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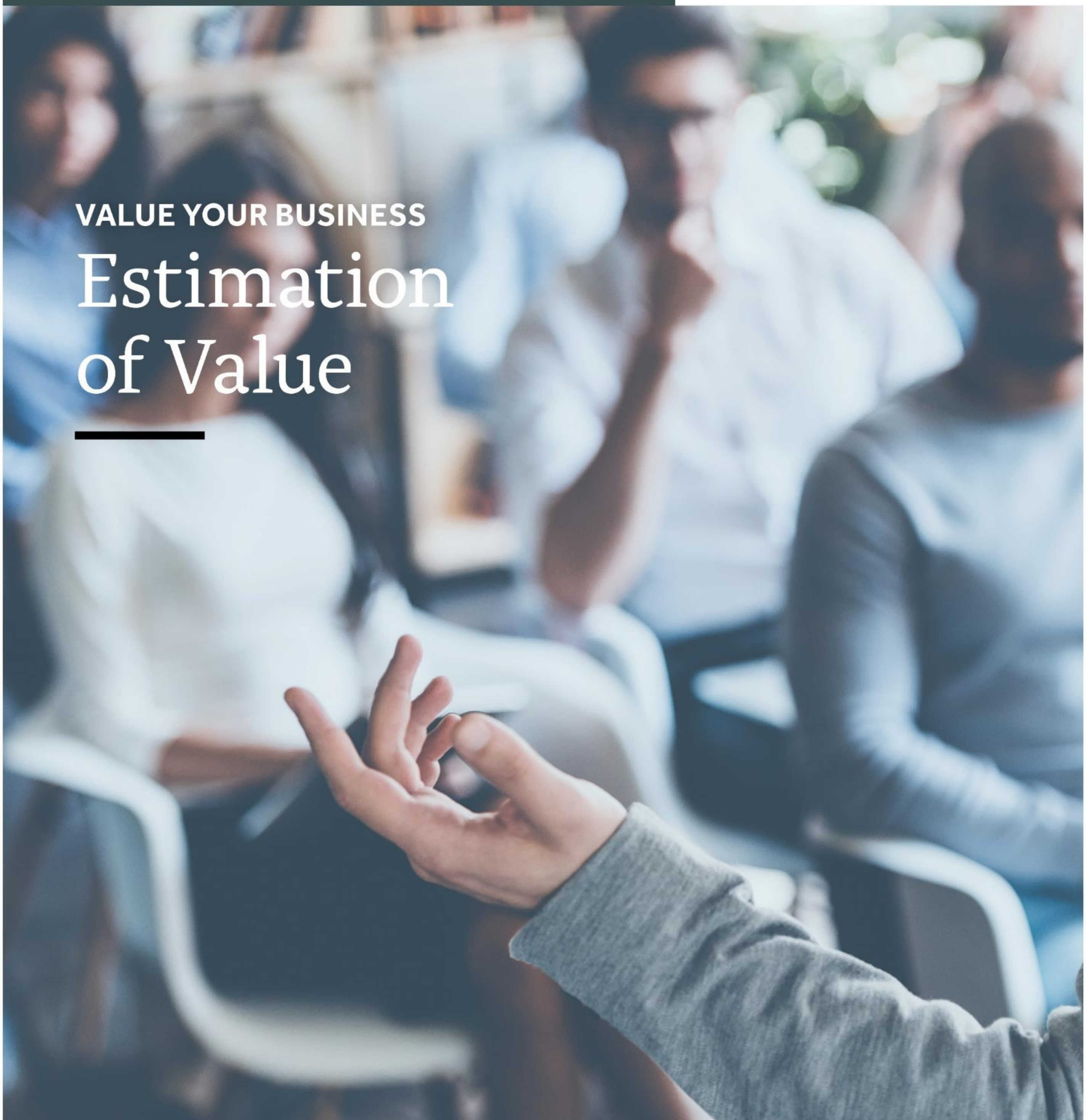
Estimation of Value



Estimation of Value

The following hypothetical business valuation report was prepared by The Nautilus Group® and New York Life Insurance Company. It is based on information provided by the client and is for educational purposes only. The purpose of this report is to give the client an understanding of how valuation methodology could be used to derive an estimate of value. We performed a review of Sample Client (the "Company") based on various industry data sources, including the Business Reference Guide and Capital IQ. This memo summarizes a high-level valuation analysis of the Company as of December 31, 2019. It should be noted that a more detailed valuation might provide different results.

