QUIST
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Valuation Guide from Discovery to Exit

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Introduction

Understanding business value is essential to creating a personal financial plan, improving operational performance, and making better strategic decisions.

However, the concepts of value and valuation are often misunderstood and constantly misapplied. One of the biggest challenges with business valuation is that needs and requirements change as your business evolves and your life unfolds. For example, there are different levels of value (control vs. minority) and different types of business valuations (calculation of value vs. opinion of value) – what is right in one situation may not be right for another.

The primary objective of this white paper is to help you understand the type of valuation you need depending on where you are along your owner journey.

Types of Business Valuation

Valuation types fall into two main categories:

- Calculation or "Estimates" of value; and
- Certified Valuations or Business Appraisals.

Factors that should be considered when determining *which type of valuation should be used include*:

- Purpose for the valuation.
- Stage of the business.
- Your "audience" or the user of the report.
- The "precision" required.

It might be strange to consider "precision" as a variable in valuation engagements. However, "precision" has a direct correlation with scope of work and expertise required. For example, when an owner is in the Discover phase and needs a business valuation to help build a personal financial and strategic business plan, an estimate of business value may be sufficient. On the other hand, if the owner is seeking to raise capital from investors in order to execute his/her strategic business plan to enhance and grow value, precision and exact conclusion of value is necessary.

These factors will also impact the methodologies (asset, market and income approaches) utilized to determine business value and the scope of work needed in your business valuation report.

The Business Owner’s Journey

The business owner’s journey is broken down into four main phases and objectives. These phases and objectives play an important role in determining the type of valuation that will be required.

Business Owner Journey

Phase	Discover	Prepare (Business Planning)	Prepare (Personal Planning)	Decide
Objective	Establish baseline of Owner Readiness and Business Attractiveness	Build a foundation for growth and value enhancement	Leave a legacy and establish personal purpose	Exit or Grow transition scenarios
Purpose of a Valuation	• Profit Gap • Value Gap • Wealth Gap	• Compensation/Incentive Plans • Shareholder buy in / buyout • Capital raise • Strategic acquisition	• Wealth Transfer • Ownership transfer through death • Charitable Donation • Divorce	• Sell to a 3rd Party • ESOP • Management Buyout
Complexity	Low	Moderate	High	Moderate to High
Solution	Quist Insights Platform Solutions	Quist Valuation Certified Appraisal	Quist Valuation Certified Appraisal	Quist Valuation Certified Appraisal

Phase 1: Discover

Business owners who are in the Discover phase may never have before engaged in a formal business valuation process. They may not have a strategic growth plan or contingency plan in place for their business. However, they are typically curious, self-learners and independent. During Discovery, business owners benefit from a basic understanding of company value, their readiness to transition the business, and the attractiveness of their business to an outside party. By taking stock of their company's value drivers, a business owner can begin to put in place a plan to protect those assets. Additionally, by identifying areas of weakness, the business owner can begin to formulate a plan for improvement. Ideally, for a business owner in the Discover phase, the sale of their business is not imminent. Over the short term, the stakes are relatively low but building a plan for long term growth and transition is an important first step.

Valuation Need:

At this stage, understanding a company's value down to the penny ("precision") is less important than understanding how the business is performing against industry peers ("magnitude") and if the company is moving in the right direction ("trajectory").

For the time, money and resources required, a 'do it yourself' (DIY) valuation solution can be a perfect solution for the business owner in the Discover phase.

Quist Solutions:

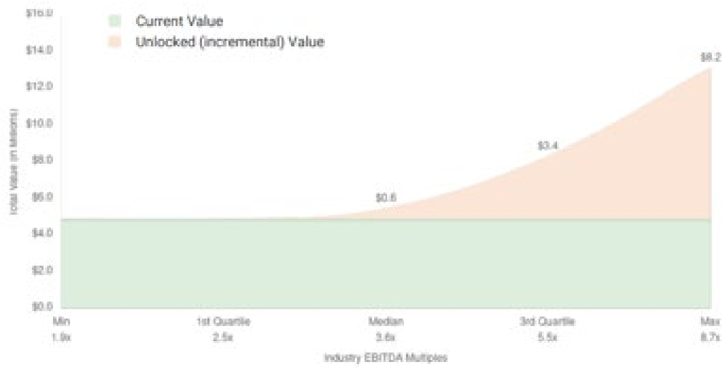
Quist Insights – Spotlight

For business owners who are taking the first step in their journey, Spotlight provides the following key insights:

1. Estimate of Value – Compare current business value to best in class industry multiples.
2. Profit Gap – Understand how a company's profitability compares to its industry peers.
3. Business Attractiveness Issues.
4. Owner Readiness Issues.

