



Enterprise Valuation For:

Oak Street Supply

PREPARED FOR WILLIAM JONES



Date of Report: April 08, 2023

Effective Date: February 03, 2023



Exit45
John Kaplan



OPINION LETTER

2023-04-08

William Morris

Oak Street Supply

123 Main Street, Denver, CO

Dear William Morrison,

At your request, we have been engaged to appraise Oak Street Supply as of 2023-02-03. The client is Oak Street Supply, the intended user of this report which is to be used for a possible sale of the business. Oak Street Supply was appraised using the fair market value as the standard of value assuming no discount for a lack of control (DLOC) and no adjustment for lack of marketability (DL0M). Oak Street Supply is headquartered in the State of Colorado. The Company is organized as a Limited Liability Company. The term shareholder and shares in this report are interchangeable with member and units .

The *Fair Market Value (FMV)* is defined as the value an asset or liability would exchange hands given a willing buyer and seller negotiate an "arms-length" transaction with neither party under duress and with the parties having access to all pertinent information. There are no restrictive agreements that might impact value. We reviewed information on Oak Street Supply and the assumptions based on client discussions that allowed us to consider the net cash flow, the market selling multiples, the Company's assets and liabilities and build out the Discount and Capitalization Rate which measures the business investment risk. This appraisal is based on the Company as an on-going concern which assumes the Company has the financial resources to continue operating into the foreseeable future.

All traditional approaches to value were considered and specific methods and calculations were weighted to reflect the Company's value. The effective date of this appraisal is 2023-02-03. The appraisal's estimated value for 5,000,000 of the company's shares is \$15,170,000 of equity value with the appropriate discounts and premiums. The value is \$3.03 per share. Equity value subtracts interest-bearing term debt and the working capital surplus or shortage, if any, from the enterprise value. Enterprise value is the invested capital value (debt and equity) of the business. The Enterprise Value is \$13,587,372. This conclusion is subject to the Report's Limiting Conditions.

This valuation assumes a stock sale. An asset sale is common in most transactions and is dependent on the assets and liabilities being transferred. See the "Stock vs. Asset Sale" page to review a *typical* asset sale and the estimated seller proceeds of \$14,721,060 and the buyer's estimated cash needs of \$16,323,337.



Daniel P. O'Connell, AM, BV, American Society of Appraisers



Ryan P. O'Connell, IRS Qualified Valuations

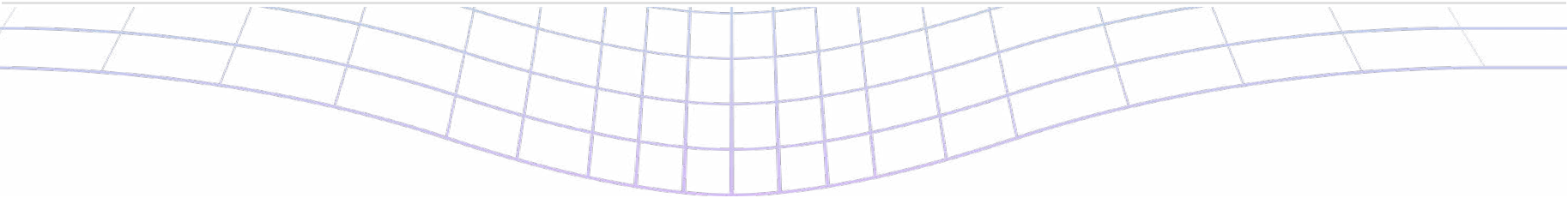


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COMPLIANCE AND PROCESSES

IRS REVENUE RULING 59-60 COMPLIANCE

When valuing closely held stock or ownership interest of companies, often market quotes are not available for privately-owned companies. IRS Revenue Ruling 59-60 outlines the proper procedures, approaches and qualifications for valuing these closely-held companies and in considering all relevant factors that impact the fair market value.

