InteleK
CORPORATE FINANCE

Sanitized USPAP Restricted Appraisal Report - Company X, Inc.

Key Case Facts About This Report For Reviewing Purposes

Standards & Report Type	USPAP Restricted Appraisal Report (we now also write to AICPA standards). • ***Restricted*** *Appraisal Reports:* As a **Restricted** Appraisal Report, there is less analysis & less justification provided within the report. Ideal for internal purposes, a transaction or some IRS purposes. Accordingly, priced lower than an Appraisal Report. • *Appraisal Report:* All justification is within the report and more detailed research and analysis is conducted. Ideal for court purposes & for more material matters with the IRS.
End Client Case Information	We valued 50% of the Equity/Shares for internal estate planning purposes. The end Client (the business Owner) was progressively working themselves out of the business with a view of retiring in the years to come. Valuation Date: December 31, 2018. Report Date: removed for sanitizing.
InteleK's Client – The Intermediary Who Issued The Report White Labelled	Our client is a CPA firm who focuses primarily on tax and consulting work. They use InteleK to produce reports like this example to provide an additional service for their long term client base. We provide value to them and they use us a) for our valuation expertise and b) so they can focus on their aforementioned areas of "core" work.
Process	This project was typical in nature and followed a fairly standard 'white label' process with InteleK. 1. This client uploaded the documentation into our project management portal, InteleK reviewed and provided initial questions back to the intermediary within 2 business days. 2. Upon clarification and secondary document submission InteleK completed a first draft in 7 business days. 3. A phone discussion with the intermediary took place to validate key assumptions and the overall valuation number. The valuation report was then submitted with a minor adjustment after the discussion. Total process was 11 business days.
Pricing	Under white labelling, we charge our client (the intermediary) between 35%-40% of the final value charged to the end client. For further detail and a specific price for this example report, please speak with me directly.

Andrew Mackson, CFA, ABV
Co-founder, InteleK Corporate Finance
andrew.mackson@intelekcf.com

Letter of Engagement

Re: Valuation of 50% of the Equity of Company X, Inc.

Dear Mr Jackson

Company X, Inc.

At your request and pursuant to your authorization, we have conducted a valuation of the total equity of Company X, Inc. (hereinafter referred to as "Company X" or “the Company"), as at December 31, 2018 which is detailed in this Restricted Appraisal Report. It is our understanding that this valuation may be relied upon for internal estate planning purposes.

We have performed a Valuation Engagement, as that term is defined in the International Glossary of Business Valuation Terms, of the Company as of December 31, 2018. This valuation uses Going Concern as the Premise of Value to arrive at an estimated value. The resulting estimate of value should not be used for any other purpose or by any other party. This Valuation Engagement was conducted in accordance with the Uniform Standards of Professional Appraisal Practice (“USPAP”). As this is a Restricted Appraisal Report, the rational for how we arrived at our opinions and conclusions set forth in this report, may not be understood properly without additional information contained within the appraisal work file.

For the purposes of the Company (business) appraisal, fair market value is defined by the IRS in Revenue Ruling 59-60 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.”*

We have appraised a non-marketable, non-controlling ownership interest in the assets of the subject company. The appraisal was performed under the premise of value in continued use as a going concern business enterprise. In our opinion, this premise of value represents the highest and best use of the subject business’s assets.

Our Restricted Appraisal Report consists of:

- This letter which identifies the subject and scope of this valuation and summarizes our opinions of value.
- A report containing (i) descriptive data on Company X (ii) a discussion of the appropriate valuation Methodologies and the application of those Methodologies to the valuation of Company X and (iii) the conclusions attained throughout this analysis.

I am of the opinion that, subject to the qualifications made within the body of this report, the Fair Market Value of 50% of the equity (shares) of Company X is:

Valuation Methodology	50% Equity Value	DLOC 10% DLOM 10%	Rounded Discounted Equity Value	Methodology Weighting	50% Equity Value
Asset Based Approach					
Adjusted Net Asset Value	$1,211,000	$230,090	$980,900	0%	CONSIDERED
Market Approach					
Comp. Private Comp. Trans. SDE Multiple	$2,745,500	$521,645	$2,745,500	0%	CONSIDERED
Comp. Private Comp. Trans. Revenue Multiple	$3,822,700	$726,313	$3,096,400	0%	CONSIDERED
Comparative Public Company Transaction	REJECTED	N/A	N/A	0%	N/A
Comparative Prior Transaction	REJECTED	N/A	N/A	0%	N/A
Income Approach					
Discounted Cash Flow	REJECTED	N/A	N/A	0%	N/A
Capitalization of FME	$2,568,800	$372,476	$2,196,300	100%	$2,196,300
Conclusion of Equity Value				**100%**	**$2,196,300**

Therefore, based on the above, I conclude the **equity value of 50% of the shares of the Company is $2,196,300 as at the valuation date of December 31, 2018.** This conclusion is subject to the Statement of Assumptions and Limiting Conditions and to the Certification of the Valuation Analyst.

To arrive at our conclusion of equity (share) value, we have considered:

- *Operating Asset Value (Used for an Asset Sale)* = All operating assets such as furniture, fixtures & equipment (or PPE) plus (+) all intangible assets, including business goodwill. Note: If any other short term assets were to be included in an asset sale, these would be added (+) to the Operating Asset Value.
- *Enterprise Value* = Operating Asset Value plus (+) normal net working capital (normal levels of short term assets minus short term liabilities).
- *Equity Value* = Enterprise Value minus (-) the value of all interest-bearing debt (long- and short-term component of debt) plus (+) other non-operating/surplus

assets (excess cash or working capital, non-core assets such as financial investments & real estate etc.).

The valuation is subject to the information provided to us as well as the assumptions and financial data which appear in the report.

We have made no investigation of, and assume no responsibility for, the title to or any encumbrances against Company X or its assets. Neither InteleK Corporate Finance , nor any of its employees have any financial interest in Company X, or its assets. We certify that the compensation received for this study is not in any manner contingent upon the conclusions stated. This report is subject to the limiting factors and assumptions which appear at the end of the report.

We have no obligation to update this Restricted Appraisal Report or our Conclusion of Value for information that comes to our attention after the date of this report. The estimate of value that results from this Restricted Appraisal Report is expressed as a Conclusion of Value.

Andrew Mackson, CFA, ABV

Co-founder & Business Appraiser

InteleK Corporate Finance

Month XX, XXXX

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Executive Summary

Valuation Date	December 31, 2018
Report Type	Restricted Appraisal Report
Standard of Value	Fair Market Value
Premise of Value	Going Concern
Intended Use	Internal estate planning purposes
Client(s)	Mr. Jackson
Intended User(s)	Mr. Jackson, Company X, Inc.
Subject Company	Company X, Inc.
Level of Value	Non-Controlling, Non-Marketable
Extraordinary Assumptions or Hypothetical Conditions	None
Proposed Deal Terms	N/A
Certifying Appraiser	Andrew Mackson, CFA, ABV

Purpose and Scope of the Valuation

The valuation described in this Restricted Appraisal Report ("Report") was made for the purpose of expressing our conclusion of the Fair Market Value of 50% of the shares (equity) of Company X, Inc. (hereinafter referred to as " Company X " or "the Company"), at the request of Mr. Jackson. It is our understanding that this valuation may be relied upon for internal estate planning purposes.

We have not conducted a site review of the subject business premises, nor have we audited or otherwise reviewed the business's financial statements, which have been provided by management and its financial advisors. It was assumed that these financial statements are true and accurate.

Report Type

The scope of work is a "Restricted Appraisal Report", defined as:

- Its Conclusion of Value is expressed as either a single dollar amount or a range;
- It considers all relevant information as of the Valuation Date available to the appraiser at the time of performance of the valuation;
- The appraiser conducts appropriate procedures to collect and analyze all information expected to be relevant to the valuation; and
- The valuation considers all conceptual approaches deemed to be relevant by the appraiser.

Standard and Premise of Value

The term "Fair Market Value", as defined by the IRS in Revenue Ruling 59-60 and used herein, is defined 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."*

There are two primary premises of value for valuing a company being Going Concern or Liquidation Value:

1. A Going Concern premise of value refers to a company that has the resources to continue the operation indefinitely.
2. A Liquidation premise of value refers to the value of a company if operations are ceased and the assets are sold off separately. Within liquidation value, assets may be valued under an orderly liquidation where assets are assumed to be sold over a reasonable period of time to maximize the proceeds received, or under forced liquidation where they are sold under quick or forced terms, often resulting in lower values than under an Orderly Liquidation.

The appraisal was performed under the premise of value as a Going Concern.

Date of the Valuation: This valuation is made as of December 31, 2018.

Date of the Report: This report is prepared as of Month XX, 20XX.

Assets Appraised: The scope of this valuation is limited to 50% of the shares (equity) of Company X, Inc.

Business Description

Company X, Inc. was founded in 19XX. It is a commercial, institutional and industrial general contractor, with a concentration in retail construction. Further information removed to Sanitizing purposes.

Company History, Ownership & Relationships

The Company history……..Further information removed to Sanitizing purposes.

Economic & Industry Analysis

Where possible to quantify, we have considered both the economic and industry factors in our financial projections for Company. Other factors have been accounted for in our estimation of the required rate of return/discount rate for the Company, as discussed in more detail further within this report.

US Economy[1]

Market Conditions Economic Conditions – December 2018

US Economic Summary

The five-week partial government shutdown that ended on January 25, 2019 delayed the release of fourth-quarter U.S. Gross Domestic Product (GDP) data, originally scheduled for January 30, to an undetermined date because the record-long shutdown prevented the collection of reports ranging from retail sales to construction spending, which are used to calculate quarterly GDP. However, as reported in the January 30 Wall Street Journal, private economists were projecting GDP growth to slow to 2.6% in the fourth quarter's initial estimate and to 1.8% in Q1 2019, down sharply from the final Q3 2018 growth rate of 3.4%. In contrast, following a disappointing November, the U.S. labor market added a booming 312,000 jobs in December, the second-largest gain in two years, easily surpassing all private forecasts. Job totals for October and November also were revised upward by a combined 58,000. The headline unemployment rate rose to 3.9% from a 49-year low of 3.7%, largely due to an influx of jobseekers.

However other concerns remain. The U.S. national debt in December hit a new all-time high for the eighth month in a row, and the FY 2018 Federal budget deficit came in at $779.0 billion, its highest level since FY 2012. Federal spending and taxes also set new records. In other areas, on the positive side, industrial production was up, auto sales rose, hourly wages improved again, consumer prices fell, and both crude oil and gasoline prices continued downward. On the negative side, existing-home sales dropped and consumer confidence declined.

[1] "National Economic Report", December 2018, Kevin R. Hopkins.

Economic growth & GDP

After rising by 4.2% in Q2 2018 and marking its best quarterly pace since Q3 2014, the U.S. Gross Domestic Product (GDP) grew by another solid 3.4% in the third-quarter's final reading (although that figure was revised downward from 3.5% in the first and second readings), the U.S. Commerce Department said on December 21, 2019. Previously, the economy had grown by 2.2% during the first quarter. Overall, the current economic expansion, which began in June 2009, is now in its 114th month, representing the second-longest economic expansion in U.S. history. The longest span—120 months—lasted from 1991 to 2001.

Inflation & CPI

The U.S. Consumer Price Index (CPI) for all goods fell by 0.1% in December after having risen by 0.3% in October and having been unchanged in November. The index for all items less food and energy rose by 0.2% in December after having increased by the same percentage in each of October and November. As of December, the index had risen by 1.9% over the previous 12 months, compared to a 2.2% increase for the 12 months ending in November.

Unemployment

Following a disappointing November report, the U.S. labor market exploded in December—a "jobs blowout," in Bloomberg's words. Overall, according to a January 4, 2019, U.S. Labor Department release, total nonfarm payrolls increased by 312,000, the market's second-largest gain since the November 2016 presidential election and the most in 10 months, easily surpassing all private forecasts. Job gains were widespread, with particularly strong performances in health care, food services, construction, manufacturing, and retail trade. At the same time, October's new-jobs total was revised upward from 237,000 to 274,000 while November's disappointing totals were upwardly adjusted from 155,000 to 176,000, for a total gain of 58,000 jobs. With December's report, the U.S. economy has now registered net job gains for 99 months in a row, extending the all-time U.S. jobs-growth record.

Government Spending

According to final FY 2018 figures from the U.S. Treasury Department and the U.S. Office of Management & Budget, Federal spending hit another all-time record in FY 2018, which ended on September 30, 2018. Spending for the 2018 fiscal year came in at an estimated $4.108 trillion vs. $3.981 trillion in FY 2017, an increase of 3.2% (vs. a similar increase of 3.3% in FY 2017 over FY 2016 and down from a 4.5% increase in FY 2016 vs. FY 2015).

Business Investment

Following gains of 8.8%, 8.6%, 11.4%, 5.8%, and 7.3%, respectively, in the previous five quarters, business investment in equipment weakened in the third quarter of 2018, inching up by only 0.4%, the U.S. Commerce Department reported on October 26. The small uptick nevertheless was the measure's eighth consecutive quarterly increase.

