

Business Valuation and Continuity Report

PMP Financial Research's Business Valuation and Continuity Report is a wealth assessment tool for your practice. The term valuation has many definitions and purposes (death, disability, sale, or practice value). Our approach is based on the goal of helping practice owners see their practice as an investment asset by understanding the value of their wealth today and the forecasted wealth for the future.

VALUATION EXPERIENCE

Our organization has valued thousands of practices over the last seven years with one purpose in mind – “How to grow, protect and capture your practice wealth.” We collect data quarterly from practice owners. Utilizing this data our reports are prepared by our team and our affiliate, Frank C. Evans, ASA, CBA, CPA/ABV of Evans & Associates. Currently we utilize five different valuation methods for our reports:

- 1) Discounted cash flow
- 2) Multiple annual recurring revenue
- 3) Multiple of gross revenue
- 4) Asset based
- 5) Composite value

Utilizing these methods we believe provides the practice owner with clear, concise, separate approaches to their practice so that they can determine, given their view of their own business model, which ones would be most appropriate.

VALUATION FORECAST

The current and future valuation calculation provides the owner's with the knowledge to make better business decisions on how and when they should capture some or part of their wealth. These decisions are directly tied to how the practice owner sees their business as an asset or an operating company.

CONTINUITY STATUS

Our reports also provide a quick review of the critical components of business continuity. We find that most practice owners are deficient in their business continuity agreements and to protect one's practice value this area cannot be neglected. The report will highlight what parts of the Business Continuity Agreement are lacking and provide direction for completion.

LIMITED VERSION

This version of the Business and Continuity Report is limited because of the un-audited data and general assumptions. This version should be treated as an internal document for wealth understanding and not be used for any official triggering events.

FULL VERSION

We can provide comprehensive valuation services for any triggering event that you require. Our engagement team is led by Frank C. Evans, ASA, CBA, CPA/ABV of Evans & Associates, a nationally recognized firm. He and his firm have prepared thousands of valuations in all industries and are the leading experts in creating private company. The engagement proposal will be developed on an individual need basis. We are available for valuation engagements for deaths, disability, divorce, retirement, sale or M & A activities.

To learn more about this report, contact Adam Rahuba

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Practice Valuation and Business Continuity Results

This report will provide you guidance on the current and forecasted value of your practice. It will also identify your business continuity status. Our work is to remind each practice owner that typically the largest asset they own is their business. While most have no plans on selling their business in the near future, this report should be done on an annual basis to provide clarity on the critical components of wealth creation, protection and continuity.

The following table displays projections on your practice's value for 36 month, 72 month, and 108 month periods based on the Going Concerns valuation method. Your earnings are growing at an assumed 12% each year, your expenses grow at an assumed 16% each year until they meet 30% of your earnings, and your cost of labor is growing at an assumed 4% each year.

	Current Value	12 Months	36 Months	72 Months	108 Months
Total Earnings:	\$230,000.00	\$257,600.00	\$323,133.44	\$453,979.22	\$637,808.11
Total Expenses:	\$69,000.00	\$77,280.00	\$96,940.03	\$136,193.77	\$191,342.43
Total Cost of Labor:	\$92,000.00	\$95,680.00	\$103,487.49	\$116,409.35	\$130,944.69
Income Tax:	\$13,800.00	\$16,928.00	\$24,541.18	\$40,275.22	\$63,104.20
Profit After Tax:	\$55,200.00	\$67,712.00	\$98,164.74	\$161,100.88	\$252,416.79
Total Comparison of Other Investment Choices:	18.96 %	18.96 %	18.96 %	18.96 %	18.96 %
Total Subject Company Risk Premium:	12.00 %	12.00 %	12.00 %	11.00 %	11.00 %
Total Capitalization Rate:	25.96 %	25.96 %	25.96 %	24.96 %	24.96 %
Total Practice Value:	\$212,634.82	\$260,832.05	\$378,138.43	\$645,436.23	\$1,011,285.23

Other Valuation Methods

The practice value determined above is determined by the **Going Concerns** method. We have found this to be the most accurate method in finding the value of your practice. The Going Concerns method requires more data, more analysis and the more consideration than any of the other methods used here. However, in certain practices it can be quite useful to compare this value with the values derived from other popular valuation methods.