Your Unlocked Business Value

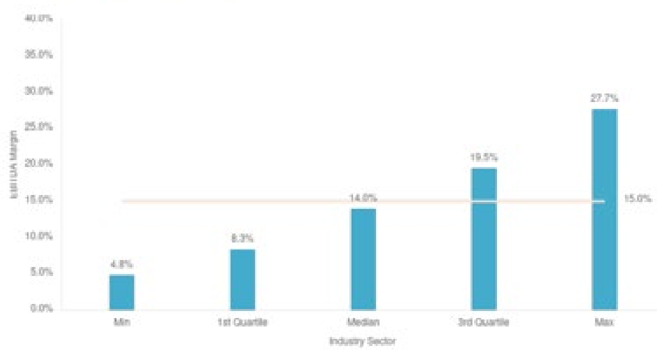
The chart below illustrates an estimate of your current business value (in green) and the additional value (in orange) that could be earned if your business achieved higher industry multiples - this is also referred to as your Value Gap.



Profitability: Your Company vs. Sector

The chart below illustrates your profit margin (in orange) compared to your industry's profit margin (in blue) broken down by quartiles.

Company Revenue	$10,000,000
Company EBITDA	$1,500,000
Company EBITDA Margin	15.0%



Potential Value Gap Issues

State of the Business

It's time to get going! You've got some work ahead of you.

- Reduce customer concentration and dependency.
- Improve revenue predictability from repeat customers.
- Formalize critical systems and processes.
- Improve financial management and record keeping.
- A relatively small addressable market may limit your business attractiveness.

State of the Owner

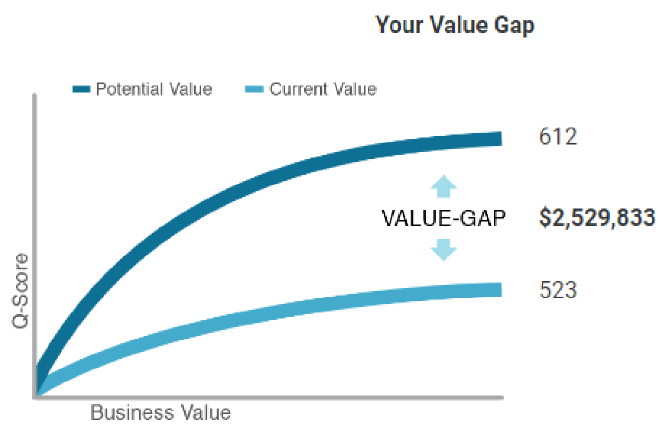
You're on your way but there's still work to be done.

- Understand the true value of your company.
- Organize and update corporate documents.
- Understand the selling process and the options available to you.

Quist Insights - Advanced

For business owners who are ready to take a deeper dive to understand both the tangible and intangible drivers of business value and follow an actionable plan to grow business value, Advanced provides the following key insights:

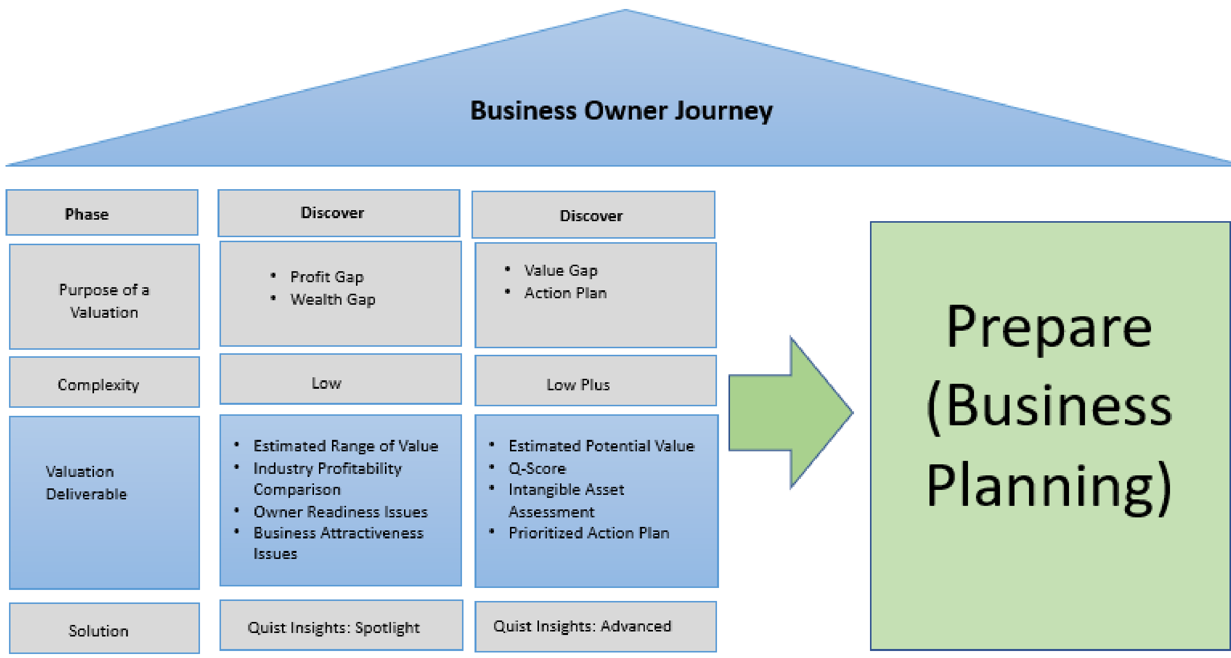
1. Value Gap – Understand how much additional value a business owner can drive to their company by implementing best in class strategies.
2. Business Score and Intangible Value Assessment – understand a Company's strengths and weaknesses in each of its down by Strategic Value, Organizational Value, Employee Value, Customer Value, Financial Value, and ESG Value.
3. 18 Recommendations to close the Value Gap
4. Prioritized Action Plan



Value Driver Categories	Recommended Actions	Impact to Q-Score	% Impact to Value	$ Impact to Value
Strategic Value	3	+10	11.4%	$288,957
Organizational Value	3	+8	9.6%	$241,673
Employee Value	3	+21	23.4%	$590,757
Customer Value	3	+18	19.7%	$498,452
Financial Value	3	+18	20.2%	$511,232
Environmental, Social & Governance	3	+14	15.8%	$398,761
TOTAL	**18**	**+89**	**100.0%**	**$2,529,833**

Phase 2: Prepare (Business Planning)

Once a business owner understands the current state of their business and has assessed the strengths and weaknesses of their company, a strategy to protect current assets and grow future value can be prepared.



Growth and value enhancement may come in the form of:

1. A compensation/stock incentive plan to protect and secure key members of management and employees.
2. A shareholder buy in/buyout – realization that an owner and their business partner do not have the same long term goals for the company necessitating a shareholder buyout. Alternatively, realizing that a key employee is critical to the viability and long term success of a business, leading to a shareholder buy in.
3. A capital raise to pursue new market opportunities.
4. A strategic acquisition to build scale and market penetration.

Valuation Need:
As business owners move from Discovery to Business Planning, valuation needs become more complex, more nuanced, and precise. At this point, factors that should be considered and incorporated into the valuation analysis include:

- Level of value (control vs. minority value).

- Tax and financial reporting requirements.
- Corporate governance requirements.

The engagement of a certified business valuation (aka: business appraisal) is recommended to ensure:

1. **Accurate Business Valuation**: a valuation expert with specialized training, knowledge and experience will determine the worth of business, taking into account factors such as the company's financial history, industry trends, and economic conditions.
2. **Objectivity**: a certified business valuation expert will provide an objective assessment of the business, free from any biases or conflicts of interest.
3. **Legal and Reporting Compliance**: a certified business valuation expert can provide can help ensure that the valuation process meets legal requirements and generally accepted accounting principles.
4. **Credibility**: Potential buyers, lenders, or investors will have more confidence in the valuation of a business if it is done by an independent expert who has the required qualifications and experience.