Net Exports & Trade

After four monthly increases—including the biggest one-month jump since 2015—the U.S. trade deficit rose by another 1.7% to $55.5 billion in October from September's upwardly revised $54.6 billion level (vs. $54.0 billion originally reported), the U.S. Commerce Department said on December 2. The October increase had brought the trade gap to a 10-year high, suggesting that the Trump administration's tariffs have largely been ineffective in reducing trade deficits.

Interest Rates

Despite strong protests from President Trump and growing fears of an economic slowdown, the U.S. Federal Reserve on December 18 raised interest rates for the ninth time since the U.S. financial crisis and the fourth time this year. The Fed boosted rates by another quarter point to a range of 2.25% to 2.50%. Immediately thereafter, Reuters reported, "U.S. stocks and bond yields fell hard. With the Fed signaling 'some further gradual' rate hikes and no break from cutting its massive bond portfolio, traders fretted that policymakers could choke off economic growth."

Small Business Confidence

After falling in November, the National Federation of Independent Business (NFIB) Index of Small Business Optimism declined to 104.4 in December (vs. expectations of 103.6) from a 104.8 reading in November. It was the index's lowest reading since October 2017.

Nevertheless, the index remains well above its historical performance, as it averaged 98.3 from 1975 to 2018, including its all-time high of 108.8 in August 2018. In addition, December was the index's 26th consecutive month in the top 5% of 45 years of survey readings.

Likewise, the CNBC/SurveyMonkey Small Business Confidence Index dipped from record and near-record highs of 62 (Q1), 61 (Q2), and 62 (Q3) to 59 in the fourth quarter on fears of an economic slowdown.

Economic Outlook

The U.S. Federal Reserve on December 19 released its fourth-quarter economic-growth forecast, reducing projections for near-term U.S. economic growth. For 2018, the Fed nudged its growth forecast down from 3.1% in September to 3.0% in December. Likewise, the Fed pulled back its 2019 growth forecast from 2.5% to 2.3%, but held its 2020 projection in place at 2.0% and its 2021 estimate at 1.8%. Despite the downward revision, the Fed's 3.0% projection for 2018 still meets the Trump administration's 3.0% growth target, which would make it the economy's best annual performance since 2005, 13 years ago.

After boosting its unemployment-rate forecast in September, the U.S. Federal Reserve held its near-term unemployment-rate outlook largely steady in its most recent report, released on December 19, with its estimates for 2018 and 2019 remaining at 3.7% and 3.5%, respectively. The Fed, however, did marginally increase its 2020 forecast from 3.5% to 3.6% and its 2021 projection from 3.7% to 3.8%.

Economic Impact on Company Value

Given the buoyancy of the U.S. economy as represented by GDP growth, very low unemployment & low inflation, we see this as being net positive to the valuation.

Industry Analysis

Company X operates in multiple industry classifications being Nonresidential Building Construction & Power Line & Telecommunications Infrastructure Construction Contractors (in regard to the Company's Substation work). The following market analysis reviews the

relevant considerations from both these industries and their application to the Company's overall industry landscape.

Nonresidential Building Construction - Industry Overview[2]

Companies in this industry construct nonresidential buildings, including industrial plants and commercial and institutional facilities. Major companies include US-based Clark Construction Group, Turner Construction, and Whiting-Turner Contracting, as well as Balfour Beatty (UK), China State Construction Engineering Corporation, HOCHTIEF (Germany), and Skanska (Sweden).

Global construction output of all types exceeds $7 trillion and is expected to reach $15.5 trillion by 2030, according to Global Construction Perspectives and Oxford Economics. China, India, and the US are expected to account for more than half of global construction growth between 2015 and 2030.

The US nonresidential building construction industry includes about 42,000 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about $365 billion.

Competitive Landscape

Nonresidential construction activity depends heavily on corporate and government spending. The profitability of individual companies depends on accurate project bids and efficient operations. Large companies have advantages in their ability to engage in multiple projects simultaneously and to engage in many types of construction. Small companies can compete effectively by specializing, working in a limited geography, or serving as subcontractors on larger projects.

The US industry is highly fragmented, although competition for the largest projects is typically limited to major companies with extensive capabilities and resources. Because the industry struggles with labor shortages, the ability to attract and retain adequate numbers of skilled workers (as well as engineers and managers) can be a crucial competitive differentiator, particularly when bidding on projects in remote locations.

[2] First Research, Industry Profile "Nonresidential Building Construction" (NAICS code: 2362), December 24, 2018.

Competitive Advantages Within the Industry

Advanced IT - Construction companies are increasingly looking to technology to increase their productivity. Companies utilize software for managing processes from design and bidding to procurement and project management. Technologies such as robotics, Internet of Things (IoT), 3D printing, and autonomous vehicles are also emerging in the construction sector.

Reputation/Track Record - Although builders typically bear much of the responsibility for cost overruns on a project, limiting risk is still a primary concern for clients investing in major construction. Companies with a record of completing projects on schedule and within budget hold a major competitive advantage when bidding for jobs; establishing such a reputation can be a major challenge.

Service Diversity - Nonresidential construction companies operate in a number of markets where demand is cyclical. The ability to serve customers in a wide range of sectors can be crucial to surviving downturns in volatile markets.

Products and Operations

Commercial and institutional buildings account for about 90% of industry revenue; industrial buildings account for the remaining 10%. Services include new construction, additions, remodeling, maintenance, and repairs. Critical components of company operations include bidding on projects, managing labor and equipment, and procuring materials. Larger companies may own much of their equipment and retain full-time crews, while smaller firms typically lease equipment for a particular project and hire much of their labor on a project basis.

General contractors provide services through several types of arrangements with varying levels of risk. Under a fixed-price contract, companies are committed to providing all of the resources necessary to complete a project for a specified sum. Although fixed-price contracts subject companies to significant risk, they also provide opportunities for higher profits. Under a cost-plus-fee contract, companies are reimbursed for project costs and earn an additional fixed or "award" fee. Award fees provide incentive for contractors to finish faster or under budget. Cost-plus-fee contracts limit companies' risks but can also limit profits. Guaranteed maximum price (GMP) contracts provide cost-plus-fee

arrangements up to a maximum price. Companies are at risk for costs in excess of the GMP, but such contracts may include sharing agreements with the owner on any cost savings. Under unit price contracts, a fixed fee is assigned to distinct units of work, or categories of cost, and the project owner is responsible for estimating the quantity of units required. Contracts typically contain penalties for late completion.

Larger companies typically negotiate an overall contract with a project owner and function as the prime contractor, acquiring equipment and materials, managing the construction schedule, and hiring specialist subcontractors for much of the actual construction work. Many project owners prefer to use the same firm to design and build the project, so that accountability lies with one company. The growing popularity of design-build contracts has encouraged many construction companies to develop a design capability or acquire a design firm.

Customers, Sales & Marketing

Typical customers include industrial firms, retailers, and other commercial businesses; government agencies; and property developers. Major government and corporate clients can account for a significant percentage of total revenue. Contacts with business leaders, architects, engineers, developers, and other construction companies are important sources of leads and upcoming projects.

Major types of marketing include customer visits, ads in magazines and trade publications, and attendance at customer industries' trade shows. Property developers often mention their major contractors in sales and marketing materials for specific developments.

Contractors determine prices based on the type of contract, inherent risks, and costs, including labor, materials, fees, permits, and licenses. The going rates in a locale depend highly on the local economy and the presence of competition.

USA Demand

In the US, construction is highest in states with the largest populations and the most major business centers. California accounts for about 10% of the US commercial construction industry's revenue, followed by Texas, New York, Pennsylvania, and Florida.

Commercial and industrial construction can vary greatly from year to year in a given state or city, due to high dependence on local and regional economic conditions.

Industry Indicators

Corporate Profits: US corporate profits, an indicator of corporate demand for construction services, rose 10.3% in the third quarter of 2018 compared to the same period in 2017.

Nonresidential Construction: The value of US nonresidential construction spending, a demand indicator for builders, rose 5.2% year-to-date in October 2018 compared to the same period in 2017.

Steel Prices: US steel mill product prices, an indicator of commodity steel product costs used in construction, rose 19.8% in November 2018 compared to the same month in 2017.

Industry Outlook and Opportunities

The value of US nonresidential building construction spending (as at September 2018) is forecast to grow at an annual compounded rate of 6% between 2018 and 2022.

Green Building: Demand is growing for environmentally friendly (green) building and construction materials, practices, and certification. Buildings are responsible for more than 40% of global energy use and one third of global greenhouse gas (GHG) emissions, according to the United Nations Environment Program. Construction companies with green building capabilities are positioned to benefit from increasing efforts in the commercial and government sectors to build and operate more environmentally friendly buildings.

Mixed-Use Developments: Construction of mixed-use developments that combine residential, office, and commercial spaces will likely increase as the population becomes more urbanized. Some city planners advocate for such projects because placing residents and workers closer to stores and restaurants can help reduce city traffic. Nonresidential construction firms may need to expand their building expertise through joint ventures or acquisitions to take advantage of mixed-use development demand.

Joint Ventures: As projects get bigger, on-time completion becomes more important to owners of construction firms. Costs for late completion, including penalties, rise

disproportionately to actual construction costs. The larger scale and complexity of projects lead to more joint ventures among construction companies, which can pool their expertise and financial resources in bidding for contracts and in implementation.

Impact on Company Value

We see the following industry factors as key:

- Demand: depends on corporate and government spending
- Successful companies need efficient operations
- Risk: cost overruns

We see these industry factors overall as being net positive to the valuation.

Power Line & Telecommunications Infrastructure Construction Contractors - Industry Overview[3]

Companies in this industry construct power lines and towers, power plants, and radio, TV, and telecommunications towers. Major companies include Dycom Industries, Henkels & McCoy, MasTec, and SBA Communications (all based in the US), as well as Nippon COMSYS (Japan), Sirti (Italy), and TKH Group (the Netherlands). Worldwide, demand for electric power is increasing. The World Energy Council expects primary energy demand

will triple by 2050, as global population nears 9 billion. Countries with long-established power transmission and distribution networks are working to modernize and expand them. Developing nations with improving living standards may leap ahead to new smart power grids.

The US power line and telecommunications infrastructure construction contractors industry includes about 6,500 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about $55 billion.

Competitive Landscape

Demand is driven by increased electrical transmission and distribution requirements, as well as the need for faster and more robust wireless and wired telecommunications

[3] First Research, Industry Profile "Power Line & Telecommunications Infrastructure Construction Contractors" (NAICS code: 237130), October 15, 2018.

services. The profitability of individual companies depends on their ability to win contracts and accurately bid on projects. Large companies have advantages in their ability handle multiple projects in various locations. Small companies can compete by specializing in services offered or by focusing on a specific geographic area.

The US industry is highly fragmented, and companies range from small, local independent firms to multibillion dollar corporations that reach national and international markets. Companies also face competition from existing and potential clients that may have in-house personnel that can perform similar work. There are few barriers to entry.

Products and Operations

Major services are engineering, construction, maintenance, and installation of equipment and structures. Companies may also provide project management and emergency repair services. Construction of overhead and underground distribution systems includes building electric transmission towers, transformer stations, and substations; building radio, TV, and telecommunications transmitting and receiving towers; digging cable trenches; and stringing power and cable lines. Power generation facilities range from complex nuclear and fossil-fueled plants to alternative energy (wind, solar, geothermal) structures.

Operations focus on bidding for projects and managing project plans, labor, equipment, and construction materials. Results are affected by a company's ability to successfully win projects through a competitive bidding process and then manage costs effectively. Contract costs typically include materials, tools, and labor, along with payments to subcontractors whose work may be needed to complete a job. Some materials used for the work are supplied by the customer and are not included in the contract cost. Under certain contracts companies may agree to provide all or part of the materials. Project margins for these types of contracts are typically lower.

Customers, Sales & Marketing

Typical customers are communications, power generation, and power transmission and distribution companies. Some companies within the industry may seek to diversify and expand into adjacent or new markets such as natural gas, crude oil, water utility, and heavy industrial infrastructure.

Senior managers may perform most of a company's sales and marketing functions. They capture new business by establishing relationships with customers. Larger companies leverage the industry experience of senior management with additional collaboration from project managers who market directly to potential and existing customers for new contracts.

USA Demand

In the US, overall construction activity is highest in populous states that have major business centers. Texas accounts for about 10% of revenue for the US power line and telecommunications infrastructure construction industry, followed by California, North Carolina, Pennsylvania, and Louisiana. Construction spending can vary greatly from year to year in a given state or city, due to high dependence on local and regional economic conditions.

Industry Indicators

Nonresidential Construction: The value of US nonresidential construction spending, a driver for power line and telecom infrastructure construction demand rose 3.5% year-to-date in July 2018 compared to the same period in 2017.

Residential Construction: The value of US residential construction spending, which impacts demand for power line and telecom infrastructure construction, rose 7.6% year-to-date in July 2018 compared to the same period in 2017.

Industry Outlook and Opportunities

The value of US infrastructure construction is forecast (as at September 2018) to grow at an annual compounded rate of 5% between 2018 and 2022.

