

Valuing a Hospital Facility

Using a Calculation Engagement under the provisions of Statement on Standards of Valuation Services No. 1 (SSVS)

Issued by the AICPA Consulting Services Executive Committee

Presented for:
Healthcare Financial Management Association
Puerto Rico Chapter

By: Julio A. Galindez, CPA, CGMA

WHO PERFORMS VALUATIONS?

- **Certified Valuation Analyst (CVA)** = National Association of Certified Valuators and Analysts
- **Accredited in Business Valuation** = American Institute of Certified Public Accountants
- **Certified Appraiser** = Appraisal Institute (they value assets, particularly using “Sales Comparisons”, “Replacement Cost”, and “Income”).
- **Certified Public Accountants** = American Institute of Certified Public Accountants
- **Other**

TOPICS TO DISCUSS:

- General provisions of SSVS No. 1
- Essential concepts in the valuation process
- Practical presentation of a “calculation engagement”
 - Company data
 - Methods used
 - Analysis before the conclusion of value
 - Conclusion of value

GENERAL PROVISIONS OF SSVS NO. 1

- Establishes standards for AICPA members who are engaged to estimate the value of a **business, business ownership interest, security or intangible assets, collectively referred as the “Subject Interest”**.
- The member performing the engagement is referred as to the “valuation analyst”.
- The standard discusses two types of engagements:
 - Valuation Engagement
 - Calculation Engagement (the matter in this program)

GENERAL PROVISIONS OF SSVS NO. 1 (CONTINUED)

- Types of Engagements
 - **Valuation Engagements** – is performed when:
 - The engagement calls for the valuation analyst to estimate the value of a “subject interest”, and,
 - The valuation analyst estimates the value and is free to apply the valuation approaches and methods he/she deems appropriate for the circumstances.

The valuation analyst expresses the results of the valuation as a **“Conclusion of Value”**, a conclusion which could be either a single amount or a range.

GENERAL PROVISIONS OF SSVS NO. 1 (CONTINUED)

- Types of Engagements
 - **Calculation Engagements** – is performed when:
 - The valuation analyst and the client agree on the valuation approaches and methods the valuation analyst will use and the extent of the procedures the valuation analyst will perform in the process of calculating the value of a “subject interest”, and,
 - The valuation analyst calculates the value in compliance with the agreement.

The valuation analyst expresses the results of the procedures performed as a **“Calculated Value”**, and also could be expressed as a single amount or a range.

ESSENTIAL CONCEPTS IN THE VALUATION PROCESS

- **Subject Interest** – the valuation analyst could be engaged to calculate the value of:
 - Business Enterprise
 - Company equity
 - Intangible asset
- The three (3) basic elements to define and establish the focus for a valuation:
 - Standard of Value
 - Level of Value
 - Premise of Value

ESSENTIAL CONCEPTS IN THE VALUATION PROCESS (CONT.)

- **Standard of Value**

- Fair Market Value
- Fair Value
- Investment Value
- Intrinsic Value
- Liquidation Value
- Net Book Value
- Loan Value
- Replacement Value
- Appraisal Value
- Face Value
- Etc.

ESSENTIAL CONCEPTS IN THE VALUATION PROCESS (CONT.)

- **Level of Value**

- Take into consideration ownership characteristics including market and control conditions
 - Lack of marketability
 - Lack of control
- Common levels of value:
 - Synergistic
 - Control
 - Non-controlling, blockage
 - Non-controlling, marketable
 - Non-controlling, non-marketable

ESSENTIAL CONCEPTS IN THE VALUATION PROCESS (CONT.)

• Premise of Value

- Refers to the premises definition related to the future activities of the business subject to valuation
- Is a function of the major and best use of the business assets
- Includes the following premises of value:
 - Going Concern
 - Orderly Liquidation
 - Forced Liquidation

ESSENTIAL CONCEPTS IN THE VALUATION PROCESS (CONT.)

- Valuation Approaches
 - Market (Market Based) Approach
 - Income Approach
 - Net Asset Approach
 - Cost Approach
- Other important concepts in valuation:
 - Valuation (or normalization) adjustments
 - Rules of Thumb
 - “Value drivers”

ESSENTIAL CONCEPTS IN THE VALUATION PROCESS (CONT.)