IRS Revenue Ruling 59-60 states that certain factors need to be considered in arriving at the Fair Market Value of an asset or liability. This valuation report addresses these requirements, specifically

1. Define the nature of the business and the economic environment.
2. Research the book value and the company's financial condition.
3. Review the earnings capability and the dividend paying capacity if relevant.
4. Review whether the company has goodwill or intangible value.
5. Research pricing of similar companies and utilize the proper capitalization rates.
6. Discover if restrictive agreements impact value and weight the valuation conclusions logically.

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

The Uniform Standards of Professional Appraisal Practice (USPAP) addresses ethical and performance obligations of appraisers. Ethics rules deal with integrity, impartiality, objectivity, independent judgement and ethical conduct. Other requirements consider the appraiser's knowledge, experience, competency and scope of work rules in identifying key issues, research and analysis. This appraisal adheres to the USPAP guidelines.

THE VALUATION PROCESS

Business value is derived from an economic benefit stream and a risk factor that relates to the business and its expected economic benefit stream. A valuation "normalizes" the income statement and balance sheet to represent the current status of a company. In order to arrive at a valuation opinion, this report will review the company's risk associated with a "proposed" investment and the historical and forecasted financial statements, key ratio reviews, the cost of capital and the future net cash flows. We will then be able to apply the cost of capital to the company's economic benefit stream (the Income Approach) and review the appropriate risk adjusted multiples to similar companies (the Market Approach) and an analysis of the assets (the Asset Approach). After various valuation methods and calculations have been estimated, the appropriate weighing to specific calculations will be made that best represent the company's enterprise value.

THE VALUATION ASSIGNMENT

DEFINING THE VALUATION ASSIGNMENT

When defining the appraisal assignment, it is important to understand the concepts or directives that form the basis of this opinion of value and that these concepts meet your understanding of this assignment. If the appraisal assignment changes, some of the following valuation criteria might need to reflect the new intent and the appraisal assignment might need to be updated. "Company" used in this report covers any asset or liability being appraised.

DISCLAIMER

Exit45 relies on the client, the Company and the management team for its financial reporting and projections of the company's financials. While this information is deemed reasonable for the purposes of this report, Exit45 makes no representations or warranties to the accuracy or thoroughness of this valuation report (see scope of appraisal and the *engagement's limiting conditions*).

VALUATION CONCEPT OF BENEFIT STREAM AND RISK

Business value is derived from an economic benefit and is weighted by a risk factor that relates to the risk in the company's business model. The economic benefit usually refers to a monetary flow such as earnings before interest, taxes, depreciation and amortization (EBITDA), Net Operating Profit After Tax (NOPAT), Gross Profit, or Net Cash Flow (NCF), etc. The risk factor is the rate of return a potential investor requires given the risk of attaining the expected economic benefits stream. The greater this risk, the greater the investor's needed rate of return and the lesser the value of the interest being appraised. In the case of less risk, the less the needed investor's rate of return and the greater the value of the interest being appraised. The investor's needed rate of return is the Cost of Equity and the debt and equity return needed is the Discount Rate.

In order to arrive at a valuation opinion, this report will review the company's historical and forecasted financial statements and the associated business and industry risk. This report will develop the cost of capital and apply that to the economic benefit stream to arrive at the Discounted Cash Flow Method and the Capitalization of Earnings Method. In addition, this report will apply the Market Selling Multiples Method to specific company benefit streams. When the company is being valued as an on-going concern, the asset or cost approach to value might not be relevant in this report (see premise of value) and may not be used.

INTEREST BEING APPRAISED

Oak Street Supply ("the Company") is being appraised for 5,000,000 shares out of 5,000,000 shares outstanding. Shares are valued on an equity basis which is defined as the enterprise value less any term debt.

This appraisal assumes no Discount for Lack of Control (DLOC) which is referred to as a control interest. A control interest is defined as an equity interest greater than 50% or an equity position that is considered a swing vote, and therefore a controlling interest. A control interest means the shareholder has operating control to make decisions and can influence company performance.

This appraisal assumes no adjustment or Discount for a Lack of Marketability (DLOM) referred to as a marketable interest. An adjustment for lack of marketability is defined as the percentage value deducted from the value of an ownership interest to reflect the absence of marketability relating to the longer period (and risk) it takes to convert ownership to sale proceeds (liquidity).