Demand for Telecommunication Services: Contractors can benefit from increased demand for reliable video, voice, and other data services. Demand for high-speed mobile broadband is driven by the popularity of smartphones and other wireless devices. Telecommunications networks must expand capacity and improve performance to meet customer demand. Infrastructure construction companies that can deploy fiber-optic cables to cellular sites, for example, stand to benefit.

Alternative Energy Projects: Federal tax credits and other incentives have helped spur the development of alternative and renewable energy projects. Companies that provide construction and/or installation services to wind and solar power farms have seen that portion of their business grow in recent years. Expiration or cancellation of key tax credits could reduce demand for alternative generation facilities, however.

Impact on Company Value

We see the following industry factors as key:

- Demand: depends on electricity, telecom use
- Successful companies need to bid accurately on projects
- Risk: rapidly changing technology

We see these industry factors overall as being net neutral to the valuation.

Financial Review

In forming our Conclusion of Value of the Company, we have analyzed the Company's financial performance and position over the periods from January 1, 2016 to December 31, 2018 ("the Period"). In doing so, we have reviewed the Company's profit and loss statements and balance sheets (statements of position).

We note that most businesses receive revenue and incur costs from time to time that could be considered to be:

- Non-recurring in nature;
- Non-cash in nature (that is, an expense or income is recorded but no cash is paid out or received), and/or;
- Non-commercial in nature (that is, they are not required for or derived from the Company's usual activities, not at arms-length or market rates).

Based on the above, it is generally accepted that when undertaking the valuation of a business those non-recurring, non-commercial and non-cash revenues or expenses are removed from the business' financial results, so the business can be assessed on what its true, commercial, cash profit or loss is. This normalization of the Company's Income Statement has been performed given the information to follow and the Premise of Value as a Going-Concern.

Income Statement

Adjusted Income Statement						
	2016	%	2017	%	2018	%
Total Contract Revenue	$20,546,082	100.0%	$28,554,091	100.0%	$30,374,109	100.0%
Cost of Revenues	$18,340,376	89.3%	$25,914,480	90.8%	$27,410,259	90.2%
Gross Profit	$2,205,706	10.7%	$2,639,611	9.2%	$2,963,850	9.8%
Operating Expenses	$1,691,507	8.2%	$1,623,054	5.7%	$1,953,484	6.4%
Operating Profit Before Interest & Tax	$514,199	2.5%	$1,016,557	3.6%	$1,010,366	3.3%
Operating Profit Before Tax	$506,171	2.5%	$1,004,035	3.5%	$1,004,353	3.3%
Net Profit After C-Corp Tax (NPAT)	$399,875	1.9%	$793,188	2.8%	$793,439	2.6%

Figure 1: Information from Company Financial Statements.

Financial Performance 2016-2018

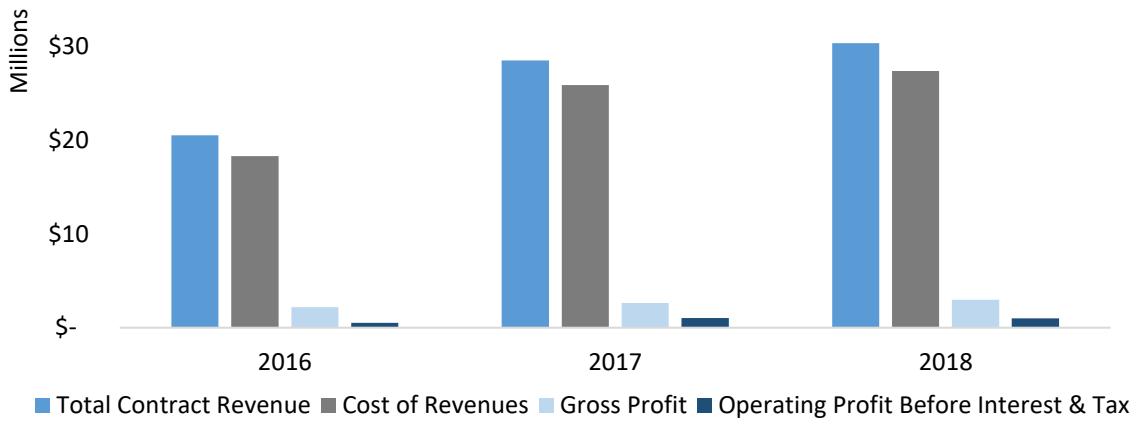

Figure 2: Information from Company Financial Statements.

Financial Performance Commentary

- **Contract Revenue:** Has grown in all years over the Period, increasing by 48% between 2016 and 2018 with the majority of this growth coming in 2017.
- **Gross Profit:** Like revenue, gross profit has grown over the three-year Period, increasing by a total of 33%. While gross profit margins have declined slightly from 10.7% in 2016 to 9.8% in 2018, driven by higher costs of revenue.
- **Operating Profit Before Interest & Tax:** Increased significantly in 2017, up from $514k in 2016 to $1.02m in 2017, with minimal change in 2018 to $1.01m. Despite a decline in gross profit margins, operating profit before interest & tax margins increased from 2.5% to 3.6% in 2017. This was driven by a marginal ~$65k decline in operating expenses in 2017, before an increase of $315k in 2018. Despite this,

given the significant jump in revenue, operating profit before interest & tax margins ended 2018 at 3.3%, 0.8% higher than their 2016 levels.

Historical Balance Sheet

Historical Balance Sheet	2016	2017	2018
Total Current Assets	$ 7,829,675	$10,649,180	$10,300,481
Total Assets	$ 7,989,889	$10,759,619	$10,384,523
Total Current Liabilities	$ 6,393,842	$ 8,760,871	$ 7,923,951
Total Liabilities	$ 6,445,048	$ 8,827,514	$ 7,962,490
Total Equity	$ 1,544,841	$ 1,932,105	$ 2,422,033

Figure 3: Information from Company Financial Statements.

Balance Sheet & Financial Position

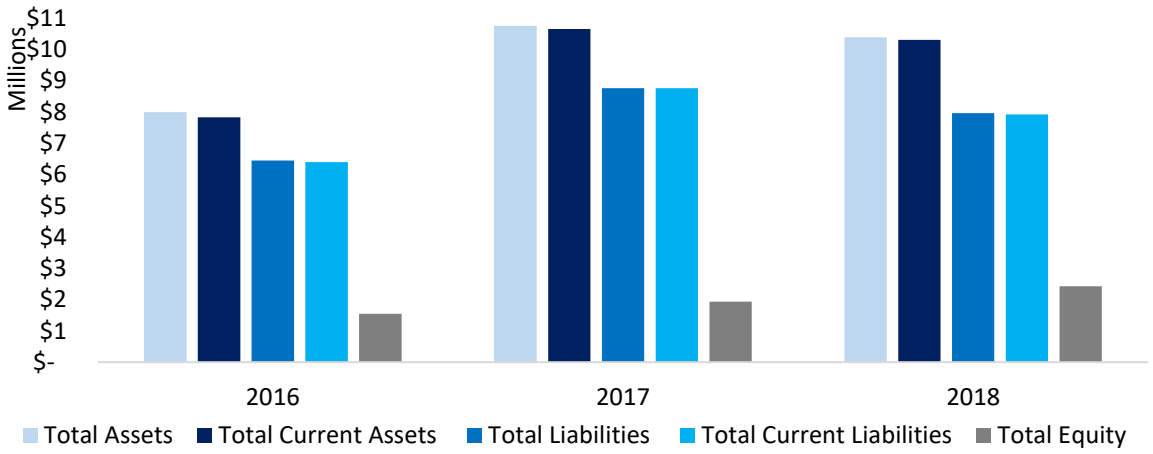

Figure 4: Information from Company Financial Statements.

Financial Position Commentary

- **Total Assets:** The balance sheet has expanded over the Period, increasing by 32% over the Period. This was driven primarily by the notable increase in short term assets, which comprise 99% of the total asset base. Of this, cash, accounts receivables and expected revenue adjustments (being estimated earnings in excess of billings on uncompleted contracts) increased notably, broadly in line with the increase in revenue.
- **Short Term Liabilities:** Given the nature of the business as construction contractors, the Company's creditors are paid when the Company's debtors pay. Accordingly, as accounts receivables increase, accounts payables also increase,

growing from $6.1m in 2016 to $7.9m in 2018. While this is a material increase, as a percentage of total assets, total short term liabilities fell from 80% in 2016 to 76.3% in 2018.

- **Long Term Liabilities:** Not material with long term notes/debt averaging only $52k over the Period.

Financial Review Summary

- **Financial Performance:** The Company has performed well over the Period, with strong revenue growth, flowing through to larger operating profit before interest & tax and wider margins.
- **Working Capital:** Given the nature of the Company's business as a construction contractor, there is a large amount of working capital outstanding at all times, driven primarily by accounts receivables/payables and costs/billings adjustments on uncompleted contracts. That being said, the company has maintained both current and quick ratios above one at all times, implying that they have sufficient short-term liquidity. Equally, these ratios are not alarmingly high, indicating that net working capital is being used broadly in efficient quantities.
- **Leverage and Cost of Capital:** Given the non-material amounts of debt on the balance sheet at ~1% of total assets over the Period, the company is virtually unlevered resulting in low solvency risk. However, this indicates that potentially the Company is not optimizing its capital structure through the assumed lower cost of debt, than with ~100% equity financing.
- **Property, Plant & Equipment**: Property, Plant & Equipment ("PPE") has been minimal over the Period, at a gross and undepreciated base of $285k over the past two years. Minimal PPE lowers the Company's risk profile by having fewer long term (and thus more illiquid) depreciable assets.
- **Cash Flows:** Pre-tax (given S-Corp) cash flow from operating activities have been volatile over the Period, increasing from ~$840k in 2016 to $2.26m in 2017 before declining significantly to negative $269k in 2018. Despite this, the average over the Period was $950k of pre-tax operating cash flow, indicating that the business is making material operating cash flow, albeit exhibiting volatility. Cash flows from investing activities have been immaterial. While cash flows from financing

activities have primarily been associated with distributions to shareholders, given the Company's 99% equity funded and positive operating cash flow.

To the extent this analysis impacts the overall risk profile of the Company, it has been accounted for in our development of the discount rate or forecasts if appliable, as discussed further within this report.

Valuation Approaches and Methodologies Considered

Generally accepted valuation principles require reliance on three basic approaches:

1. The Income Approach;
2. The Market Approach; and
3. The Asset Based (Cost) Approach.

These Approaches are generally based upon the capitalization/discount of income, the market exchanges for comparable assets and the cost to reproduce the assets. The Income, Market and Cost Approaches are briefly summarized below.

Business valuation is guided by two fundamental economic principles:

1. **Principle of 'Future Benefits':** A rational buyer will not buy an asset at a price that exceeds that cash flows the asset is expected to generate in the future, adjusted for risks associated with achieving those streams of cash flows and time value of money.
2. **Principle of 'Substitution':** A rational buyer will not buy an asset at a price that exceeds the cost to acquire or recreate a similar asset, with similar or greater economic utility.

Income Approach

The Income Approach is a valuation technique that capitalizes or discounts the anticipated income from an appraised asset. This approach is predicated on developing either cash flow or income projections which are then discounted for time and risk.

The main business valuation Methods for SMEs under the Income Approach are:

- Discounted Cash Flows (DCF); and
- Capitalization of Future Maintainable Earnings (FME).

Discounted Cash Flows (DCF): The Methods such as DCF that utilize a 'stream of earnings' is known as the discounting Methods. The discounting Methods account for the time value of money directly and determine the value of the business enterprise as the present

value of the projected earnings/income stream. The risk is quantified by means of the discount rate.

Capitalization of Future Maintainable Earnings (FME): The Methods such as the Capitalization of FME which rely upon a single value of business earnings are referred to in general as direct capitalization Methods. A 'single measure of earnings' is an identified earnings number based on historical figures, which are believed to be the most probable maintainable earnings into the future. The risk is then quantified by means of the capitalization rate.

The selection of these Methods depends on the historical performance and the ability to forecast the future performance of the company under valuation. No financial forecasts of the future were provided by management, however they indicated that growth will be similar to historical growth, which is approximately linear. As a result, and given the simple nature of the business, the DCF Method was regarded as unnecessary and was not used. Accordingly, under the Income Approach we have used the Capitalization of Future Maintainable Earnings (FME) Method.

Market Approach

The Market Approach is another approach that provides an indication of value by comparing the asset under valuation with identical or comparable (that is similar) assets for which price information is available. This comparison measure is the estimated market value based on market prices in actual transactions that have recently been established in the market. After studying the selling prices, value adjustments are made for comparability differences.

The main business valuation Methods for SMEs under the Market Approach are:

- Comparative Private Company Method;
- Comparative Public Company Method; and
- Comparative Prior Transactions Method.

Comparative Private Company Method: The Comparative Private Company Transaction Method uses historical transactional data of private companies that provide a reasonable

basis for comparison to the relevant investment characteristics of the company being valued. Guideline companies are used as a basis to develop valuation conclusions with respect to the subject company under the presumption that a similar market exists for the subject company as exists for the guideline private companies.

Comparative Public Company Method: The Comparative Public Company Method uses historical transactional and trading data of public companies that provide a reasonable basis for comparison to the relevant investment characteristics of the company being valued. Guideline public companies are used as a basis to develop valuation conclusions with respect to the subject company under the presumption that a similar market exists for the subject company as exists for the guideline publicly traded companies.