- Income Approach Methods
 - Capitalization of benefits
 - Discounted future benefits (cash flows)
- Asset Approach and Cost Approach
 - Identification of assets and liabilities
 - Value of assets and liabilities
 - Liquidation costs (if applicable)
- Market Approach
 - Guideline public company method
 - Guideline company transaction method

Company Data

HISTORICAL BALANCE SHEETS

| ABC CORPORATION | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Balance Sheets | | | | | |
| December 31, 2022-2018 | | | | | |
| Assets | 2022 | 2021 | 2020 | 2019 | 2018 |
| Current Assets | | | | | |
| Cash | \$ 1,900,000 | \$ 1,700,000 | \$ 1,300,000 | \$ 961,000 | \$ 194,000 |
| Account Receivable Trade | 1,800,000 | 1,500,000 | 1,600,000 | 1,700,000 | 1,750,000 |
| Other receivables | 40,000 | 51,000 | 400,000 | 82,000 | - |
| Inventories | 208,000 | 268,000 | 270,000 | 222,000 | 202,000 |
| Prepaid expenses, incl. prepaid income tax | 68,000 | 93,000 | 96,000 | 182,000 | 43,000 |
| Total Current Assets | \$ 4,016,000 | \$ 3,612,000 | \$ 3,666,000 | \$ 3,147,000 | \$ 2,189,000 |
| Current Assets to Total Assets | 31% | 27% | 29% | 27% | 22% |
| Property and equipment | 20,400,000 | 19,500,000 | 18,100,000 | 17,000,000 | 15,600,000 |
| Less: accumulated depreciation & amortization | (12,000,000) | (10,100,000) | (9,400,000) | (8,500,000) | (7,800,000) |
| Property and equipment, net | 8,400,000 | 9,400,000 | 8,700,000 | 8,500,000 | 7,800,000 |
| PP&E to TOTAL ASSETS | 64% | 70% | 69% | 73% | 77% |
| Deposits | 26,000 | 29,000 | 29,000 | 29,000 | 26,000 |
| Due from related party | 84,000 | - | 300,000 | - | 61,000 |
| Deferred tax asset | 308,000 | 360,000 | - | - | - |
| Operating lease right of use asset | 230,000 | - | - | - | - |
| Other assets | 648,000 | 389,000 | 329,000 | 29,000 | 87,000 |
| Total assets | \$ 13,064,000 | \$ 13,401,000 | \$ 12,695,000 | \$ 11,676,000 | \$ 10,076,000 |
| Liabilities and Stockholder's Equity | | | | | |
| Current Liabilities | | | | | |
| Account Payable | 360,000 | \$ 800,000 | \$ 850,000 | 700,000 | \$ 1,500,000 |
| Accrued expenses, including income tax payable | 5,800,000 | 4,900,000 | 4,100,000 | 3,900,000 | 2,300,000 |
| Current portion of long-term debts and leases obligations | 160,000 | 80,000 | 78,000 | 780,000 | - |
| Total current liabilities | 6,320,000 | 5,780,000 | 5,028,000 | 5,380,000 | 3,800,000 |
| Current Liabilities to Total Liabilities | 93% | 96% | 97% | 96% | 92% |
| Due to related party | 125,000 | - | - | - | - |
| Long-term debt and leases obligations, net of current portion | 350,000 | 270,000 | 166,000 | 225,000 | 325,000 |
| Total liabilities | 6,795,000 | 6,050,000 | 5,194,000 | 5,605,000 | 4,125,000 |
| Stockholder's equity | | | | | |
| Common stock | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| Preferred stock | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Treasury Stock | (550,000) | (550,000) | (550,000) | (550,000) | (550,000) |
| Paid in Capital | 301,000 | 301,000 | 301,000 | 301,000 | 301,000 |
| Retained earnings | 1,018,000 | 2,100,000 | 2,250,000 | 820,000 | 700,000 |
| Total stockholder's equity | 6,269,000 | 7,351,000 | 7,501,000 | 6,071,000 | 5,951,000 |
| Total liabilities and stockholder's equity | \$ 13,064,000 | \$ 13,401,000 | \$ 12,695,000 | \$ 11,676,000 | \$ 10,076,000 |