THE VALUATION ASSIGNMENT (cont.)

SCOPE OF APPRAISAL

This valuation is an Appraisal that addresses the Standard of Value, the Premise of Value, the Purpose of the Appraisal, the Effective Date of the Appraisal, and describes the business ownership interest and the process to be used in the valuation and the report deliverables. This appraisal will express the value in a single dollar amount, and will consider all relevant information available to the appraiser as of the appraisal date. The appraiser will review all relevant data material to the valuation and utilize all conceptual approaches deemed relevant by the appraiser.

STANDARD OF VALUE

The *Fair Market Value* standard is being used in this appraisal to render an opinion of value (or range of value). The Fair Market Value addresses the broadest spectrum of value that is reflected by the Company's operations, markets and potential buyers. The common definition of Fair Market Value is the price at which a property would change hands between a willing buyer and seller, when the buyer is not under any compulsion to purchase and the seller is not under any compulsion to sell. Fair Market Value also assumes both buyer and seller have reasonable knowledge of the relevant facts.

PREMISE OF VALUE

This appraisal is based on the Company as an on-going concern. The going concern premise of value assumes the Company has the financial resources to continue operating into the foreseeable future whereas a non-going concern does not have the resources to continue operating and is a liquidity event.

EFFECTIVE DATE OF APPRAISAL

The report date of the appraisal is 2023-04-08 and the latest reported financials are as of 2023-02-03. The effective date of the valuation is 2023-02-03. If material time has elapsed from these dates or events occurred subsequently that may impact value, we suggest an update to the report, depending on the significance of how this opinion of value will be used by the intended user of this report.

CLIENT AND PURPOSE OF APPRAISAL

The client is Oak Street Supply, the only intended user for this report. The purpose of this appraisal is to estimate the selected Standard of Value of Oak Street Supply for a possible sale of the business.

DATA SOURCES, VALUATION PROCESS & CONDITIONS

Financial (income statements and balance sheets contained in this report) and operational information was furnished by the Company. The Company provided expectations regarding the Company's future performance. This report may utilize information from the industry standard RMA database, Duff & Phelps Cost of Capital, BVR Deal Stats, BV DataWorld, Pluris DLOM, Mergerstat Review Premiums & Discounts and IBISWorld. Exit45 did not tour the company's facility or office in its process but is reasonably familiar with the type of facilities involved. There have been no extraordinary or hypothetical assumptions made nor any limiting conditions placed on Exit45.

