of Certified Public Accountants;*
    e. *Certified Valuation Analyst (CVA) accredited through the National Association of Certified Valuation Analysts; and*
    f. *Business Certified Appraiser (BCA) accredited through the International Society of Business Appraisers.*

DISCLAIMER

Appendix C

Summary of Limiting Conditions

We, the undersigned, hereby certify the following statements regarding this business valuation conducted by Value Buddy, Inc. on behalf of Constructor's Championship Bank

- We acknowledge that we have not personally inspected the assets, properties, or business interests encompassed by this appraisal.
- We affirm that we have no present or prospective future interest in the assets, properties, or business interests that are the subject of this business valuation.
- We confirm that we hold no personal interest or bias with respect to the subject matter of this report or the parties involved.
- We assert that our compensation for conducting this appraisal is in no way contingent upon the value reported or upon any predetermined value.
- To the best of our knowledge and belief, we assert that the statements of facts contained in this report, upon which the analyses, conclusions, and opinions expressed herein are based, are true and correct.

DISCLAIMER

Appendix C

Summary of Limiting Conditions (cont.)

- We confirm that our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation, except where noted.

- Subject to certain limitations, we affirm that the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of The Appraisal Institute, the National Association of Certified Valuators and Appraisers, and other relevant professional organizations, unless otherwise stated.

- We emphasize that our appraisal is primarily based on a historical analysis of the business's financial statements. We assume that the financial and related information supplied by the firm's representative reflects the normal operation of the business. To the extent that this is not an accurate representation, the analysis and conclusions drawn in this report may not be valid and should not be represented as such.

DISCLAIMER

Appendix C

Statement of Contingency

This appraisal is made subject to these general contingent and limiting conditions:

- We assume no responsibility for the legal description or matters, including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.

- The subject assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.

- The information furnished by others is believed to be reliable. However, we issue no warranty or other form of assurance regarding its accuracy.

- We assume no hidden or unapparent conditions regarding its accuracy.

- We assume that there is full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the appraisal report.

- We assume that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained or reviewed for any use on which the opinion contained in this report is based.

DISCLAIMER

Appendix C

Statement of Contingency (cont.)

- Possession of this report does not carry with it the right of publication. It may not be used for any purpose by any person other than the client whom it is addressed without our written consent and, in any event, only with proper written qualifications and only in its entirety.

- We, by reason of this opinion, are not required to furnish a complete valuation report, give testimony, or be in attendance in court with reference to the assets, properties, or business interests in question unless arrangements have been previously made.

- Neither all nor any part of the contents of this report shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.

The analyses, opinions, and conclusions presented in this report apply to this engagement only and may not be used out of context presented herein. This report is valid only for the effective date(s) specified herein and only for the purpose(s) specified herein.

Value Buddy, Inc. relies on the information and data available at the time of the valuation. Changes in macroeconomic conditions, industry factors, and unforeseen events can impact the accuracy of the valuation. Therefore, the valuation should be considered as of the specified date and subject to the conditions and limitations mentioned herein.

Value Buddy

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Net Sales	**$5,232,109**
Cost of Goods Sold	$3,790,485
Gross Profit	**$1,441,624**
Selling and Operating Expenses	$562,995
General and Administrative Expenses	$398,660
Other Income	$179,311
EBITDA	**$659,280**
Depreciation and Amortization Expenses	$104,278
EBIT	**$555,002**
Interest Expense	$195,450
Tax Expense	$75,506
Net Income	$284,046
D&A Addback	$104,278
Adjustments for Discretionary / One-time Expenses	$95,670
Free Cash Flow (FCF)	**$483,994**