Comparative Prior Transactions Method: The Comparative Prior Transaction Method uses recent transactions involving the Company's stock. The principle of substitution is used to determine the value. This simply means that if one arm's length fair market value transaction occurred at a given price then if nothing has substantially changed, another arm's length fair market value transaction would occur at the same price.

The selection of these Methods depends on the comparative transactional data available. Given the nature and the size of the business, a sufficient set of comparable public companies was not found so the Comparative Public Company Method was not used. We were not made aware of any prior transactions in the Company's shares, necessary to consider the Comparative Prior Transactions Method. Hence, we have used the Comparative Private Company Method only in our analysis.

Asset Based (Cost) Approach

The Asset Based Approach (or the Cost Approach) provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility (benefit).

The main business valuation Methods for SMEs under the Asset Based Approach are:

- Book Value Method;
- Adjusted Net Assets Method; and

- Orderly Liquidation Method.

Book Value: The book value Method simply calculates the book value, which is an accounting-based value that is calculated by subtracting the book value of total liabilities from the book value of total assets. This method takes as fact that the underlying assets are the driving factor in the valuation of the company and that the fair market value is approximated by the book value.

Adjusted Net Asset Value: Determination of asset value begins with the company's reported financial statements. Adjustments are made, as necessary or appropriate, to reflect the market values of the corporation's assets and liabilities, as opposed to their book values. The objective is to arrive at a net asset value, which is defined as the difference between the adjusted valuation of all assets and liabilities. Net asset value should reflect the valuation of assets and liabilities in the context of a going concern. Therefore, net asset value is not the company's liquidation value (Orderly or otherwise) because liquidation value assumes that the business is not a going concern.

Orderly Liquidation Value: The Orderly Liquidation Value of the company's assets is another method that is generally not considered appropriate for valuing operating entities. If the company is being valued as a going concern, it will not be able to liquidate its assets and continue operations. However, if the company is being liquidated or the ownership interest being valued has the ability to liquidate the company and would receive a higher return on investment from the liquidation, the liquidation value may be the company's best indication of value.

The Orderly Liquidation Value method develops a value by adjusting the reported book values of a subject company's individual assets to their actual or estimated fair market values as if they were to be sold in an orderly, piecemeal manner and subtracting the associated liabilities adjusted to their actual or estimated fair market liquidation value.

The selection of these Methods depends on the balance sheet and premise of value. Given the going concern nature of the company, the Orderly Liquidation Value method is not appropriate. We have analyzed the balance sheet for any necessary adjustments and accordingly, the Adjusted Net Asset Value Method has been used.

Approaches Used

Under ideal circumstances, all three Approaches may be applicable to the valuation of an asset. For certain types of assets, one or more valuation Approaches may be inappropriate. In certain instances, results indicated by one Approach may vary widely from the other two Approaches. When this situation exists, the appraiser must discern the reasons for this difference and select the Methods that best represent the considerations of both a willing and knowledgeable buyer and seller.

In valuing Company X, we have formed our Conclusion of Value considering all three Approaches. In the following section of this report, we describe the valuation Methods utilized in estimating the value of the Company as a Going Concern.

Income Approach

To determine the Company's value using this Approach, we use the Future Maintainable Earnings (FME) as the basic measure of the Company's earning power. To establish what are the FME of the Company, we have used the metric of Free Cash Flow to the Firm (FCFF). In establishing FME, we have analysed the last three historical years of financials and forecast forward one year to build a picture of what we believe will be the future maintainable earnings of the Company, moving forward. We have selected FCFF as the most appropriate earnings metric for FME, as management decisions can impact and potentially skew interest, taxes, and noncash charges such as depreciation and amortization, impacting other earnings metrics (such as net profit).

Projected 2019 Future Maintainable Earnings

The following are key assumptions made in developing forecasted 2019 financials which have then been considered as part of the FME of the Company. This forecast was made based on discussions and input from management.

Forecast 2019 FCFF

	2019(f)	%
Total Contract Revenue	$36,930,978	100.0%
Cost of Revenues	$33,270,198	90.1%
Gross Profit	$3,660,780	9.9%
Operating Expenses	$2,504,942	6.8%
Operating Profit Before Interest & Tax	$1,155,838	3.1%
Operating Profit Before Tax	$1,149,825	3.1%
Net Profit After C-Corp Tax (NPAT)	$908,362	2.5%

Figure 5: Information from Company Financial Statements.

- **Margins:** Management guided that future margins would be in line with the historical averages over the past three years. Accordingly, we have forecast 2019 by applying the growth rates below, to the 2018 numbers.
- **Contract Revenue:** Has been grown at a Compound Annual Growth Rate ("CAGR") between 2016 and 2018, of 21.6%.
- **Cost of Revenues:** Have been grown at an average margin between 2016 and 2018, of 90.1%
- **Operating Expenses:** Have been grown at the average margin between 2016 and 2018, of 6.8%
- **Taxes:** While the Company is currently structured as an S Corporation pass-through entity and is not burdened with corporate level taxes, it is appropriate to apply taxes to projected cash flows. Even though the Company itself does not pay taxes, taxes are in fact paid by the investor once the earnings are passed through to their personal income statements. Additionally, within the Fair Market Value context, we must consider all potential buyers, which includes taxable entities. Therefore, any rational investor likely would consider the tax burden on earnings. We also do not believe that a premium to the value of an S-corp should be applied purely given that Company's tax election. Accordingly, we have applied the 2018 Federal Corporate Tax Rate of 21% and the applicable State Tax Rate of 0% to the FME of the Company.

With the 2019 financials forecasted, we then need to adjust net profit after tax to find the FCFF of the historical and forecast years. The formula is as follows:

Future Maintainable Earnings (cash flow) = FME
Net Profit After Tax (NPAT)
Plus: Non Cash Charges (e.g. depreciation)
Plus: Interest Expense x (1 - Corp Tax Rate)
Less: Capital Expenditures
Less: Increase in Net Working Capital
Equals: Future Maintainable Earnings (FME)

Figure 6.

Assumptions

- **NPAT:** Calculated from the projected and historical financials.
- **Capital Expenditures:** We have assumed that historical depreciation is a fair estimate of maintenance capital expenditure moving forward. Management did not communicate any forecasted capex and the balance sheet has remained asset light through the Company's historical growth. Accordingly, we have assumed that little expansionary or maintenance capex will be needed in future to support the FME of the Company.
- **Working Capital Needs:** The Company has large amounts of both short-term receivables and payables. Having said that, over the last three years, the closing balance of net working capital excluding cash and investments averaged -4.61% of that year's revenue. Given guidance from management, we have assumed that there will be no change in net working capital in future and short-term working capital assets (excluding non-cash & investments) and short-term liabilities, will grow at an equal absolute number, in line with revenue growth. As a result, it has been assumed that the change in net working capital will remain constant (no increase or decrease), as can be seen in Appendix K.

We estimate the FME as an equally weighted average of the 2017 and 2018 historic FCFF and 2019 forecast figures above. We incorporated 2019 or a forecast year with two historical years as following discussions with management, we were of the belief that the financial performance of any of these three years was plausible in future and without including a forecast year, would understate the potential FME of the Company. We also

were not provided with enough information from management to model complete forecast or projections, as would be necessary to use the Discounted Cash Flows Method. 2016 was not used given its time obsolescence and significantly lower revenues, assumed not reflective of the future. The weighted average FME calculation is summarized below:

Future Maintainable Earnings (FME)

Year	Weighting	FCFF
2017	1	$803,080.03
2018	1	$797,399.14
2019(f)	1	$909,152.02
Weighted Average Adjusted = FME		**$836,543.73**

Figure 7: Information from Company Financial Statements.

The estimated FME is $836,544 rounded.

FME and the Capitalization Rate

The FME is then increased by the long-term sustainable growth rate of the economy. We have used US nominal GDP 10-year CAGR from 2008 to 2018, being 3.4% (source: US Federal Reserve) as we believe the last 10 years to be a reasonable reflection of the future and the long-term macroeconomic trends of the US economy (and hence the long-term sustainable growth rate of the Company). The FME has then been increased by long term growth and is then capitalized by an appropriate capitalization rate. The capitalization rate is derived in the section 'Discount and/or Capitalization Rate' that follows.

Cost of Debt Capital

The cost of debt is estimated based on the Company's estimated current borrowing rate of approximately 8.75%, per Appendix H. Given that interest is tax-deductible, the cost of debt is calculated after-tax, using the estimated income tax rate of 21% as discussed above. As a result, the estimated cost of debt is 6.91%. It is also noted that given the amount of debt in immaterial, so is its effect on the overall Company weighted average cost of capital.

WACC & Capital Structure

To calculate a weighted average cost of capital (WACC) to apply to the projected free cash flows to invested capital, we have used Company's capital structure from historical levels, as well as discussions with management. This equates to approximate percentages of 1% debt and 99% equity. Refer to Appendix I.

Weighted Average Cost of Capital (WACC)

The final discount rate, or weighted average cost of capital (WACC) to be applied to the projected cash flows is calculated using the following formula:

WACC = [(Cost of Equity) * (% Equity)] + [(Cost of Debt) * (1-Tax Rate) * (% Debt)]

The calculated weighted average cost of capital (WACC) was determined to be 22.23%. This represents an estimate of the WACC considering the build-up method employed in calculating the cost of equity. Refer to Appendix I**.**

Capitalization of FME Method

With all the necessary inputs thus determined, the application of the capitalization of FME method gives a capitalization rate of 18.83% which is applied as follows:

Variable		Value
FME (1)	$	836,544
Long Term Sustainable Growth Rate (2)		3.40%
Next Year's FME (3) = (1)*[1+(2)]	$	864,986
Capitalization Multiple (4)		5.31
Capitalization Rate (5) = [WACC - (2)]		18.83%
(6) Enterprise Value = (3)/[(5)-(2)]	**$**	**4,593,496**
Midyear Convention Adjustment (7)		1.11
Final Enterprise Value = (6)*(7)	**$**	**5,078,477**

Figure 8: Information from Company Financial Statements.

Midyear Convention

In the normal discounting process, it is assumed that the benefit stream is available to the hypothetical buyer at the end of the period. This is not always the case since sales and expenses occur over the course of a period. The benefit stream is then available during the period and not only at the end. To implement this logic, a midyear convention is used. The midyear convention calculates the present value of a benefit stream using arithmetic that presumes half is available before the midyear and half is available after the midyear. We have applied the midyear convention because it more closely represents the cash flows received by the subject entity.

Indicated Value

To arrive at the indicated equity value, all the interest-bearing debt must be subtracted from the enterprise value and any surplus assets must be added. The Company had $97,652 of surplus assets as at the Valuation Date and $38,539 in interest-bearing liabilities.

Income Approach Valuation

Capitalization of FME Valuation Calculations	Value
Enterprise Value (with midyear convention)	**$ 5,078,477**
Plus: Surplus Assets	$ 97,652
Less: Interest-bearing debt	-$ 38,539
100% Marketable Controlling Interest Equity Value	**$ 5,137,590**
Fair Market Value of 100% Equity Controlling Interest, Rounded	**$ 5,137,600**

Figure 9: Information from the FME growth method and company's financials.

Concluded Equity Value

Our Conclusion of Value using the Income Approach is that the value one hundred percent (100%) of the equity of the Company is $5,137,600 rounded prior to any secondary discounts or pro rata share allocations.

Discount and/or Capitalization Rates

Cost of Equity Capital

The discount rate or capitalization rate represents the risk an investor is willing to accept for the potential reward an investment in the subject company will return. Different rates apply to different types of businesses. It is also known as the return that an investor requires from the investment. This risk is not calculated in a vacuum or a sterile environment but rather it is calculated based on the factors that can be contrasted against investing in other vehicles/assets that are available as of the valuation date.

The build-up method layers different risk estimates to build up a discount rate. The following sections explain various components used in the build-up method. Refer to Appendix I for our analysis.

To complete the build-up method, we then add the Company Specific Risk Premium to the Duff & Phelps' identified cost of equity. The specific method justification is detailed later in this report.

Build-Up Method Risk Elements

Risk Free Rate

The risk-free rate measures the rate of return an investor can earn without taking any additional risk. We have chosen the nominal United States 20-year Spot Treasury Yield as a proxy for the risk-free rate.

Equity Risk Premium

The equity risk premium represents the risk an investor takes on for investing in large public companies. This risk is measured by taking the historical returns of listed companies/stocks and subtracting the risk-free return over the same period (average annual returns for the stock market minus average annual returns for long term government bonds). We have used the Duff & Phelps historical long-term premium from 1926 to the Valuation Date.

Size Premium

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. The CRSP size premium data included in the Duff & Phelps Valuation Handbook is broken down into average portfolio sizes. We have then selected the respective size premium given the size of the Company at the Valuation Date.

Industry Risk Premium

Certain industries are expected to perform better or worse than the broader market in future. The individual volatility and risk of each industry needs to be calculated against that of the broader market. Industry Risk Premium is the risk premium specific to an equity investment in the subject Company's industry. The Company's most applicable industry SIC was used to identify the appropriate Industry Risk Premium at the Valuation Date.