Recurring Revenue Valuation Calculation

The Recurring Revenue Valuation Calculation arrives at a figure for the value of your practice by utilizing a derived multiple (2.5%) and computing it with your total recurring revenue figure. The following practice value is a product of this valuation method:

\$375,000

Gross Earnings Valuation Calculation

The Gross Earnings Valuation Calculation arrives at a figure for the value of your practice by computing the values of your total earnings with an earnings factor (1.6%). This valuation method produces the following value:

\$368,000

Composite Value

Averaging the results of the Recurring Revenue Valuation Calculation, the Gross Earnings Valuation Calculation and the Going Concerns Valuation Calculation provides the following composite value:

\$318,545

Business Continuity

Your Business Continuity Status Recap

1. You currently have a legally executed Buy Sell Document that was last reviewed **10/27/2002**. (If this date is more than 3 years old, please review soon).
2. Your current buy sell partner is **Acme Advisors**
3. Your current valuation methods are the following (you should consider multiple methods): **Discounted Cash Flow (Going Concerns)**
4. Your current method for continuity funding is the following (if the current method has not been reviewed in the last three years, it should be reviewed): **Lump Sum and Installment**
5. Your current triggering events have been identified (if there is only one, you should consider more than one triggering event for your document): **Death**

Appendix

Data Input

The following list displays the answers you provided while completing your Practice Valuation and Business Continuity assessment.

- Your earnings in the previous 12 months from new commissions?
 - **\$100,000**
- Your earnings in the previous 12 months as a result of trails?
 - **\$50,000**
- Your earnings in the previous 12 months from Wrap Services? (Do not enter if previously included)
 - **\$50,000**
- Your earnings that are recurring from insurance renewals? (Do not enter if previously included)
 - **\$10,000**
- Your earnings from fee advice? (Do not enter if previously included)
 - **\$10,000**
- Your earnings from miscellaneous professional services? (Do not enter if previously included)
 - **\$10,000**
- Your total annual recurring revenue from all sources?
 - **\$150,000**
- The total number of your clients?
 - **450**
- The total assets under management?
 - **\$50,000,000**
- The general pattern of product mix to your practice?
 - **Mutual Funds & Stocks**
- Your practice profile:
 - **Team Practice - Full Support**
- The roles & responsibilities of your staff, their skill sets and their experience at the job (please list):
 - **Administrative responsibilities.**
- Your primary focus on generating revenue (please describe):
 - **Advice Driven**
- You would define your business more as:
 - **A service model, where recurring revenues are sufficient enough and the next sale is not that important to your financial requirement.**
- Last year's total earnings:

- **\$195,000**
- Two years ago total earnings:
 - **\$145,000**
- Your current costs of doing business (complete inventory of business costs in the past 12 months, enter "0" if unknown):
 - **Unknown**
- Your current cost of labor (fair compensation to owner plus benefits, enter "0" if unknown):
 - **Unknown**
- Your Subject Company Risk Premium (enter "0" if unknown):
 - **Unknown**
- Years in the business:
 - **23**
- Professional designations acquired:
 - **CFP**
- Professional journals read weekly and the names:
 - **Ticker, Financial Planning**
- Average number of hours of work per week:
 - **35**
- Unique niches and specialty items:
 - **Retirement Planning**
- What do you estimate your practice's value to be?
 - **\$450,000**
- Do you have a legally executed buy sell document?
 - **Yes**
- When was the last time it was reviewed?
 - **10/27/2002**
- Have you identified a buy sell partner?
 - **Yes**
- Who is your buy sell partner?
 - **Acme Advisors**
- Explain how they would have enough time to manage their current practice and add your practice if a triggering event occurs.
 - **Unknown**
- Which valuation methods have you agreed to use?
 - **Discounted Cash Flow (Going Concerns)**
- Which triggering events are identified in your agreement?

- Death**
- Which method of distribution have you agreed to use?
 - Lump Sum and Installment**
- Have you identified the valuation methods that have been agreed upon by the buy sell partners?
 - Yes**
- Have you identified the triggering events in the document?
 - Yes**
- Have you identified the funding sources and terms to the individual and to their family?
 - Yes**
- If you do not have a complete legally executed buy sell document, do you wish to add a complete business continuity component to your practice?
 - No**

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