



August 30, 2014

Harold Lloyd
Midwest Conveyor, Inc.
100 Hyland Ave.
Kaukauna, WI 54130

Calculated Value of Midwest Conveyor, Inc. Equity

We have performed the following calculation engagement of a 100% equity interest of Midwest Conveyor, Inc., as of 10/31/2013, according to the terms of our engagement letter, which specifies the calculations to be performed. As defined by the AICPA's *Statement on Standards for Valuation Services No. 1*, a calculation engagement is an engagement to estimate value wherein the valuation analyst and the client agree on the specific valuation approaches and valuation methods that the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of a subject interest. A calculation engagement generally does not include all of the valuation procedures required for a valuation engagement. If a valuation engagement had been performed, the results might have been different.

Report Recipients: *If this report has been presented to you by a third party you can verify its authenticity without charge by going to www.mycompanyvalue.com, clicking on the Report Verification link, and entering the requested information. You will be emailed a response within 24 hours.*

Calculation of Value of Midwest Conveyor, Inc. Equity: \$ 3,056,000.

This value does not include any real estate used by the business, whether owned by the company or not, or the associated mortgage(s). This value was derived by employing three methods, and comparing the results. The following is a short description of the calculations performed under each method.

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Calculation of Value – Income Basis

The future earnings of an enterprise are valued based on the rate of return required by investors. The rate of return required is based on the nature of the asset (in this case, an equity investment in a small company), and the risk associated with it. We estimated the risk component associated with Midwest Conveyor, Inc. equity based on the industry it does business in, whether or not customer concentrations exist, and the qualities of its balance sheet. Based on these factors we estimated a required rate of return from equity investors of 23.05%.

We adjusted the normalized cash flows for the interest (using a long term expected interest rate of 7.00%) resulting from the anticipated level of debt (\$ 36,000) available to a hypothetical acquirer, and corporate income taxes if they apply. These cash flows were projected forward five years at the anticipated growth rate you provided. Beyond the fifth year, a growth rate equaling the expected long term inflation rate (2.00%) was used. The present value of these future earnings is \$ 2,177,042.

This figure represents the total investment of equity possible, considering the debt used, to achieve the required rate of return from the projected future cash flows. This model assumes a level of debt that grows equally with the long term growth of the business. The Weighted Average Cost of Capital (WACC) determined based on this projected capital structure is 22.79%.

The total amount of invested capital (equity plus debt) includes assets invested in working capital (current assets less current liabilities). At any given time, a business may have more or less working capital on hand than is typically required to operate the business. Therefore, a working capital adjustment is necessary to calculate the value of equity as of a given date. Based on its industry and size, we estimated the net working capital requirement for Midwest Conveyor, Inc. to be \$ 442,947. Based on its actual net working capital of \$1,250,764 as of 10/31/2013, we determined a working capital adjustment of \$ 808,000 is necessary.

Another adjustment may need to be made for other non-current assets included on the balance sheet that are not required to produce the expected cash flows. These are called ‘excess assets.’ The value of these assets also needs to be added to the equity value in the income approach.

Present Value of Future Cash Flows:	\$ 2,177,042
Anticipated Level of Debt:	36,000
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Acquisition Value:	2,213,042
Working Capital Adjustment:	808,000
Excess Assets:	\$-
Less Actual Long Term Debt:	(\$-)
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Calculated Value of Equity:	\$ 3,021,042
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Calculation of Value – Market Basis

We calculated the value of Midwest Conveyor, Inc. by comparing it to other companies of similar size in the same industry that have been sold in the last ten years. We searched the Pratt's Stat's database (a listing of private company transactions) for transactions involving companies with a NAICS code of 423830, and annual sales between \$ 1,000,000 and \$10,000,000, occurring after 1/1/2004. Where applicable, we may limit the search to transactions where the acquirer purchased the stock or the assets of the selling company. In this case, we included both. This search produced a group of 18 comparable companies.

We divided each company's acquisition price by its annual sales, and calculated the median value for the group (.5). We also divided each company's acquisition price by its operating income, and again calculated the median value for the group (3.56). We multiplied each of these ratios by the appropriate data for Midwest Conveyor, Inc., and averaged the two results together. Because transaction prices are typically stated without the working capital acquired in the transaction, we must add the value of Midwest Conveyor, Inc.'s actual net working capital. We must also add excess assets, and subtract long-term debt as of the valuation date.