HISTORICAL STATEMENTS OF INCOME

| ABC CORPORATION | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Statements of Income | | | | | |
| For years ended December 31, 2022-2018 | | | | | |
| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Revenues | | | | | |
| Net patient service revenue | \$ 25,400,000 | \$ 23,200,000 | \$ 18,900,000 | \$ 18,000,000 | \$ 20,200,000 |
| Grant revenues | 230,000 | 1,700,000 | 4,800,000 | - | - |
| Other revenue | 500,000 | 900,000 | 750,000 | 600,000 | 605,000 |
| Other non operating revenues | - | 1,500,000 | - | - | 1,600,000 |
| Total revenues | \$ 26,130,000 | \$ 27,300,000 | \$ 24,450,000 | \$ 18,600,000 | \$ 22,405,000 |
| Operating Expenses | | | | | |
| General operating expenses | 22,900,000 | 21,600,000 | 17,100,000 | 16,700,000 | 18,500,000 |
| Depreciation and amortization | 1,200,000 | 1,100,000 | 780,000 | 900,000 | 750,000 |
| Interest expense | 10,000 | 11,000 | 9,000 | 25,000 | 15,000 |
| Total expenses | 24,110,000 | 22,711,000 | 17,889,000 | 17,625,000 | 19,265,000 |
| Income before taxes | 2,020,000 | 4,589,000 | 6,561,000 | 975,000 | 3,140,000 |
| Income taxes | 300,000 | 300,000 | 285,000 | 180,000 | 550,000 |
| Net income | \$ 1,720,000 | \$ 4,289,000 | \$ 6,276,000 | \$ 795,000 | \$ 2,590,000 |
| Net Margin | 6.6% | 15.7% | 25.7% | 4.3% | 11.6% |
| EBITDA | \$ 3,230,000 | \$ 5,700,000 | \$ 7,350,000 | \$ 1,900,000 | \$ 3,905,000 |
| EBITDA Margin | 12.4% | 20.9% | 30.1% | 10.2% | 17.4% |

FINANCIAL RATIOS

| Ratios: | PR Ave. 2021 | 2022 | 2021 | 2020 | 2019 | 2018 |
|-------------------------------|--------------|------|------|-------|-------|------|
| Current ratio | 2.16 | 0.64 | 0.62 | 0.73 | 0.58 | 0.58 |
| Accounts receivable days, net | 90.7 | 25.9 | 23.6 | 30.9 | 34.5 | 31.6 |
| Average payment period | 110.9 | 99.4 | 96.3 | 105.5 | 116.2 | 72.8 |
| Average age of plant | 13 | 10.0 | 9.2 | 12.1 | 9.4 | 10.4 |
| Long-term debt capitalization | 30% | 8% | 5% | 3% | 14% | 5% |
| Equity Financing | 28% | 48% | 55% | 59% | 52% | 59% |
| EBITDA Margin | 13% | 12% | 21% | 30% | 10% | 17% |
| Operating margin | 9% | 7% | 16% | 26% | 4% | 12% |

Approaches and Methods for the illustration purposes *with “Equity” as Subject Interest*

Market Approach and Methods

GUIDELINE TRANSACTION METHOD – BVDATA WORLD

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GUIDELINE TRANSACTION METHOD – BV DATA WORLD (CONT.)

| SIC:8071 | | | | | |
|--------------------------|---------|-------|---------|---------------|------------|
| Transactions Selected | | | | | |
| | Sales | DE | Price | Price / Sales | Price / DE |
| Low | \$87 | \$15 | \$65 | 0.43 | 0.97 |
| High | \$2,104 | \$552 | \$2,800 | 1.33 | 5.07 |
| Mean | \$719 | \$190 | \$713 | 0.81 | 3.24 |
| Median | \$481 | \$112 | \$231 | 0.73 | 31.13 |
| Harmonic Mean | \$285 | \$67 | \$210 | 0.72 | 2.56 |
| Standard Deviation | \$709 | \$185 | \$987 | 0.31 | 1.35 |
| Coefficient of Variation | 0.99 | 0.97 | 1.39 | 0.38 | 0.42 |
| Count | 10 | 10 | 10 | 10 | 10 |

The

Health Care Services Acquisition Report


HealthCareMandA.com
Irving Levin Associates, Inc. - Publisher

GUIDELINE TRANSACTION METHOD – BV DATA WORLD (CONT.)