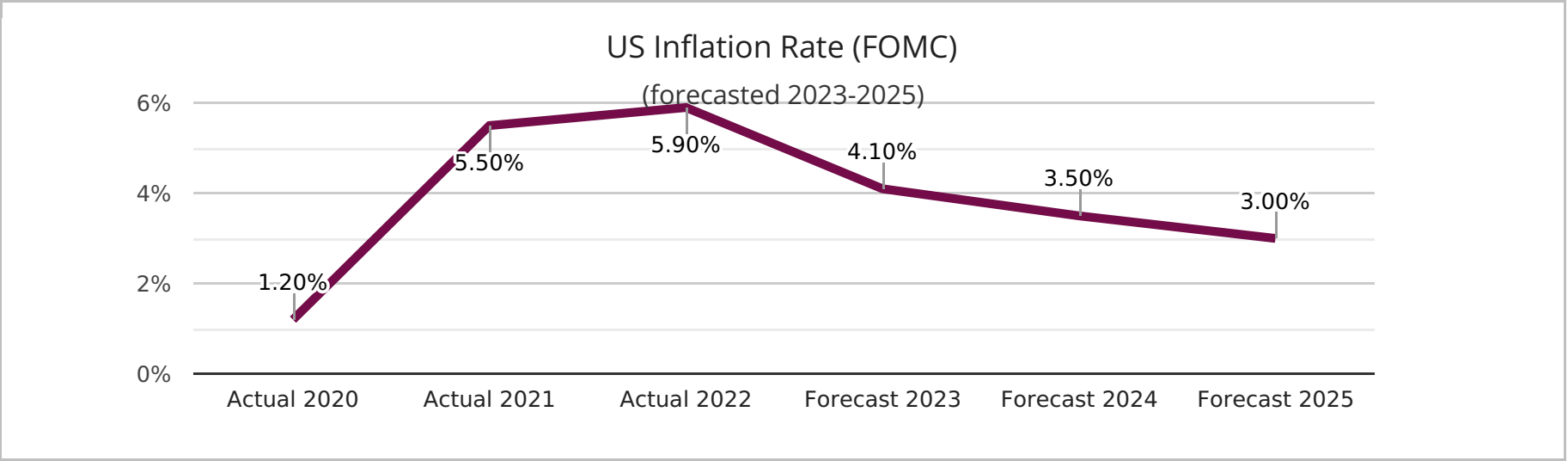
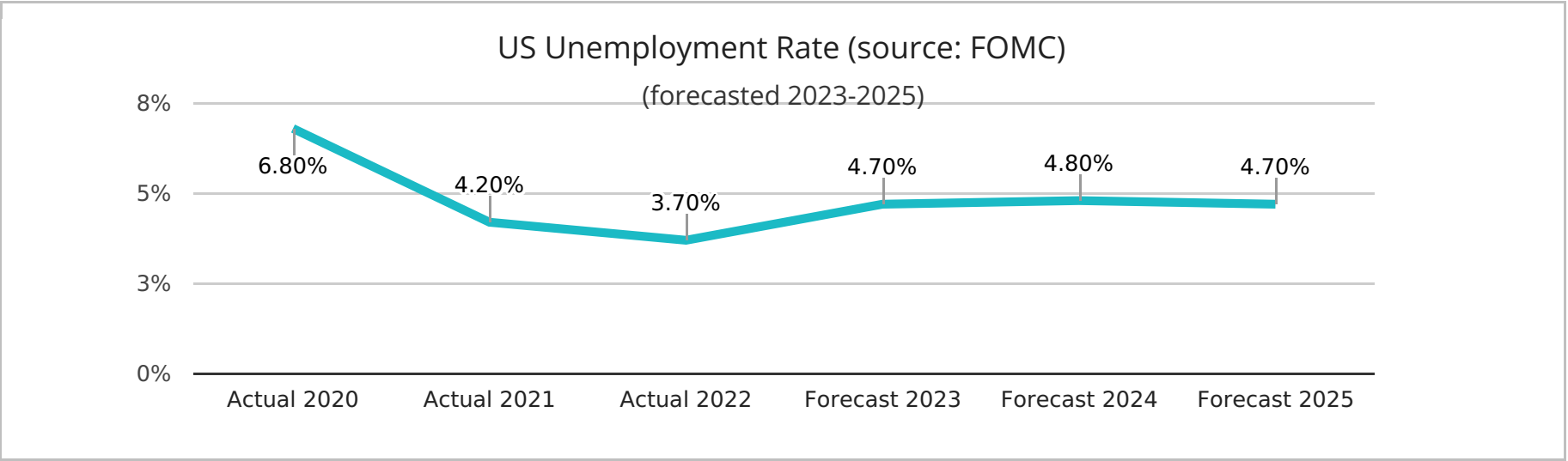
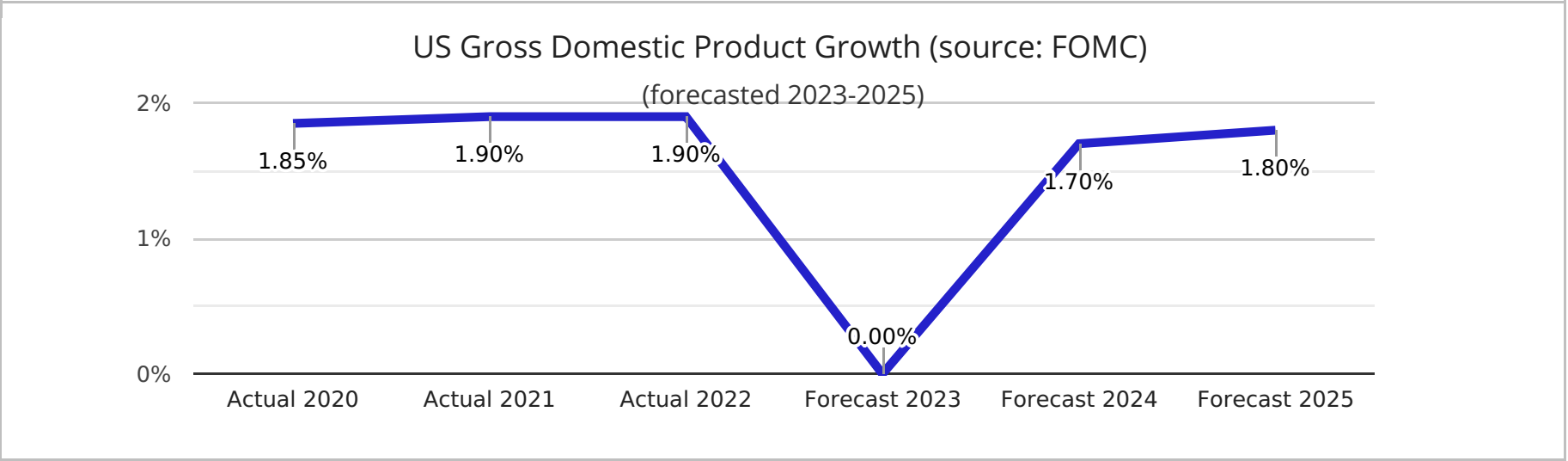
THE VALUATION PROCESS