Quist Solution:

Quist's certified business valuations consists of several components, including:

1. **Company overview** – the nature of the business, history and management.
2. **Financial analysis** – a company's balance sheet, income statement and cash flow statement will be reviewed, and an analysis of financial ratios and trends, such as revenue growth, profit margins and return on investment will be conducted.
3. **Industry analysis** – industry and market trends, including the competitive landscape, regulatory environment, and macroeconomic factors that affect the company's performance will be assessed.
4. **Asset valuation** – both the company's tangible and intangible assets will be evaluated.
5. Income approach – this approach estimates the company's value based on its current and future cash flow generating ability.
6. **Market approach** – this approach compares the company's performance and financial metrics to those of similar businesses in the same industry using either comparable publicly traded company analysis or precedent transaction analysis.
7. **Risk assessment** – a company's specific risk factors, including operational, financial, and market risks will be considered and adjustments to value made.
8. **Explanation of discounts for lack of control and lack of marketability** – including the reasoning behind the discounts and the amount of the discounts.
9. **Documentation** – a detailed report documenting the analysis, assumptions, and conclusions that can be used for legal, financial or regulatory purposes.

Quist’s certified business valuation reports will vary depending on the purpose, the size and complexity of the company, its stage of business and the industry in which it operates. Quist uses its professional judgement and experience to determine the most appropriate methods and approaches for each individual case.

Phase 3: Prepare (Personal Planning)

As business owners get closer to an exit, legacy issues typically surface. Legacy issues take into account succession planning, wealth transfer strategies through gifting, charitable giving, and estate tax mitigation strategies.

Business Owner Journey

Phase	Discover	Prepare (Business Planning)	**Prepare (Personal Planning)**
Purpose of a Valuation	• Profit Gap • Value Gap • Wealth Gap	• Incentive Plans for management & employees • Shareholder buyin / buyout • Capital raise • Strategic acquisition	• **Wealth Transfer** • **Ownership transfer through death** • **Charitable Donation** • **Divorce**
Complexity	Low	Moderate	**High**
Solution	Quist Insights Platform Solutions	Quist Valuation Certified Appraisal	**Quist Valuation Certified Appraisal**

Valuation Need:

Business valuations for wealth transfer and estate planning strategies purposes are complex, highly nuanced, and require precision. Revenue Ruling 59-60 is the guidance document issued by the IRS that provides guidance on how to value a business for tax planning purposes.

The following factors should be taken into consideration to satisfy IRS requirements:

1. **Valuation Methodology**: the IRS requires a detailed explanation of the methodology used to value a business. Rev Ruling 59-60 suggests using a combination of methods to determine fair market value. The valuation methodology needs to be objective and independent, and should follow generally accepted valuation principles.
2. **Professional Judgement**: Rev Ruling 59-60 recognizes that business valuation requires professional judgement and that the valuation method used should be based on the specific circumstances of the business being valued.
3. **Discounts and Premiums**: Examples of discounts and premiums include minority discounts, lack of marketability discounts, key person premiums, and strategic premiums.

The use of discounts and premiums can greatly impact valuation conclusions. As such, the IRS has specific requirements related to the applicability and use of these various discounts and premiums that should be well documented in the analysis.

4. **Documentation**: Rev Ruling 59-60 stresses the importance of documenting the methods used, the assumptions made and the reasoning behind the valuation. The documentation needs to be thorough and well documented to ensure that it is clear and understandable.
5. **Independence**: Rev Ruling 59-60 emphasizes the importance of independence in the valuation process. Valuators should be independent and objective, without any conflicts of interest, and their opinions should be based on sound evidence and analysis.

Quist's certified business valuation reports will ensure that your business valuation meets the requirements of Rev Ruling 59-60 and is defensible in the event of an audit.

Phase 4: Exit

It's essential for a business owner to plan for the eventual transfer of his/her business to a successor, whether that be to a family member, key employee, or third party.