- Market Reference:

| Guideline Transaction Method | | | | | | |
|---------------------------------|------------------|------------------|----------------|---------------|---------------|--------------|
| Acquired Company | Deal Price | Revenue | EBITDA | EBITDA Margin | Deal | |
| | | | | | Price/Revenue | Price/EBITDA |
| Carle | \$ 190,000,000 | \$ 192,750,583 | \$ 20,754,809 | 10.77% | 0.99 | 9.15 |
| Prime Healthcare Services | \$ 275,000,000 | \$ 527,500,725 | \$ 30,733,170 | 5.83% | 0.52 | 8.95 |
| Orlando Health | \$ 147,135,471 | \$ 273,457,122 | \$ 16,212,085 | 5.93% | 0.54 | 9.08 |
| Banner Health | \$ 207,000,000 | \$ 253,615,901 | \$ 21,817,865 | 8.60% | 0.82 | 9.49 |
| Novant Health | \$ 1,500,000,000 | \$ 1,112,644,016 | \$ 105,845,610 | 9.51% | 1.35 | 14.17 |
| American Healthcare System, LLC | \$ 18,500,000 | \$ 102,016,857 | \$ 5,714,483 | 5.60% | 0.18 | 3.24 |
| NorCal HealthConnect, LLC | \$ 52,600,000 | \$ 93,541,047 | \$ 16,536,058 | 17.68% | 0.56 | 3.18 |
| NorCal HealthConnect, LLC | \$ 15,000,000 | \$ 52,627,967 | \$ 3,765,167 | 7.15% | 0.29 | 3.98 |
| | | | Average | 8.88% | 0.65 | 7.65 |
| | | | Maximum | 17.68% | 1.35 | 14.17 |
| | | | Minimum | 5.60% | 0.18 | 3.18 |
| | | | Median | 7.88% | 0.55 | 9.01 |

Source: *The Health Care Services Acquisition Report - Twenty-Seventh Edition / 2021 by Irving Levin Associates, Inc.*

MARKET APPROACH – REVENUE AND EBITDA – COMPANY’S ANALYSIS

ABC CORPORATION EBITDA Analysis

| <u>Year</u> | <u>As Is</u> | <u>Normalized</u> |
|-------------|--------------|-------------------|
| 2022 | \$ 3,230,000 | \$ 1,500,000 |
| 2021 | \$ 5,700,000 | \$ 2,200,000 |
| 2020 | \$ 7,350,000 | \$ 2,250,000 |
| 2019 | \$ 1,900,000 | \$ 1,900,000 |
| 2018 | \$ 3,905,000 | \$ 3,905,000 |

| | | |
|---------|--------------|--------------|
| Average | \$ 4,417,000 | \$ 2,351,000 |
| High | \$ 7,350,000 | \$ 3,905,000 |
| Low | \$ 1,900,000 | \$ 1,500,000 |
| Median | \$ 3,905,000 | \$ 2,200,000 |

ABC CORPORATION Revenue Analysis

| <u>Year</u> | <u>As Is</u> | <u>Normalized</u> |
|-------------|---------------|-------------------|
| 2022 | \$ 26,130,000 | \$ 24,400,000 |
| 2021 | \$ 27,300,000 | \$ 23,800,000 |
| 2020 | \$ 24,450,000 | \$ 19,350,000 |
| 2019 | \$ 18,600,000 | \$ 18,600,000 |
| 2018 | \$ 22,405,000 | \$ 22,405,000 |

| | | |
|---------|---------------|---------------|
| Average | \$ 23,777,000 | \$ 21,711,000 |
| High | \$ 27,300,000 | \$ 24,400,000 |
| Low | \$ 18,600,000 | \$ 18,600,000 |
| Median | \$ 24,450,000 | \$ 22,405,000 |