Total Cost of Equity

To develop the cost of equity for the Company, the components discussed above were summed together.

The calculated equity discount rate using the build-up method for the Company is 15.56%, as per Duff & Phelps Cost of Capital Navigator. Refer to Appendix I. **The Company Specific Risk Premium (below) is then added to this number to arrive at the final cost of equity of the Company.**

Company Specific Risk Premium

Calculating a company specific risk premium is one of the most subjective variables within a discount rate. Below we attempt to apply a framework, justified by fundamental economic and financial principals, which we consistently use when analysing the company specific risk premium of SMEs. An incorrect estimation of this risk premium may have a significant impact upon the valuation of a privately held company. This quantifiable analysis, while not perfect, provides a foundation for us to develop the company specific risk premium.

As shown above under 'Build-Up Method Risk Elements', these components determine the build-up discount rate. In order to develop the cost of equity capital, a Company Specific Risk Premium needs to be identified. The build-up of this number with justifications follows.

Company Specific Risk Premium Build-Up

Risk Factor	Weighting	Absolute Number	Rating	Weighted Rating	Notes
Revenue Level & CAGR	0.50	21.59%	0	0.00%	1
Financial Risk	0.50	22.63	1	0.50%	2
Operational Risk	0.50	6.48%	1	0.32%	3
Profitability	0.50	1.57%	3	1.50%	4
Forecast Risk	0.50		3	1.50%	5
Sales and Earnings Stability	0.50		4	2.00%	6
Business Dependency on Owner	0.50		2	1.00%	7
Total Company Specific Risk	**3.50**			**6.82%**	

Figure 10. Notes:

- Risk Factor: A range of company specific risk factors that we generally see as important risks to assess, for small to medium sized companies.

- Weighting: This number can be adjusted if one of the risk factors is perceived as more important than the others, for the company under valuation.
- Absolute Number: If the risk factor is a ratio, this is the value of the ratio. Where ratios have been calculated using income statement figures, we have weighted the years as follows: 2018 = 3, 2017 = 2, 2016 = 1.
- Rating: This is a number from 0 to 10, with 0 indicating the risk factor DOES NOT contribute to the company's overall company specific (unsystematic) risk.
- Weighted Rating: Rating x Weighting. With a total weighting of 3.5 and a (normal) maximum rating of each risk factor of 10, the maximum Company Specific Risk Premium is 35%. Using our experience, we most frequently see SMEs of similar size to the subject company with a Company Specific Risk Factor between 0-35%. That being said, where necessary using our professional judgement, this can be adjusted higher or lower if there is sound justification for a Company Specific Risk Premium to be outside this band. The Weighted Rating explains a) the importance of the individual risk factor, and b) how the individual risk factor of the company under valuation, rates within the complete Company Specific Risk Premium. The summation of all weighted ratings provides the overall company specific risk.

Company Specific Risk Premium Build-Up Justification

Note 1 – Revenue Level & Compound Annual Growth Rate (CAGR)

There is typically an inverse relationship between revenue growth and the specific company risk premium. As revenue growth of a company increases, risk falls as a result of greater potential for sustained increased earnings, and hence higher likelihood of overall company sustainability. There is also a negative correlation between the absolute level or amount of revenue and the risk of the business. Larger businesses with larger amounts of revenue, empirically have lower risk profiles. A risk rating of 10 implies declining revenues with an absolute amount of revenue of $1 million or less. While a rating of zero indicates annual growth of 5% above the long-term growth rate of the economy and an absolute level of revenue similar to listed industry comparable companies.

The Company's revenues have grown by 21.6% CAGR between 2016 and 2018, increasing by ~$10m. As a result, we have assigned the Company a 0 rating.

Note 2 – Financial Risk (Leverage & Solvency)

There is a direct relationship between the financial risk of a company and the specific company risk premium. In measuring financial risk, we chose the debt service ratio (net operating income/ total debt service) of the company. Increased leverage in a company's capital structure against free cash flows indicates that the threat of a possible default or bankruptcy increases. In an asset sale, the seller retains all debt obligations. However, under an equity sale, the buyer is buying all contractual obligations of the company, inclusive of debt and the current capital structure. Thus, valuing the equity of a company needs to account for the effect that leverage has on both the operations of the company and the cost of capital.

The company currently has a weighted average historical debt service ratio of 22.6x, illustrating a very low solvency risk, given the Company's insignificant amount of debt (~1% of total assets). As a result, we have assigned the Company a 1 rating.

Note 3 – Operational Leverage & Risk

Operating leverage analyses the split in a company's fixed and variable costs, ultimately showing for a change in revenue, how much will operating profit (EBIT) change. We assess the ratio of operating expenses to sales, as an indication of a company's risk of not meeting its predominantly fixed costs in the event of a decline in sales. Generally, the rating will be the rounded whole number of 10 times the result of the ratio, expressed as a decimal (i.e. 10 * 20% = 10 * .2 = 2).

We have analyzed the company's normalized operating expenses as a percentage of sales. The absolute percentage number of 6.48% * 10 = .648. As a result, we have assigned the Company a 1 rating.

Note 4 - Profitability

A firm's profitability is a clear indication of the level of risk associated with that firm. More profitable companies clearly have a lower level of risk than unprofitable firms and vice versa. After normalizing the income statement to arrive at operating profit before interest & tax, companies with net losses would receive a rating of 10 on this criterion. While a company with an operating profit before interest & tax margin of greater than 5% above the average of comparable companies within their industry, would receive a 0.

The Company had a weighted average operating profit before interest & tax margin of 3.27% for 2016-2018, which we have then compared to the industry average from First Industry Research and the market comparable businesses. As a result, we have assigned the Company a 3 rating.

Note 5 - Forecast Risk

A company's forecast financials for the various metrics of revenue, operational expenses, working capital, and capital expenses are a combination of using historical financial results and management's insight into future operations, expenditures, growth plans and prospects for new and increased/or decrease revenues. It is common for management to have a less objective view of their forecasts incorporating what is commonly referred to as 'management or executive bias'. To compensate for forecasts from management that are beyond or under what is deemed reasonable and probable based on historical financials,

the company's current and future resources and industry growth potential, a discount is applied to the Company Specific Risk Premium. Below we highlight our assessment of the forecast financials:

- *Management guidance & forecasts:* No explicit financial forecasts were provided by management and accordingly no DCF Methodology was used. Management provided guidance that revenue growth would continue in line with recent history. While all margins would be expected to be similar to the historic trend, as high competition would prevent expansion, while the high goodwill attached to the brand, length of the Company's existence and quality of the Company's work, would prevent contraction in margins.
- *Terminal Growth:* After the forecast 2019 year, estimated long term growth of the overall economy has been used as a terminal or capitalized value.

Given the above, we see the risk to the forecasts and achievement of the FME indefinitely highly tied to the three main clients. Replicating the last 3 years growth is seen as achievable if no clients are lost and existing work from the concentrated client base, continues to grow. The execution of this growth primarily pends on these relationships and workflow from these exiting three clients, which presents risks. As a result, we have assigned a rating of 3.

Note 6 – Sales and Earnings Stability

Sales and earnings stability are highly correlated with firm specific risk. Previously, we have assessed the absolute amounts and growth of both revenue and profitability over the Period under examination. Here we are assessing factors influencing the likelihood of stability to these numbers, by assessing a range of factors such as customer spread, the percentage of transactional and reoccurring revenue & assessing historical volatility in the income statement.

At a financial level, the company has experienced consistent top line revenue growth between 2016 to 2018, with operating income growing from 2016 to 2017 before flatlining in 2018. The company does have a high concentration of clients with Client 1, Client 2 & Client 3 making up ~85% of the Company's total revenue. Equally, these contracts are on a project by project basis and there is no formal reoccurring or retainer based revenue given the Company's industry. Should one of these clients be lost, this could significantly lower both revenue and earnings and create volatility to the

aforementioned numbers. Having said that, the long history of the Company and the long term and high quality relationships with their clients, does mitigate this risk to some extent. After this assessment, we assign the Company a 4 rating.

Note 7 – Company Dependency on Owner

In SMEs, the personal goodwill of the owner can be extremely high and is a risk that always needs assessing. When assessing the importance and dependence on the owners of a company, key factors we assess include:

- Owners' weekly hourly involvement, presence & numbers of other managers and staff;
- Owners' degree of interaction with clients;
- Owners' involvement in key positions;
- Would a non-compete for the owner be necessary if the Company was sold;
- Would the owners be willing to sign an NDA;
- Does the company's name, have an owners' name in it; and
- Assessment of sales/advertising that is directly attributed to the owners.

Mr. Jackson is looking at estate planning. However, Mr. Jackson plans to remain in the business on a part time basis and had already commenced the transition of personal goodwill, to Person X and the business. The dependency of the business on Mr. Jackson historically has been high and execution of the aforementioned growth and maintenance of the concentrated client base, in part depends on Mr. Jackson. However, with the progressive transition of Mr. Jackson out of the business taking place as at the Valuation Date, increasingly his personal goodwill is falling and lowering the risk to the business. After assessing the above points, we assign a rating of 2.

Adding the various weightings to the factor scores ultimately concludes the **Company Specific Risk Premium is 6.82%.**

Market Approach

A market-based company valuation relies upon the comparison of the subject company to similar guideline or comparable companies. Refer to Appendix J for more information.

Comparative Private Company Transaction Method

The Comparative Private Company Transaction Method uses historical transactional data of companies that provide a reasonable basis for comparison to the relevant investment characteristics of the company being valued. Guideline companies are used as a basis to develop valuation conclusions with respect to the subject company under the presumption that a similar market exists for the subject company as exists for the guideline private companies.

Ideal guideline companies should be in the same business as the company being valued. However, if there is insufficient transaction evidence in the same business, it may be necessary to consider companies with an underlying similarity of relevant investment characteristics such as markets, products, growth, cyclical variability and other salient factors.

The Comparative Private Company Transaction Method uses a group of privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a ratio, such as the price/revenue, with which to capitalize the base, such as the company's revenue.

Databases and Industry Codes

We searched the BizComps and ValuSource Market Comps databases for transactions involving privately held guideline companies. These databases are a collection of small business sales whereby relevant pricing information is collected from business brokers and transaction intermediaries on individual sales of small businesses.

We researched transactions by first identifying the industry in which the Company operates in. Using the SICs codes 1541 (General Contractors-Industrial Buildings and Warehouses) and 1542 (General Contractors-Nonresidential Buildings, Other than Industrial Buildings and Warehouses), we performed a search for a group of companies in a similar line of business as that of the subject Company.

Analysis of Transactions

We found 14 transactions that may meet the criteria for being included as guideline companies. We rejected and did not include 4 of these in our analysis, as when cleaning

the data, they were determined as not relevant, due to size, the transaction data is older than 10 years or having the appearance of data entry error.

The asset sale price to revenue ratios ranged from 0.07x to 0.56x, with a median of 0.31x. The asset sale price to Sellers Discretionary Earnings (SDE) multiples ranged from 0.52x to 3.52x, with a median of 1.83x. These transactions are shown in Appendix K, with their accompanied analysis.

Indicated Value

	Revenue ($000)	SDE ($000)
Company X Last Financial Year Metrics	$30,374,109	$1,158,716
Selected Multiple From the Comparable Dataset	0.17	2.72
Discount/Premium Applied to Multiple for Company Vs Comparables Differences	0%	0%
Implied Asset Valuation	$5,307,421	$3,152,984

Figure 11.

While we have presented potential comparable transactions from our search of the BizComps and ValuSource Market Comps databases, we have determined the multiples cannot be relied upon with confidence, thus **we have not weighted the Market Approach in our conclusion of value.** We have not used either the revenue or SDE multiples for the following reasons:

- The size of the subject Company based off revenue is significantly larger than all but one of the comparable companies, making comparison less relevant.
- The subject Company had a 2018 SDE margin of 3.81% versus the median of the comparable companies of 17.48%. Again, this makes the companies less comparable.
- Given the above factors, the median multiples for revenue for the comparable companies, using our professional judgement, appear too large. While the median multiple for SDE appear too small.
- Sufficient detail was not available regarding the above transactions to adequately determine the comparability of various pertinent factors, such as products/services offered, customer relationships and growth expectations.
- The overall sample size is relatively limited, in particular for SDE multiples, which typically are more appropriate as they consider the various cost structures of businesses, as opposed to only revenue levels.

Accordingly, we have used the Market Approach as a confirming Approach only, to confirm the reasonableness and bounds of the opinions of value formed under the other Approaches used.

Our Conclusion of Value using the Market Approach is that a one hundred percent (100%) controlling interest prior to any discounts for lack of control or lack of marketability is as follows:

Market Approach Equity Value - SDE Multiple	Value
+ Operating Asset Value	$ 3,152,984
+ Net Working Capital ex Investments	$ 2,278,878
+ Other Non-Operating Assets (Investments)	$ 97,652
- Long Term Liabilities	$ 38,539
100% Equity Value	**$ 5,490,975**

Figure 12.