Business Overview

Sample Client was founded by John Smith in 1975. The Company manufactures hardware and sells its product to retail stores, including Home Depot and Lowe's Home Improvement. The Company does business throughout the United States and is headquartered in Main Street, USA. Over the past five years the Company has experienced revenue growth at an average rate of 6% and the net income has increased from $1,000,000 to $2,500,000.

Income Approach

The Company has been producing positive earnings from 2011 through 2019. Given the positive cash flow of the Company, it was deemed appropriate to analyze the value of the Company using an income approach to valuation. Below is a sensitivity table showing a range of discount rates for the Company as well as the corresponding calculated value of the Company.

13.0%	$10,000,000
14.0%	**$10,500,000**
15.0%	$11,000,000

Based upon the income approach to valuation illustrated in the sensitivity table above, the value of the Company would likely be between $10,000,000 and $11,000,000.

Market Approach

In the instant case, a set of public company comparables was analyzed to help determine a reasonable value of the Company. Below is a brief discussion of the key metrics analyzed and the selected multiple based on the Company's financial health and a comparison to the comparable companies.

Revenue Multiple

The revenue multiple for comparable companies ranged from 0.3x to 0.6x. Based on a comparison of the Company's recent performance to that of comparable companies and the risks associated with the Company, a reasonable revenue multiple would likely be near the mid-point of the range previously stated. Therefore, an appropriate revenue multiple was determined to be 0.45x. Accordingly, a reasonable overall value of the Company when applying a 0.45x revenue multiple was determined to be approximately $12,000,000.

EBITDA Multiple

The earnings before interest, taxes, depreciation, and amortization (EBITDA) multiple for comparable companies ranged from 3.0x to 6.0x. Based on a comparison of the Company's recent performance to that of comparable companies and the risks associated with the Company, a reasonable EBITDA multiple would likely be within the range previously stated. Therefore, an appropriate EBITDA multiple was determined to be 4.5x. Accordingly, a reasonable overall value of the Company when applying a 4.5x EBITDA multiple was determined to be approximately $10,750,000.

Rule of Thumb

The hardware manufacturing industry is an ideal industry to refer to the Business Reference Guide for a "rule of thumb" valuation. In this case, the book states that companies in this industry generally sell between 4.5 and 6.0 times EBITDA. Using this metric to calculate the value of the Company leads to a valuation between $10,750,000 and $12,000,000. Therefore, it was determined that the income and market approaches produced a reasonable value.

Concluded Value of the Company

Based upon the analysis of the income and market approaches, a reasonable value of Sample Client as of December 31, 2019, would be between $10,000,000 and $12,000,000.

Limiting Conditions

We have prepared a business valuation estimate for Sample Client. The purpose is to provide an understanding of how valuation methodology could be used to derive an estimate of value.

Our report is based on historical financial statements provided to us by management and the scope of our analysis is limited. Business value is based on prospective cash flow, which is not necessarily related to historical cash flow, and estimates provided in this analysis could differ materially from a value predicated on prospective earnings.

We have not audited or reviewed the Company's financial statements. Accordingly, we accept no responsibility for the underlying data in this report. Users of this report should be aware that facts, circumstances and results relating to this report have not been verified. The actual results achieved during the projection period may and probably will vary from the projections used in this valuation, and the variations may be material. No reliance should be given to the estimates in this report.

The Company is valued as though the Company is owned and operated as described in the report, under responsible and competent management.

Public information and industry and statistical information that were used in this report were obtained from sources that are believed to be reliable and accurate. We make no representation as to the accuracy or completeness of such information and have not conducted any procedures to substantiate the information.

We have no financial interest or contemplated financial interest in the property that is the subject of this report. We have no responsibility to update this report for events and circumstances occurring subsequent to the date of this report.

This report has been prepared for the specific purpose of providing an estimate of value for Sample Client. An estimate of value is not a conclusion of value and such differences may be material. This report is for the use of the owners and is not to be used or relied upon by any other person. This report is not to be used for any income tax filing, contractual negotiations, or any purpose other than to educate the intended recipient(s) about the valuation process.

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- Family Protection
- Executive Benefits
- Estate and Legacy Planning
- Philanthropy
- Business Succession and Exit Planning

The Nautilus Group®, located in Dallas, TX, is staffed by a team of professionals experienced in law, taxation, accounting, business, insurance, finance and philanthropic planning, including:

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