Value is derived from a risk adjusted economic benefit stream. In order to arrive at a valuation opinion, this report will review the Company's risk associated with a "proposed" investment, the historical and forecasted financial statements, key ratios, the cost of capital and the future net cash flows. The cost of capital will be applied to the Company's economic benefit stream and review risk adjusted market selling multiples. The appropriate weighing of specific approaches will be made that best represent the Company's value.

ECONOMIC ENVIRONMENT AND IMPACT

The economic outlook can be relevant and impact the Company and its industry. The economy continues to deal with global unrest, labor shortages, supply chain issues, inflation, federal reserve policies, trade issues, governmental policies and other economic considerations. A company's impact can vary from industry to industry. Economic growth, lower inflation and moderate unemployment generally supports the private sector.

The Federal Reserve is the U.S. central bank that promotes maximum employment, moderate interest rates and stable prices. The Federal Open Market Committee (FOMC) meets four times per year to issue an economic forecast and a high-level analysis of the U.S. economy. Key economic factors are the Gross Domestic Product growth, the Unemployment Rate, and the Inflation Rate. The FOMC last met on December 14, 2022. GDP growth is expected to decrease to 0% this year, the unemployment rate to increase and the inflation rate to increase which promotes instability and the private sectors ability to plan. Inflation has been stronger than expected and remains a challenge for the Federal Reserve. The Company might find the current economic environment challenging in some areas as labor and supply issues remain which can restrict sales growth and margins.



THE THREE APPROACHES TO VALUE

When valuing a company's common stock (or an asset or a transfer of a liability) we need to value the enterprise by utilizing the various approaches to value and then allocate the methods and calculations from each approach. The three Approaches to Value are the Income, Market and Asset Approach. These approaches, methods and calculations are summarized below.

THE INCOME APPROACH

The Income Approach estimates value by estimating the benefits stream (income) generated by the assets over a period of time. The value of the business is equal to the present value of the future benefits from owning the assets. The two common methods are the Discounted Cash Flow Method and the Capitalization of Earnings Method.

The Discounted Cash Flow Method

The Discounted Cash Flow (DCF) summarizes the company's cash flow for a period of time (usually five years but can be longer until the cash flows reach stability) as well as the cash flow from the Terminal Value (assumes a sale of the business in a future year). The future cash flows are brought to the present value by discounting the cash flows using the Discount Rate which measures the risk in achieving the expected cash flows. The DCF is a multi-year method and the advantages are that each year's sales, costs, receivables, inventory, payables and capital expenditures can be estimated. These cash flows should be estimated with reasonable caution. Because a buyer is purchasing the future cash flow of the business, the DCF model is a strong indication of value.