Income Approach Equity Value	Value
+ Operating Asset Value	$ 5,078,477
+ Net Working Capital ex Investments	$ 2,278,878
+ Other Non-Operating Assets (Investments)	$ 97,652
- Long Term Liabilities	$ 38,539
100% Equity Value	**$ 7,416,468**

Figure 13.

Concluded Equity Value

We have not applied any weighting to the values formed under the Market Approach for the reasons previously mentioned.

Asset Based (Cost) Approach

Adjusted Net Assets Method

The Adjusted Net Assets method develops a valuation indication by adjusting the reported book value of a subject company's assets to their actual or estimated fair market values and subtracting its liabilities (adjusted to fair market value, if appropriate). The specific

adjustments are described below as determined by our estimate of the fair market value of the assets.

Management did not provide any guidance that asset and/or liability balance sheet values are materially different to fair market values. Additionally, based on our review and analysis of the Company's balance sheet, given the Company's industry and applying our expertise, we believe balance sheet values to be broadly in line with what we would expect as fair market values. Accordingly, we have no reason to adjust the balance sheet. Assuming the assets and liabilities are on the balance sheet are at fair market value, a summary of the Company's assets and liabilities are as follows:

Book Value Method as of December 31, 2018	
Total Assets	$10,384,523
Total Liabilities	$7,962,490
Book Value of Equity	**$2,422,033**

Figure 14: Information from Company Financial Statements.

Concluded Equity Value

We have considered however not weighted the Asset Based or Cost Approach, to confirm the reasonableness and bounds of the opinions of value formed under the other Approaches used. This is because this approach does not capture the value of goodwill which is significant given the nature of the business and the premise of value as Going Concern.

Reconciliation of Company Value

We weighted the Income Approach only to calculate the value of one hundred percent of the equity of the Company under a full control basis. We concluded that the value of one hundred percent of the equity of the Company on a control basis is as follows.

Company X, Inc. Equity Values Under the Different Valuation Methodologies

Valuation Methodology	Equity Value Rounded	Methodology Weighting	100% Weighted Value
Asset Based Approach			
Adjusted Net Asset Value	$2,422,000	0%	CONSIDERED
Market Approach			
Comp. Private Comp. Trans. SDE Multiple	$5,491,000	0%	CONSIDERED
Comp. Private Comp. Trans. Revenue Multiple	$7,645,400	0%	CONSIDERED
Comparative Public Company Transaction	REJECTED	0%	N/A
Comparative Prior Transaction	REJECTED	0%	N/A
Income Approach			
Discounted Cash Flow	REJECTED	0%	N/A
Capitalization of FME	$5,137,600	100%	$5,137,600
Conclusion of Equity Value		**100%**	**$5,137,600**

Figure 15.

Discounts and Other Considerations

Other important characteristics of an investment that need to be considered are:

1) **Lack of control:** the degree of minority ownership versus a control position represented by the investment; and

2) **Lack of marketability/liquidity:** the degree of ready marketability or lack of marketability.

Lack of Control: A discount for lack of control (DLOC) may be applied to the value of a non-controlling (minority) interest in a company. Conversely, a premium may be applied to the valuation of a company, or paid in a transaction for control, in which the ownership interest is a controlling position. If the equity holder has a control position, he or she can accelerate the receipt of those future benefits and via management and operational initiatives, take direct steps to enhance the future benefits, or at least the probability that they will be generated. On the other hand, a minority or non-controlling position in a privately held company is generally held at the great risk of being subject to the judgment, ethics and management skills of the controlling shareholder(s). Depending on a number of items, the impairment of value can be significant. The value of control is dependent on the shareholder's ability to exercise any or all of a variety of rights typically associated with control, that will affect those future benefits. Listed below are several common prerogatives of control:

- Elect directors and appoint management
- Determine management compensation and perquisites
- Set policy and change the course of business
- Acquire or liquidate assets
- Select people with whom to do business and award contracts
- Make acquisitions of other companies
- Liquidate, dissolve, sell out or recapitalize the company
- Sell or acquire treasury shares
- Register the company's stock for public offering
- Declare and pay dividends
- Change the articles of incorporation or bylaws
- Block any of the above actions.

Obviously, many factors can impact the degree of control a shareholder has over the operations of a corporation or limited liability company. When any of the control elements are not available to the ownership interest being considered, the value attributable to control must be reduced accordingly.

Considering the above factors, academic studies which analyze historical average DLOCs observed via transactions in the market, the articles of incorporation of the Company, the equal 50%-50% owner structure with equal rights, we believe a DLOC to be applicable as detailed below:

- *Income Approach:* A small DLOC of 5% has been applied given we are valuing a non-controlling 50% interest, while minor controlling level adjustments have been applied to the owners wages in deriving the cash flows under the Income Approach, being FME.
- *Market Approach:* A 10% DLOC has been applied as data used under the Market Approach assumes the transaction prices are for an asset sale with one, 100% controlling owner. Equally we have applied controlling level adjustments to arrive at the SDE, so it is then appropriate to apply a discount given the 50%-50% ownership structure of the Company.
- *Cost Approach:* A 10% DLOC has been applied as having a non-controlling position may make realising value under the Cost Approach, more difficult or higher risk.

Lack of Marketability/Liquidity: A discount for lack of marketability (DLOM) reflects the fact that, unlike publicly traded companies, there is not a quick source of liquidity for owners of a closely-held business. This applies to both controlling and minority interests, however it is significantly higher for minority interests as this makes the investment even more illiquid, given the lack of decision-making ability around when and how to “market” or “liquidate” the assets of the company. Practically speaking, if we had two companies that were identical, however one was a public listed company (and thus could be liquidated in a short time frame e.g. T+3) and the other was a private unlisted company, the liquidity available to the former has value and thus should be valued at a premium, under Fair Market Value.

There have been many studies undertaken over the years in an attempt to understand the impact of marketability as a characteristic of equity ownership. The studies themselves

are varied and complex and discounts still remain an area of opinion and discretion. However, they can be generally classified into four general categories:

1. Restricted Stock Studies
2. Pre-IPO Studies
3. Price/Earnings Comparisons
4. Measurement of flotation costs

Quantifying this amount is challenging and highly subjective.

Considering the above factors and academic studies which analyze historical average DLOMs observed via transactions in the market, the articles of incorporation of the Company, the 50/50% shareholder splits and other factors, we have applied a DLOM of 10% to each of the Approaches as outlined below:

- *Income Approach:* Applied as we are valuing private shares which as less marketable that freely traded shares on a public exchange.
- *Market Approach:* Applied as we are valuing a 50% interest which lowers the ability to market this parcel of shares compared to a 100% controlling interest. No further adjustment is necessary as the market comparables are also unlisted private businesses.
- *Cost Approach:* Applied as we are valuing a 50% interest which lowers marketability compared to a 100% controlling interest.

Discounts Conclusion

These adjustments if used, can either be incorporated into the capitalization/discount rate or applied as an adjustment to the appraised valuation. We have applied the applicable discounts to 50% of the value of 100% of the company, established under “Reconciliation of Value”. Below is the breakdown of the discounts applied to the 50% shareholding.

Valuation Methodology	50% Equity Value	DLOC 10% DLOM 10%	Rounded Discounted Equity Value
Asset Based Approach			
Adjusted Net Asset Value	$1,211,000	$230,090	$980,900
Market Approach			
Comp. Private Comp. Trans. SDE Multiple	$2,745,500	$521,645	$2,745,500
Comp. Private Comp. Trans. Revenue Multiple	$3,822,700	$726,313	$3,096,400
Comparative Public Company Transaction	REJECTED	N/A	N/A
Comparative Prior Transaction	REJECTED	N/A	N/A
Income Approach			
Discounted Cash Flow	REJECTED	N/A	N/A
Capitalization of FME	$2,568,800	$372,476	$2,196,300
Conclusion of Equity Value			

Figure 16.

As mentioned previously, we have applied a 100% weighting to the Income Approach only.

Conclusion of Value

We relied upon the Income Approach only under the Asset, Market and Income Approaches in our Conclusion of Value of the Company. A full breakdown of these conclusions can be seen below:

Valuation Methodology	50% Equity Value	DLOC 10% DLOM 10%	Rounded Discounted Equity Value	Methodology Weighting	50% Equity Value
Asset Based Approach					
Adjusted Net Asset Value	$1,211,000	$230,090	$980,900	0%	CONSIDERED
Market Approach					
Comp. Private Comp. Trans. SDE Multiple	$2,745,500	$521,645	$2,745,500	0%	CONSIDERED
Comp. Private Comp. Trans. Revenue Multiple	$3,822,700	$726,313	$3,096,400	0%	CONSIDERED
Comparative Public Company Transaction	REJECTED	N/A	N/A	0%	N/A
Comparative Prior Transaction	REJECTED	N/A	N/A	0%	N/A
Income Approach					
Discounted Cash Flow	REJECTED	N/A	N/A	0%	N/A
Capitalization of FME	$2,568,800	$372,476	$2,196,300	100%	$2,196,300
Conclusion of Equity Value				**100%**	**$2,196,300**

Figure 17.

The final conclusion of the Equity Value of the 50% shareholding of Company X, Inc. is $2,196,300.

Andrew Mackson, CFA, ABV

Business Appraiser

InteleK Corporate Finance

Appendix A: Valuation Analyst's Representations & Qualifications

Andrew Mackson, CFA, ABV

Andrew is one of the Co-founders of InteleK Corporate Finance and has broad experience across valuations, wealth management and ECM & DCM. Andrew is the Head of Business Appraisals and has performed over 200 business valuations primarily in the United States & Australia. Andrew's experience has been valuing businesses with revenue primarily between USD 1-20 million, up to as high as USD 150 million.

Valuation Purposes

- Internal purposes such as shareholder transactions, disputes & planning;
- Gift and Estate Tax;
- Buy/Sell-side transaction support;
- Complex company structures/reversing related parties for fair market value;
- Mergers and acquisitions; and
- Financing purposes including SBA loans.

Education & Qualifications

- CFA (Chartered Financial Analyst) Charterholder since September 2017;
- Associate of the American Institute of Certified Public Accountants (AICPA);
- Accredited in Business Valuation (ABV) Holder since May 2020; and
- Duel Bachelors of Commerce and Economics from the University of Queensland, Australia.

Other Professional Experience

- *Corporate:* Prior to co-founding InteleK, Andrew worked for Swiss Bank UBS (Sydney, Australia). Andrew commenced in Equity Research before moving to Wealth Management. Andrew had broad experience at UBS facilitating and selling both UBS Investment Bank led and third-party led ECM & DCM transactions to the 100+ UBS Wealth Management client advisor base. Andrew was involved in over 70 transactions, across both DCM (listed hybrids and OTC debt for transactions raising $20.2bn) and ECM (block trades, placements, entitlements & IPOs for transactions raising $30.9bn).
- *Personal Private Equity:* Andrew purchased a tourism business in January 2018 which he then improved over the following 2.7 years, before executing its sale in September 2020. Andrew personally experienced discounts relating to Lack of Control (DLOC) and Lack of Marketability (DLOM) selling his own 50% shareholding during the COVID-19 Pandemic within DLOMs at their peaks.

Appendix B: Statement of Assumptions and Limiting Conditions

1. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.

2. Financial statements and other related information provided by the Company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. InteleK Corporate Finance has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

4. We do not provide assurance on the achievability of the results forecasted by the Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.

5. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

6. This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore, the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of InteleK Corporate Finance , based on information furnished to them by the Company and other sources.

7. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of InteleK Corporate Finance .

8. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of InteleK Corporate Finance unless previous arrangements have been made in writing.

9. InteleK Corporate Finance is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. InteleK Corporate Finance does not conduct or provide environmental assessments and has not performed one for the subject property.

10. InteleK Corporate Finance has not determined independently whether the Company is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) nor the scope of any such liabilities. InteleK Corporate Finance appraisal takes no such liabilities into account, except as they have been reported to InteleK Corporate Finance by the Company or by an environmental consultant working for the Company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, InteleK Corporate Finance has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

11. InteleK Corporate Finance has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

12. No change of any item in this appraisal report shall be made by anyone other than InteleK Corporate Finance , and we shall have no responsibility for any such unauthorized change.

13. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

14. If prospective financial information approved by management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.

15. We have conducted interviews with the current management of the Company concerning the past, present, and prospective operating results of the Company.

16. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

Appendix C: Certification of the Valuation Analyst

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The analyses, opinions, and conclusion of value included in the valuation report are subject to the specified assumptions and limiting conditions, and they are the personal analyses, opinions, and conclusion of value of the valuation analyst.
3. I have no present or prospective interest of the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of the stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).
9. I have not made a personal inspection of the property that is the subject of this report and no appraisal of any real property has been performed.

Andrew Mackson, CFA, ABV

InteleK Corporate Finance

Month XX, 20XX

Appendix D: Sources of Information

Source of Information Disclaimer:

Information in this report was obtained from management, public records and other sources considered to be informed and reliable. Therefore, I have relied upon the referenced information without independent verification.

Company Information:

- Company X Inc. Financial Statements;
- Business Valuation Checklist & Questionnaire;
- Management Interview; and
- Various emails with Management.