MARKET APPROACH – REVENUE AND EBITDA NORMALIZATION ADJUSTMENTS

| ABC CORPORATION | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Normalization of EBITDA | | | | | |
| <u>Description</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| EBITDA, as reported | \$ 3,230,000 | \$ 5,700,000 | \$ 7,350,000 | \$ 1,900,000 | \$ 3,905,000 |
| Deduction adjustments: | | | | | |
| Non-recurring grant revenues | (230,000) | (1,700,000) | (4,800,000) | - | - |
| Non-recurring EHR | (300,000) | (200,000) | - | - | - |
| Non-recurring STAC payments - Plan Vital | (1,200,000) | (1,600,000) | (300,000) | - | - |
| EBITDA, normalized | <u>\$ 1,500,000</u> | <u>\$ 2,200,000</u> | <u>\$ 2,250,000</u> | <u>\$ 1,900,000</u> | <u>\$ 3,905,000</u> |

| ABC CORPORATION | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Normalization of Revenues | | | | | |
| <u>Description</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Revenues, as reported | \$ 26,130,000 | \$ 27,300,000 | \$ 24,450,000 | \$ 18,600,000 | \$ 22,405,000 |
| Deduction adjustments: | | | | | |
| Non-recurring grant revenues | (230,000) | (1,700,000) | (4,800,000) | - | - |
| Non-recurring HER | (300,000) | (200,000) | - | - | - |
| Non-recurring STAC payments - Plan Vital | (1,200,000) | (1,600,000) | (300,000) | - | - |
| Revenues, normalized | <u>\$ 24,400,000</u> | <u>\$ 23,800,000</u> | <u>\$ 19,350,000</u> | <u>\$ 18,600,000</u> | <u>\$ 22,405,000</u> |

GUIDELINE TRANSACTION METHOD – BV DATA WORLD (CONT.)

- Calculation:

| Guideline transaction method (GTM) | | | | | |
|--|------------------------|-----------------|-------------------------|---------------|---------------|
| | <u>Value Indicator</u> | <u>Multiple</u> | <u>Enterprise Value</u> | <u>Weight</u> | <u>Value</u> |
| Deal Price to Revenue | \$ 21,711,000 | 0.65 | \$ 14,215,630 | 0.40 | \$ 5,686,252 |
| Deal Price to EBITDA | \$ 2,351,000 | 7.65 | \$ 17,996,782 | 0.60 | \$ 10,798,069 |
| Fair Market Value of Invested Capital | | | | | \$ 16,484,321 |
| Less: interest bearing debt - finance lease obligations | | | | | (500,000) |
| Less: preferred shares | | | | | (1,160,000) |
| Fair Market Value of Invested Capital - non-marketable - control basis | | | | | \$ 14,824,321 |

MARKET APPROACH

- Guideline Publicly Trade Method:

| Value Indicators based on Top Public Companies | | |
|---|------------------|-------------------|
| <u>Company</u> | <u>EBITDA/EV</u> | <u>Revenue/EV</u> |
| Tenet Healthcare Corp. | 7.18 | 1.14 |
| HCA Healthcare, Inc. | 8.73 | 1.93 |
| Universal Health Services, Inc. | 9.67 | 1.15 |
| Community Health Systems, Inc. | 7.64 | 1.06 |
| Max | 9.67 | 1.93 |
| Min | 7.18 | 1.06 |
| Ave | 8.31 | 1.32 |
| <i>EV = Enterprise Value</i> | | |

- Source: Company Annual Reports filed before SEC and Finance Web Pages, among other.

GUIDELINE PUBLICLY TRADE METHOD

- Calculation:

| Guideline publicly traded company (GPC) method | | |
|---|---------------|---------------|
| | Normalized | |
| | Revenue | EBITDA |
| Financial metric for the Company | \$ 21,711,000 | \$ 2,351,000 |
| Selected multiple | 1.32 | 8.31 |
| Fair Value of Invested Capital | \$ 28,658,520 | \$ 19,525,055 |
| Control premium | 0.00 | 0.00 |
| Fair Value of Invested Capital - marketable - control | \$ 28,658,520 | \$ 19,525,055 |
| Selected weights | 0.40 | 0.60 |
| GPC fair value of equity - marketable - control basis | \$ 23,178,441 | |
| Less: interest bearing debt - finance lease obligations | (500,000) | |
| Less: preferred shares | (1,160,000) | |
| GPC fair value of equity - marketable, control basis | \$ 21,518,441 | |

Income Approach and Methods

INCOME APPROACH – CLIENT’S PROJECTIONS

The Company should prepare a set of financial projections, for at least, a three years period.