Business Valuation Through VAM

Phase	Discover	Prepare (Business Planning)	Prepare (Personal Planning)	**Exit**
Purpose of a Valuation	• Profit Gap • Value Gap • Wealth Gap	• Incentive Plans for management & employees • Shareholder buyin / buyout • Capital raise • Strategic acquisition	• Wealth Transfer • Ownership transfer through death • Charitable Donation • Divorce	• **3rd Party Sale** • **Employee Stock Ownership Plan (ESOP)** • **Management Buyout**
Complexity	Low	Moderate	High	**Moderate to High**
Solution	Quist Insights Platform Solutions	Quist Valuation Certified Appraisal	Quist Valuation Certified Appraisal	**Investment Banker Business Broker Professional Appraiser**

Valuation Need:
Business valuation can differ between a third party sale and an internal sale in several ways. The main differences include the purpose of the valuation, the type of valuation methods used, and the level of detail required.

1. **Purpose of the valuation**: The purpose of the valuation is the main difference between an internal sale and a third-party sale. For an internal sale, the valuation is often used to set a fair price for the business between parties who are already familiar with the business and its operations. For a third-party sale, the valuation is typically used to determine the fair market value of the business to set an asking price that will attract potential buyers.
2. **Type of valuation methods used**: The type of valuation methods used can also differ between an internal sale and a third-party sale. In an internal sale, the focus is often on determining the business's tangible assets, cash flow, and past performance, using methods such as the asset-based or income-based approaches. In contrast, for a third-party sale, the valuation may focus more on the business's potential for future growth and profitability, using methods such as the market-based or discounted cash flow approach.

3. **Level of detail required**: The level of detail required for a business valuation can also differ between an internal sale and a third-party sale. For an internal sale, the parties involved may already be familiar with the business and its operations, so less detail may be required. In contrast, for a third-party sale, a more comprehensive and detailed valuation is usually necessary to provide potential buyers with a clear understanding of the business's financial performance and potential for growth.

When a business owner is considering an ESOP, it is important that the business valuation follow specific regulatory requirements and guidelines of the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Service (IRS). One of the key requirements for ESOPs is that the plan must purchase company stock at no more than fair market value. ESOP valuations should focus on the company's ability to generate future cash flows and on the potential for growth, since the ESOP will benefit from future appreciation in the company's value. The Department of Labor (DOL) requires that the valuation be conducted by a qualified, independent appraiser, and that the appraiser's report be based on generally accepted valuation principles.

Quist Solution:

The differences in business valuation between an internal sale, an external sale or sale to an ESOP emphasize the importance of tailoring the valuation approach to the specific circumstances of the sale. Quist is able to help business owners and their advisors to determine the most appropriate certified business valuation solution to meet their specific situation.

Selecting a Valuation Expert

Selecting an experienced valuation expert is critical to ensure that the business owner is choosing the right type of valuation solution for their needs. As illustrated above, taking a "one-size fits all" approach to business valuation is problematic. There are certain scenarios where a self-directed approach to determining value is appropriate and other scenarios where a qualified expert is required.

When choosing a valuation expert, consider the following:

- ✓ **Credentials**: Look for a valuation expert who holds professional credentials, such as Accredited Senior Appraiser (ASA), Chartered Financial Analyst (CFA), or Certified Valuation Analyst (CVA). These credentials demonstrate that the appraiser has met rigorous education and experience requirements and follows professional standards of practice.

- ✓ **Experience**: Look for a valuation expert who has experience working with companies in your industry or with similar business models. The expert should understand the unique aspects of your business and the industry in which it operates.

- ✓ **Independence**: Look for a valuation expert who is independent and unbiased. The expert should not have any conflicts of interest, such as being a shareholder or employee of the company being valued.

- ✓ **Approach**: Look for a valuation expert who uses a comprehensive and transparent approach to valuation. The expert should be able to explain the methodology and assumptions used in the valuation and provide a detailed report that supports the valuation conclusion.

- ✓ **Reputation**: Look for a valuation expert with a strong reputation in the industry. You can ask for references and research their background and history of past valuations.

- ✓ **Professionalism**: Look for a valuation expert who demonstrates professionalism and a commitment to providing high-quality work. The expert should be responsive to your questions and concerns and should communicate clearly and effectively throughout the valuation process.

Selecting a qualified valuation expert can be a complex process, but it's critical to ensure an accurate and defensible valuation report. Don't hesitate to ask for referrals or recommendations, and conduct thorough due diligence to select the right expert for your needs.