Other Sources of Information:

- First Research, Industry Profile “Power Line & Telecommunications Infrastructure Construction Contractors”; October 15, 2018;
- First Research, Industry Profile “Nonresidential Building Construction”; December 24, 2018;
- KeyValueData Economic Report December 2018; and
- Duff & Phelps Cost of Capital Navigator.

Appendix E: Income Statement

	2016	%	2017	%	2018	%
Income						
Contract Revenue	$20,546,082	100%	$28,554,091	100.0%	$30,374,109	100%
Other income						
Investment	$5,677	0.03%	$6,000	0.0%	$11,870	0.0%
Miscellaneous	$-	0.00%	$2,514	0.0%	$6,531	0.0%
Loss on Disposal of Assets	$(874)	0.00%	$-	0.0%	$-	0.0%
Other Comprehensive Income						
Unrealized Gain on Investments	$15,931	0.08%	$(3,738)	0.0%	$(20,826)	-0.1%
Total Other Income	$20,734	0.10%	$4,776	0.0%	$(2,425)	0.0%
Total Income	**$20,566,816**	**100%**	**$28,558,867**	**100.0%**	**$30,371,684**	**100%**
Costs						
Cost of Revenue	$18,340,376	89.3%	$25,914,480	90.8%	$27,410,259	90.2%
Other Costs						
Total COGS	$18,340,376	89.3%	$25,914,480	90.8%	$27,410,259	90.2%
Gross Profit	**$2,205,706**	**10.7%**	**$2,639,611**	**9.2%**	**$2,963,850**	**9.8%**
Expenses						
General & Admin. Expenses	$1,691,507	8.2%	$1,623,054	5.7%	$1,953,484	6.4%
Other Expenses						
Interest Expense	$8,028	0.0%	$12,522	0.0%	$6,013	0.0%
Total Expenses	**$1,699,535**	**8.3%**	**$1,635,576**	**5.7%**	**$1,959,497**	**6.5%**
Total Comprehensive Income	**$526,905**	**2.6%**	**$1,008,811**	**3.5%**	**$1,001,928**	**3.3%**

Note: Information from Company Financial Statements.

Appendix F: Adjusted Income Statement

	2016	%	2017	%	2018	%
Total Contract Revenue	$20,546,082	100.0%	$28,554,091	100.0%	$30,374,109	100.0%
Cost of Revenues	$18,340,376	89.3%	$25,914,480	90.8%	$27,410,259	90.2%
Gross Profit	$2,205,706	10.7%	$2,639,611	9.2%	$2,963,850	9.8%
Operating Expenses	$1,691,507	8.2%	$1,623,054	5.7%	$1,953,484	6.4%
Operating Profit Before Interest & Tax	$514,199	2.5%	$1,016,557	3.6%	$1,010,366	3.3%
Operating Profit Before Tax	$506,171	2.5%	$1,004,035	3.5%	$1,004,353	3.3%
Net Profit After C-Corp Tax (NPAT)	$399,875	1.9%	$793,188	2.8%	$793,439	2.6%
Adjustments & Addbacks						
+ Non-Cash Expenses						
Depreciated & Amortization	$26,150	0.1%	$16,160	0.1%	$38,350	0.1%
+Cash Expenses						
Interest Expense	$8,028	0.0%	$12,522	0.0%	$5,013	0.0%
Owners Fair Market Wage Adjustment	$113,564	0.6%	$42,400	0.1%	$30,000	0.1%
1 Owners Wage Addback for SDE	$200,000	1.0%	$160,000	0.6%	$81,000	0.3%
Total Adjustments for SDE (pre tax)	$347,742	1.7%	$231,082	0.8%	$154,363	0.5%
Sellers Discretionary Earnings (SDE)	$853,913	4.2%	$1,235,117	4.3%	$1,158,716	3.8%
S-Corp Operational Cash Flow (OCF)	$839,492	4.1%	$2,252,916	7.9%	$(259,388)	-0.9%

Note: Information from Company Financial Statements.

Appendix G: Balance Sheet

	2016	%	2017	%	2018	%
Assets						
Current Assets						
Cash and Cash Equivalents	$ 2,164,890	27.1%	$ 3,837,381	35.7%	$3,034,360	29.2%
Non-Operating Investments	$ 114,330	1.4%	$ 114,514	1.1%	$97,652	0.9%
Contracts Receivable	$ 4,946,393	61.9%	$ 6,206,950	57.7%	$5,727,434	55.2%
Costs and estimated earnings… Uncompleted Contracts	$ 599,478	7.5%	$ 450,520	4.2%	$1,389,712	13.4%
Prepaid Expenses	$ -	0.0%	$ 39,815	0.4%	$46,464	0.4%
Other Receivables	$ 4,584	0.1%	$ -	0.0%	$4,859	0.0%
Total Current Assets	**$ 7,829,675**	**98.0%**	**$ 10,649,180**	**99.0%**	**$10,300,481**	**99.2%**
Fixed Assets						
Property and equipment - Net	$ 81,072	1.0%	$ 101,534	0.9%	$73,180	0.7%
Director Loans	$ 62,653	0.8%	$ -	0.0%	$-	0.0%
Net Fixed Assets	$ 143,725	1.8%	$ 101,534	0.9%	$73,180	0.7%
Total Fixed Assets	**$ 143,725**	**1.8%**	**$ 101,534**	**0.9%**	**$73,180**	**0.7%**
Other Assets						
Deposits	$ 16,489	0.2%	$ 8,905	0.1%	$10,862	0.1%
Total Assets	**$ 7,989,889**	**100.0%**	**$ 10,759,619**	**100.0%**	**$10,384,523**	**100.0%**
Liabilities						
Current Liabilities						
Accounts and Contracts Payable	$ 6,073,494	76.0%	$ 8,722,035	81.1%	$7,874,739	75.8%
Current Portion of Notes Payable	$ 33,841	0.4%	$ 27,979	0.3%	$30,157	0.3%
Line of Credit	$ 250,000	3.1%	$ -	0.0%	$-	0.0%
Higher billings for Contracts	$ 36,507	0.5%	$ 10,857	0.1%	$19,055	0.2%
Total Current Liabilities	**$ 6,393,842**	**80.0%**	**$ 8,760,871**	**81.4%**	**$7,923,951**	**76.3%**
Long Term Liabilities						
Total Long Term Liabilites	$ 51,206	1%	$ 66,643	1%	$38,539	0%
Total Long Term Liabilities	**$ 51,206**	**1%**	**$ 66,643**	**1%**	**$38,539**	**0%**
Total Liabilities	**$ 6,445,048**	**80.7%**	**$ 8,827,514**	**82.0%**	**$7,962,490**	**76.7%**
Proprietors' Equity						
Common Stock	$ 500	0.0%	$ 500	0.0%	$500	0.0%
Additional Paid	$ 119,551	1.5%	$ 109,551	1.0%	$109,551	1.1%
Retained Earnings	$ 1,371,805	17.2%	$ 1,762,807	16.4%	$2,273,561	21.9%
Accumulated Other Comp. Income	$ 52,985	0.7%	$ 59,247	0.6%	$38,421	0.4%
Total shareholder's Equity	**$ 1,544,841**	**19.3%**	**$ 1,932,105**	**18.0%**	**$2,422,033**	**23.3%**
Total Liabilities and Shareholder's Equity	**$ 7,989,889**	**100.0%**	**$ 10,759,619**	**100.0%**	**$10,384,523**	**100.0%**

Note: Information from Company Financial Statements.

Appendix H: Future Maintainable Earnings

Year	Weighting	FCFF
2017	1	$803,080.03
2018	1	$797,399.14
2019(f)	1	$909,152.02
Weighted Average Adjusted = FME	**3**	**$836,543.73**

Variable	Value
FME (1)	$ 836,544
Long Term Sustainable Growth Rate (2)	3.40%
Next Year's FME (3) = (1)*[1+(2)]	$ 864,986
Capitalization Multiple (4)	5.31
Capitalization Rate (5) = [WACC - (2)]	18.83%
(6) Enterprise Value = (3)/[(5)-(2)]	**$ 4,593,496**
Midyear Convention Adjustment (7)	1.11
Final Enterprise Value = (6)*(7)	**$ 5,078,477**

Capitalization of FME Valuation Calculations	Value
Enterprise Value (with midyear convention)	**$ 5,078,477**
Plus: Surplus Assets	$ 97,652
Less: Interest-bearing debt	-$ 38,539
100% Marketable Controlling Interest Equity Value	**$ 5,137,590**
Fair Market Value of 100% Equity Controlling Interest, Rounded	**$ 5,137,600**

Note: Our calculations were derived from the Company Financial Statements.

Appendix I: Cost of Capital

Cost of Capital	Build-Up	Sources
Cost of Capital - Build-Up Method		
Cost of Equity		
Risk Free Rate	2.87%	**Spot 20-year Treasury Yield: Federal Reserve: Daily Data as of 01/31/2018**
Equity Risk Premium	6.91%	**Duff & Phelps Historical Long-term (1926 Present): Annual Data as of 12/31/2018**
Industry Risk Premium	0.62%	**Duff & Phelps Industry Risk Premium (Build-up 2): SIC 15 Annual Data as of 12/31/2018**
Size Risk Premium	5.16%	**Duff & Phelps Size Premium Portfolio 25 Avg: Annual Data as of 12/31/2018**
Company Specific Risk Premium	6.82%	**See Company Specific Risk Premium Build-Up Method within Report**
Indicated Cost of Equity	**22.39%**	
Cost of Debt		
Financing Rate	8.75%	**Estimated per 2018 financial statements**
Tax Rate	21.00%	**Federal tax rate at 21% and no Florida State Income Tax**
Indicated Cost of Debt	**6.91%**	
Capital Structure		
Weight of Equity	99.00%	**Estimated based on recent debt trends and discussions with management**
Weight of Debt	1.00%	
Indicated Weighted Average Cost of Capital	**22.23%**	

Appendix J: Guideline Transaction Data

SIC	Description	Location	Sale Date	Asset Sale Price ($000)	Revenue ($000)	SDE ($000)	Price/Revenue	Price/SDE
1541	Contractor Commercial	FL	2014-07-05	$120	$760	$229	0.16	0.52
1541	Contractor Commercial	FL	2014-04-29	$270	$480	$132	0.56	2.05
1541	Contractor Commercial	FL	2013-11-05	$74	$591	$53	0.13	1.40
1541	Contractor Building Renovations	FL	2012-01-30	$330	$1,465	$366	0.23	0.90
1541	Contractor Commercial	FL	2012-01-20	$475	$1,321	$284	0.36	1.67
1541	Contractor Commercial		2011-11-30	$4,665	$11,289	$1,637	0.41	2.85
1541	Construction Management	CO	2011-07-31	$3,500	$29,625	$1,766	0.12	1.98
1541	Contractor Commercial	GA	2017-01-17	$160	$2,196	$273	0.07	0.59
1541	Construction/Steel Erection	NC	2016-09-16	$1,940	$4,117	$707	0.47	2.74
1542	Bathroom Renovations - Non-Franchised	AZ	2010-12-14	$235	$870	$195	0.27	1.21
1542	Bathroom Renovations	CA	2010-07-12	$385	$881	$262	0.44	1.47
1542	Commerical Construction	MI	2013-06-28	$6,258	$12,000	$2,135	0.52	2.93
1542	General Contractor	TX	2018-01-19	$435	$1,807	$164	0.24	2.65
1542	General Contractor	MI	2013-01-23	$863	$1,555	$245	0.55	3.52

Note: Transactions/rows in **orange** represent asset sale prices over $1 million. Source: BizComps and ValuSource Market Comps.

Guideline Transaction Data Continued

	Revenue	SDE	Price/Revenue	Price/SDE
Minimum	$480	$53	0.07	0.52
25th Percentile	$873	$204	0.17	1.25
Median	$1,510	$268	0.31	1.83
Mean	$4,926	$603	0.32	1.89
Harmonic Mean	$1,283	$223	0.22	1.36
75th Percentile	$3,637	$622	0.46	2.72
Maximum	$29,625	$2,135	0.56	3.52
Standard Deviation	$8,055	$697	0.17	0.94
Coefficient of Variation	1.64	1.15	0.53	0.50
Count	14	14	14	14

	Revenue ($000)	SDE ($000)
Company X Last Financial Year Metrics	$30,374,109	$1,158,716
Selected Multiple From the Comparable Dataset	0.17	2.72
Discount/Premium Applied to Multiple for Company Vs Comparables Differences	0%	0%
Implied Asset Valuation	$5,307,421	$3,152,984

Source: BizComps and ValuSource Market Comps.

Appendix K: Book Value of Assets & Net Working Capital

Asset Approach – Adjusted Book Value Method

Book Value Method as of December 31, 2018	
Total Assets	$10,384,523
Total Liabilities	$7,962,490
Book Value of Equity	**$2,422,033**

Note: Information from Company Financial Statements.