| ABC CORPORATION | | | | | |
|--|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Projected Net Cash Flows | | | | | |
| Description | Projected Years Ending December 31, | | | | |
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| Revenues | \$ 26,500,000 | \$ 30,100,000 | \$ 31,000,000 | \$ 32,200,000 | \$ 33,100,000 |
| Operating Expenses | (22,900,000) | (26,500,000) | (27,000,000) | (27,500,000) | (27,900,000) |
| Earnings before interest, taxes, depreciation and amortization | 3,600,000 | 3,600,000 | 4,000,000 | 4,700,000 | 5,200,000 |
| Interest expense | (190,000) | (270,000) | (246,000) | (220,000) | (195,000) |
| Depreciation and amortization | (1,020,000) | (1,800,000) | (1,800,000) | (1,800,000) | (1,800,000) |
| Operating income before income taxes | 2,390,000 | 1,530,000 | 1,954,000 | 2,680,000 | 3,205,000 |
| Income taxes (20% tax rate) | (478,000) | (306,000) | (390,800) | (536,000) | (641,000) |
| Net income | 1,912,000 | 1,224,000 | 1,563,200 | 2,144,000 | 2,564,000 |
| Add: depreciation | 1,020,000 | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 |
| Less: Capex (60% replacement rate) | (612,000) | (1,080,000) | (1,080,000) | (1,080,000) | (1,080,000) |
| Add: proceeds from loans | - | - | - | - | - |
| Less: principal payments - capital lease obligations | (65,000) | (58,000) | (52,000) | (76,000) | (18,000) |
| Less: dividends payments on preferred shares | (160,000) | (160,000) | (160,000) | (160,000) | (160,000) |
| Net cash flows | \$ 2,095,000 | \$ 1,726,000 | \$ 2,071,200 | \$ 2,628,000 | \$ 3,106,000 |

INCOME APPROACH – DISCOUNTED NET CASH FLOWS

| ABC CORPORATION | | | | | |
|--|-----------------------|------------------------|---------------|--------------|-------------------|
| Calculation of Value - Present Value of Net Cash Flows | | | | | |
| Capitalization Rate: | 12% | 14% | Adjustment | Present | |
| | <u>Net Cash Flows</u> | <u>Discount Factor</u> | <u>Factor</u> | <u>Value</u> | |
| 2023 | \$ 2,095,000 | 0.8772 | 1.00 | \$ | 1,837,719 |
| 2024 | \$ 1,726,000 | 0.7695 | 1.00 | | 1,328,101 |
| 2025 | \$ 2,071,200 | 0.6750 | 1.00 | | 1,398,001 |
| 2026 | \$ 2,628,000 | 0.5921 | 1.00 | | 1,555,987 |
| 2027 | \$ 3,106,000 | 0.5194 | 1.00 | | 1,613,159 |
| TV (Year 2027 / Capitalization Rate) | \$ 26,401,000 | 0.5194 | 1.00 | | 13,711,852 |
| | | | | \$ | <u>21,444,819</u> |

| | | |
|-------------------------------|----|-------------------|
| Projected Net Cash Flows 2027 | \$ | 3,106,000 |
| Growth percentage | | 2% |
| | | <u>3,168,120</u> |
| Capitalization rate | | 12% |
| Terminal Value | \$ | <u>26,401,000</u> |

INCOME APPROACH – DISCOUNT AND CAPITALIZATION RATES

| <u>Factor</u> | <u>%</u> |
|---|---------------|
| Risk-Free rate (yield on 10yr. Treasury Bond) | 3.84% |
| Market Equity risk premium | 5.70% |
| Small stock premium | 3.47% |
| Specific risk premium | 1.20% |
| Discount rate | 14.21% |
| Growth rate | 2.00% |
| Capitalization Rate | 12.21% |

INCOME APPROACH – DISCOUNT RATES FACTORS

Present value interest factor of \$1 per period at i% for n periods, PVIF(i,n).