Acquisition Value of Assets:	\$ 1,805,591
Actual Working Capital:	1,250,764
Excess Assets:	\$-
Less Actual Long Term Debt:	(\$-)
<u>Calculated Value of Equity:</u>	<u>\$ 3,056,355</u>

Calculation of Value – Asset Basis

Occasionally, due to the company's industry, level of sales, profitability, or assets, the value of assets less liabilities results in the highest valuation of the company, and therefore must be considered. Based on the information you provided, the value of equity on an asset basis is \$ 1,302,000.

Calculation of Value - Conclusion

Based on the limited procedures upon which we were engaged to perform, the Calculated Value of 100% of the equity of Midwest Conveyor, Inc. as of 10/31/2013 is \$ 3,056,000.

Brian Murray CPA/ABV CVA



The limited procedures performed allow a calculation of value at a cost that makes this report an excellent tool for business planning, transition planning, estate planning, net worth modeling, pre-trial divorce negotiation, various forms of goal setting, and in some circumstances, SBA financing. However, due to the limited investigation, analysis, and reporting performed, this calculation of value is inappropriate for use in an estate settlement, estate tax return, gift tax return, divorce court proceeding, or direct negotiations with a potential buyer or seller. In all of those cases a full valuation report is recommended.

Given the limited nature of the calculations performed, there are many assumptions and limiting conditions upon which this calculation of value is based. These assumptions and limiting conditions are listed below and should be examined carefully. The inapplicability of a given assumption to the subject company may alter your opinion of the usefulness or accuracy of the calculation of value.

Assumptions:

- Business conditions relating to the industry and competitive environment are not expected to change in a manner that would materially affect the company's earning capacity.
- The normalized cash flows provided fairly represent the cash flows that would be available to a purely financial investor after providing reasonable compensation to officers and paying a fair market value for rent of the business premises.
- Information provided by the client regarding revenue, normalized cash flows, expected growth, and the fair market value of company assets is reasonably accurate. The revenue and cash flow information provided represent a normal year, and are not an anomaly.
- The company's future earnings capacity is not dependent upon the employment of a key person, the replacement of whom would be difficult enough to significantly impact the company's future earnings capacity.
- The company has no known environmental violations, or environmental liabilities which are not adequately recognized on the balance sheet.
- The company does not have a probable liability resulting from pending or ongoing litigation that is not adequately recognized on the balance sheet.
- The company's existing equipment is sufficient to maintain operations without unusual need for replacement of assets. The book basis depreciation deducted from normalized cash flows is a reasonable representation of the cash outflows necessary for asset replacement.
- This Calculation of Value relied on a "value in use" or going concern premise. This premise assumes that Midwest Conveyor, Inc. is an ongoing business enterprise with management operating in a rational way with the goal of maximizing shareholder value.

Limiting Conditions:



- The purpose of this report is estate planning. Our analysis was conducted for this only, and should be used for no other purpose.
- We assume no responsibility for a seller's or buyer's inability to obtain a purchase contract based on this calculation.
- Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose by anyone but the client without the previous written consent of the client or us, and in any event, only with proper attribution.
- Our compensation is not contingent on an action or event resulting from the use of this report.
- This calculation contemplates facts and conditions existing as of the calculation date. Events and conditions occurring after that date have not been considered, and we have no obligation to update our report for such events and conditions.
- This engagement cannot be relied upon to disclose errors, fraud, or violations of laws or governmental regulations attributable to the company that may exist.

External Sources:

- *Pratt's Stats* database
- *Stocks, Bonds, Bills and Inflation, Valuation Edition 2012 Yearbook*, © 2012 Ibbotson Associates, Inc.
- *RMA Statement Studies*, NAICS Code 423830
- *Economic Outlook Update™ October 2013*, Copyright © 2013 Business Valuation Resources
- IBIS World Industry Reports, NAICS Code 423830

Information You Provided:

Tax Filing Status	S CORP
NAICS Code	423830
Last Year Net Sales	3,964,645
Largest Customer % of Sales	10.00%
Expected 5 Yr. Growth Rate	3.00%
Normalized Cash Flows	428,000
FMV Current Assets	1,339,787
FMV Fixed Assets	51,000
FMV Other Assets	
FMV Excess Assets	\$-
FMV Current Liabilities	89,023
FMV Long Term Debt	\$-