Historical Net Working Capital

	2015	2016	2017	2018
Total Income	$19,710,264	$20,546,082	$28,554,091	$30,374,109
Cash	$1,963,967	$2,164,890	$3,837,381	$3,034,360
Investments	$114,330	$114,330	$114,514	$97,652
Total Current Assets	$6,244,140	$7,829,675	$10,649,180	$10,300,481
Total Current Liabilities	$4,710,087	$6,393,842	$8,760,871	$7,923,951
Non-Cash/inv Working Capital	-$544,244	-$843,387	-$2,063,586	-$755,482
Net Working Capital	$1,534,053	$1,435,833	$1,888,309	$2,376,530
Non-Cash NWC % Rev	-2.76%	-4.10%	-7.23%	-2.49%
NWC % Revenue	7.78%	6.99%	6.61%	7.82%

Note: Information from Company Financial Statements.

Appendix L: Glossary

Adjusted Book Value Method: A method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values.

Adjusted Net Asset Method: Is a business valuation technique that changes the stated values of a company's assets and liabilities to reflect their estimated current fair market values better. By adjusting asset or liability values up or down, the net effect offers values that can be used in going-concern assessments or liquidation scenarios.

Appraisal: An appraisal is a valuation of property, such as real estate, a business, collectible, or an antique, by the estimate of an authorized person.

Appraisal Approach: The appraisal approach is a procedure for determining an asset's value. The appraisal approach values assets based on a number of factors, such as its cost, the income it generates or its fair market value as compared to similar assets.

Appraisal Date: Refers to the date on which the value of an asset is determined. It is also known as valuation date.

Appraisal Method: Within approaches, a specific way to determine value.

Appraisal Procedure: The act, manner, and technique of performing the steps of an appraisal method.

Arbitrage Pricing Theory: A multivariate model for estimating the cost of equity capital, which incorporates several systematic risk factors.

Asset (Asset – based) approach: A general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.

Assets: Is any resource owned by the business such as an item, property, investments.

Accounts receivable: Is the amount owed to a company resulting from the company providing goods and/or services on credit.

Amortization: Refers to reduction in the cost of intangible assets over its life span.

Business: A business is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities.

Business Enterprise: A commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.

Business valuation: The act or process of determining the value of a business enterprise or ownership interest therein.

Calculation of Value: Is a lesser type of valuation compared to a Conclusion of Value/Business Appraisal and a result, the difference between the two may be material. When a Calculation of Value is performed, the appraiser must (if adhering to certain standards) include a statement such as “This Calculation Engagement did not include all the procedures required for a Conclusion of Value. Had a Conclusion of Value been determined, the results may have been different."

Conclusion of Value: See Valuation Engagement.

Capital Asset Pricing Model (CAPM): A model in which the cost of capital for any stock or portfolio of stocks equals a risk-free rate plus a risk premium that is proportionate to the systematic risk of the stock or portfolio.

Capex: Capital expenditure is the amount spent to acquire or upgrade productive assets (such as buildings, machinery and equipment, vehicles) in order to increase the capacity or efficiency of a company.

Capitalization: A conversion of a single period of economic benefits into value.

Capitalization Factor: Any multiple or divisor used to convert anticipated economic benefits of a single period into value.

Capitalization of Earnings Method: A method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.

Capitalization rate: Any divisor (usually expressed as a percentage) used to convert anticipated economic benefits of a single period into value.

Capital structure: The composition of the invested capital of a business enterprise; the mix of debt and equity financing.

Cash flow: Cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, “free”, “discretionary” or “operating”) and a specific definition in the given valuation context.

Common Size Statements: Financial statements in which each line is expressed as a percentage of the total. On the balance sheet, each line item is shown as a percentage of total assets, and on the income statement, each item is expressed as a percentage of sales.

Control: The power to direct the management and policies of a business enterprise.

Control Premium: An amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise to reflect the power of control.

Cost Approach: A general way of determining a value indication of an asset such as a business, business ownership interest, or security by using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility (benefit).

Cost of capital: The expected rate of return that the market requires in order to attract funds to a particular investment.

Company: Refers to the company under valuation in this Report.

Discount for lack of control: An amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control.

Discount for lack of marketability: An amount or percentage deducted from the value of an ownership interest to reflect the relative absence of liquidity/marketability.

Discount for Lack of Voting Rights: An amount or percentage deducted from the per share value of a minority interest voting share to reflect the absence of voting rights.

Discount rate: A rate of return used to convert a future monetary sum into present value.

Discounted cash flow method (DCF): A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.

Discounted Future Earnings Method: A method within the income approach whereby the present value of future expected economic benefits is calculated using a discount rate.

Depreciation: Refers to the reduction in the cost base of a tangible fixed assets over its lifespan. It is calculated using an appropriate accounting method, such as reducing its cost base by an amount equal to the proportionate use of the asset in that specific year.

EBITDA: Earnings before interest, taxes, depreciation, and amortization is a measure of a company's overall financial performance and is used as an alternative to simple earnings or net income in some circumstances.

Economic life: The period of time over which an asset may generate economic benefits.

Economic Benefits: Inflows such as revenues, net income, net cash flows, etc.

Economic Life: The period of time over which property may generate economic benefits.

Effective Date: The specific point in time as of which the valuator's conclusion of value applies (also referred to as "Valuation Date" or "Appraisal Date").

Enterprise: A commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.

Equity: The owner’s interest in an asset after deduction of all liabilities.

Equity Net Cash Flows: Those cash flows available to pay out to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and increasing or decreasing debt financing.

Equity risk premium: A rate of return added to a risk-free rate to reflect the additional risk of equity instruments over risk free instruments (a component of the cost of equity capital or equity discount rate).

Excess Earnings: That amount of anticipated economic benefits that exceeds an appropriate rate of return on the value of a selected asset base (often net tangible assets) used to generate those anticipated economic benefits.

Excess Earnings Method: A specific way of determining a value indication of a business, business ownership interest, or security determined as the sum of a) the value of the assets derived by capitalizing excess earnings, and b) the value of the selected asset base. Also frequently used to value intangible assets.

Fair Market Value: The price, expressed in terms of cash equivalents, at which 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 sell and when both have reasonable knowledge of the relevant facts.

Fairness Opinion: An opinion as to whether or not the consideration in a transaction is fair from a financial point of view.

Financial Risk: The degree of uncertainty of realizing expected future returns of the business resulting from financial leverage.

Forced Liquidation Value: Liquidation value, at which the asset or assets are sold as quickly as possible, such as at an auction.

Future Maintainable Earnings (FME): The expected earnings of a company that is an assumption of the future maintainable earnings of the subject business. FME is represented in a single number and is calculated using a range of factors, not limited to historical adjusted financial earnings and expectations of the financial performance of the business in future.

Financial risk: The degree of uncertainty of realizing expected future returns of the business resulting from financial leverage.

Free cash flow to the firm (FCFF): Represents the amount of available cash flow from operations available to the firm's providers of capital, after all cash expenses and necessary capital investments have been made.

Going concern: An ongoing operating business enterprise.

Goodwill: The estimated value of intangible assets arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

Goodwill Value: The value attributable to goodwill.

Guideline Public Company Method: A method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market.

Income Approach: A general way of determining a value indication of an asset such as a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.

Intangible Assets: Nonphysical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities, and contracts (as distinguished from physical assets) that grant rights and privileges and have value for the owner.

Internal Rate of Return: A discount rate at which the present value of the future cash flows of the investment equals the cost of the investment.

Income stream: The money a company generates on a regular basis.

Industry Risk Premium: The Industry Risk Premium is the additional return an investor expects to receive for investing in a specific industry, than the market as a whole.

Intrinsic Value: The value that an investor considers, on the basis of an evaluation or available facts, to be the "true" or "real" value that will become the market value when other investors reach the same conclusion. When the term applies to options, it is the difference between the exercise price or strike price of an option and the market value of the underlying security.

Invested Capital: The sum of equity and debt in a business enterprise. Debt is typically a) all interest-bearing debt, or b) long-term interest-bearing debt. When the term is used, it should be supplemented by a specific definition in the given valuation context.

Invested Capital Net Cash Flows: Those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

Investment Risk: The degree of uncertainty as to the realization of expected returns.

Investment Value: The value to a particular investor based on individual investment requirements and expectations.

Key Person Discount: An amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.

Levered Beta: The beta reflecting a capital structure that includes debt.

Limited Appraisal: The act or process of determining the value of a business, business ownership interest, security or intangible asset with limitations in analyses, procedures or scope.

Liquidity: The ability to quickly convert property to cash or pay a liability.

Liquidation Value: The net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced."

Liabilities: Are amounts owed to creditors for a past transaction and describes the obligation of one party to pay a debt owed to another party.

Majority Control: The degree of control provided by a majority position.

Majority Interest: An ownership interest greater than 50% of the voting interest in a business enterprise.

Market Capitalization of Equity: The share price of a publicly traded stock multiplied by the number of shares outstanding.

Market Capitalization of Invested Capital: The market capitalization of equity plus the market value of the debt component of invested capital.

Market Approach: A general way of determining a value indication of an asset such as a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject asset to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Market multiple: The market value of a company's equity or invested capital divided by a company measure (such as economic benefits, a measure of earnings, sales etc.).

Marketability: The ability to quickly convert as asset to cash at minimal cost.

Merger and Acquisition Method: A method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.

Mid-Year Discounting: A convention used in the Discounted Future Earnings Method that reflects economic benefits being generated at midyear, approximating the effect of economic benefits being generated evenly throughout the year.

Minority Discount: A discount for lack of control applicable to a minority interest.

Minority Interest: An ownership interest less than 50 percent of the voting interest in a business enterprise.

Multiple: The inverse of the capitalization rate.

Net Book Value: With respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less accumulated amortization or depreciation as it appears on the books of account of the business enterprise.

Net Cash Flow: Refers to the gain or loss of funds over a period after all debts are paid.

Net Present Value: The value, as of a specified date, of future cash inflows less all cash outflows (including the cost of investment) calculated using an appropriate discount rate.

Net Tangible Asset Value: The value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities.

Non-Operating Assets: Assets not necessary to ongoing operations of the business enterprise.

Normalized Earnings: Economic benefits adjusted for nonrecurring, non-economic or other unusual items to eliminate anomalies and/or facilitate comparisons.

Normalized Financial Statements: Financial statements adjusted for non-operating assets and liabilities and/or for non-recurring, non- economic or other unusual items to eliminate anomalies and/or facilitate comparisons.

Orderly Liquidation Value: Liquidation Value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Premise of value: An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation, for example, going concern, liquidation or orderly disposition.

Present Value: The value, as of a specified date, of future economic benefits and/or proceeds from sale, calculated using an appropriate discount rate.

Portfolio Discount: An amount or percentage deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that do not fit well together.

Price/Earnings Multiple: The price of a share of stock divided by its earnings per share.

Rate of Return: An amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Report: This document, outlined as either an Appraisal Report, or Restricted Appraisal Report.

Report Date: The date conclusions are transmitted to the client.

Replacement Cost New: The current cost of a similar new property having the nearest equivalent utility to the property being valued.

Reproduction Cost New: The current cost of an identical new property.

Required Rate of Return: The minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk.

Residual Value: The value as of the end of the discrete projection period in a discounted future earnings model.

Return on Equity: The amount, expressed as a percentage, earned on a company's common equity for a given period.

Return on Invested Capital: The amount, expressed as a percentage, earned on a company's total capital for a given period.

Risk-Free Rate: The rate of return available in the market on an investment free of default risk.

Risk Premium: A rate of return added to a risk-free rate to reflect risk.

Rule of Thumb: A mathematical formula developed from the relationship between price and certain variables based on experience, observation, hearsay or a combination of these; usually industry specific.

Systematic Risk: the risk that is common to all risky securities and cannot be eliminated through diversification. The measure of systematic risk in stocks is the beta coefficient.

Special Interest Purchasers: Acquirers who believe they can enjoy post-acquisition economies of scale, synergies or strategic advantages by combining the acquired business interest with their own.

Standard of Value: The identification of the type of value being used in a specific engagement (e.g., fair market value, fair value, investment value).

Sustaining Capital Reinvestment: The periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Seller's Discretionary Earnings: Is an estimate of the pre-tax total adjusted financial benefit one (1) full time owner operator would derive from the business annually.

Size Premium: Size premium is the additional remuneration due to the higher risk and therefore, the higher cost of capital, associated with the smaller size of the company.

Tangible Assets: Physical assets such as property, plant and equipment etc.

Terminal Value: Is the value of a business or project beyond the forecast period when future cash flows can be estimated.

Transaction Method: A method within the market-based approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.

The Company: Refers to the company under valuation in this Report.

Treasury Bonds: Treasury bonds are issued by the U.S. Federal Government. They are often used as a proxy for the risk-free rate as they are considered to be the lower risk asset available, as they are backed by the U.S. Government.

Unsystematic Risk: The risk specific to an individual security that can be negated through diversification.

Unlevered Beta: The beta reflecting a capital structure without debt.

Valuation: The act or process of determining the value of a business, business ownership interest, security, or intangible asset.

Valuation Approach: A general way of determining a value indication of an asset such as a business, business ownership interest, security, or intangible asset using one or more valuation methods.

Valuation Method: Within approaches, a specific way to determine an asset's value.

Weighted Average Cost of Capital (WACC): The cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure.

Weighted Average Method: The mean in which each item being averaged is multiplied by a number (weight) based on the item's relative importance. The result is summed, and the total is divided by the sum of the weights.