| Period | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% | 13% | 14% |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1 | 0.990 | 0.980 | 0.971 | 0.962 | 0.952 | 0.943 | 0.935 | 0.926 | 0.917 | 0.909 | 0.901 | 0.893 | 0.885 | 0.877 |
| 2 | 0.980 | 0.961 | 0.943 | 0.925 | 0.907 | 0.890 | 0.873 | 0.857 | 0.842 | 0.826 | 0.812 | 0.797 | 0.783 | 0.769 |
| 3 | 0.971 | 0.942 | 0.915 | 0.889 | 0.864 | 0.840 | 0.816 | 0.794 | 0.772 | 0.751 | 0.731 | 0.712 | 0.693 | 0.675 |
| 4 | 0.961 | 0.924 | 0.888 | 0.855 | 0.823 | 0.792 | 0.763 | 0.735 | 0.708 | 0.683 | 0.659 | 0.636 | 0.613 | 0.592 |
| 5 | 0.951 | 0.906 | 0.863 | 0.822 | 0.784 | 0.747 | 0.713 | 0.681 | 0.650 | 0.621 | 0.593 | 0.567 | 0.543 | 0.519 |
| 6 | 0.942 | 0.888 | 0.837 | 0.790 | 0.746 | 0.705 | 0.666 | 0.630 | 0.596 | 0.564 | 0.535 | 0.507 | 0.480 | 0.456 |
| 7 | 0.933 | 0.871 | 0.813 | 0.760 | 0.711 | 0.665 | 0.623 | 0.583 | 0.547 | 0.513 | 0.482 | 0.452 | 0.425 | 0.400 |
| 8 | 0.923 | 0.853 | 0.789 | 0.731 | 0.677 | 0.627 | 0.582 | 0.540 | 0.502 | 0.467 | 0.434 | 0.404 | 0.376 | 0.351 |
| 9 | 0.914 | 0.837 | 0.766 | 0.703 | 0.645 | 0.592 | 0.544 | 0.500 | 0.460 | 0.424 | 0.391 | 0.361 | 0.333 | 0.308 |
| 10 | 0.905 | 0.820 | 0.744 | 0.676 | 0.614 | 0.558 | 0.508 | 0.463 | 0.422 | 0.386 | 0.352 | 0.322 | 0.295 | 0.270 |
| 11 | 0.896 | 0.804 | 0.722 | 0.650 | 0.585 | 0.527 | 0.475 | 0.429 | 0.388 | 0.350 | 0.317 | 0.287 | 0.261 | 0.237 |
| 12 | 0.887 | 0.788 | 0.701 | 0.625 | 0.557 | 0.497 | 0.444 | 0.397 | 0.356 | 0.319 | 0.286 | 0.257 | 0.231 | 0.208 |
| 13 | 0.879 | 0.773 | 0.681 | 0.601 | 0.530 | 0.469 | 0.415 | 0.368 | 0.326 | 0.290 | 0.258 | 0.229 | 0.204 | 0.182 |
| 14 | 0.870 | 0.758 | 0.661 | 0.577 | 0.505 | 0.442 | 0.388 | 0.340 | 0.299 | 0.263 | 0.232 | 0.205 | 0.181 | 0.160 |
| 15 | 0.861 | 0.743 | 0.642 | 0.555 | 0.481 | 0.417 | 0.362 | 0.315 | 0.275 | 0.239 | 0.209 | 0.183 | 0.160 | 0.140 |

Analysis before the conclusion

ADDITIONAL ANALYSIS

- The valuation analyst is required to analyze the composition of the assets and liabilities before reaching a conclusion of value.
- There could be assets that should be added to the value, either if the subject interest is the enterprise value or the equity.
- There could be liabilities which should be adjusted to their “fair value” if the lending terms are not within the market.
- The result of the additional analysis should be reflected in the final calculated value.
- Examples of additional assets:
 - Cash, Investment in Securities, Investments in Subsidiaries, Non-Operating Real Estate, etc.
- Examples of additional liabilities:
 - Due to affiliated companies, preferred shares with terms like debts, etc.

Calculated Value

—

The valuation analysts concluded that the Calculated Value of the ownership equity interest is \$18,000,000.

| ABC CORPORATION | | | |
|--|------------------------|---------------------|------------------------|
| Reconciliation of Values | | | |
| | <u>Market Approach</u> | | Income Approach |
| | G P C | G P M | |
| FMV of Invested Capital - non-marketable - control basis | \$ 21,518,441 | \$14,824,321 | \$21,444,819 |
| Less: discount for lack of marketability - 15% | (3,227,766) | (2,223,648) | (3,216,723) |
| FMV of 100% Ownership Equity - non-marketable | <u>\$ 18,290,675</u> | <u>\$12,600,673</u> | <u>\$18,228,096</u> |

Thanks!

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If you have any questions, please feel free to contact us at 787-725-4545 or by e-mail at info@galindezllc.com