The Capitalization of Earnings Method

The Capitalization of Earnings Method is similar to the DCF except that it is a single year method that only applies the operating cash flow to the capitalization rate. The Capitalization of Earnings Method is applicable when the cash flow is stable or consistent (mature company).

THE MARKET APPROACH

The Market Approach compares the subject company to its industry peers. This comparison is accomplished by reviewing either private sale transactions or publicly traded companies. The benefit stream multiples are variations of income such as earnings before interest and taxes (EBIT) or EBITDA (depreciation & amortization), net operating profit after tax, gross profit, sales, etc. The industry multiples are applied to the subject company's benefit stream using the multiples from the Guideline Public Companies or the private company transactions. The Market Approach is applicable if the subject company is similar to its industry peers.

THE ASSET OR COST APPROACH

The Asset Approach normally results in the lowest value for an operating company (not a holding company) and measures the tangible assets. This approach can be based on the Net Asset Value or the Liquidation Value. The liquidation value assumes the company is not an on-going business. This report estimates the Net Asset Value which is defined as the market value of the assets less the market value of the liabilities. An asset-based holding company (eg: real estate or investment companies) would use the Asset Approach.

COMPANY BRIEF

COMPANY HISTORY BRIEF

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COMPANY PRODUCTS OR SERVICES

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COMPANY MANAGEMENT TEAM

John Smith - C.E.O. - BIO HERE

John Smith - C.F.O. - BIO HERE

John Smith - C.O.O. - BIO HERE

Income Statement	2018	2019	2020	2021	2022
SALES					
Revenues	\$26,580,192	\$26,756,262	\$30,985,812	\$32,001,372	\$34,348,597
Revenue Growth Rate		0.66%	15.81%	3.28%	7.33%
COST OF GOODS SOLD					
Other Cost of Goods Sold	\$21,918,821	\$22,020,240	\$25,756,556	\$25,936,479	\$28,831,054
Total Cost of Goods Sold	\$21,918,821	\$22,020,240	\$25,756,556	\$25,936,479	\$28,831,054
GROSS PROFIT	\$4,661,371	\$4,736,022	\$5,229,256	\$6,064,893	\$5,517,543
Gross Profit Margin	17.54%	17.70%	16.88%	18.95%	16.06%
OPERATING EXPENSES					
Depreciation	\$127,774	\$126,707	\$132,474	\$144,892	\$142,549
Amortization & Depletion	\$0	\$0	\$0	\$0	\$0
Officer's Salary	\$265,000	\$265,000	\$240,000	\$240,000	\$255,000
Wages & Salary	\$1,953,693	\$1,563,609	\$1,823,683	\$2,000,027	\$1,278,480
Other Expenses	\$748,782	\$1,265,688	\$1,507,881	\$1,260,067	\$1,463,699
Total Operating Expenses	\$3,095,249	\$3,221,004	\$3,704,038	\$3,644,986	\$3,139,728
Operating Income (Op. EBIT)	\$1,566,122	\$1,515,018	\$1,525,218	\$2,419,907	\$2,377,815
Operating Income %	5.89%	5.66%	4.92%	7.56%	6.92%
NON-OPERATING EXPENSES					
Interest Expense	\$157,768	\$135,322	\$109,958	\$68,350	\$103,800
Adjustments (see table below)	\$80,400	\$80,950	\$54,250	\$54,360	\$106,550
Other Non-Operating Expenses	\$125,332	(\$50,134)	(\$7,804)	(\$5,016,257)	(\$98,645)
Total Non-Op. Exp, (income is neg)	\$363,500	\$166,138	\$156,404	(\$4,893,547)	\$111,705
Net Profit Before Tax	\$1,202,622	\$1,348,880	\$1,368,814	\$7,313,454	\$2,266,110
OTHER KEY INCOME STREAMS					
Net Operating Profit After Tax (37% marginal rate)	\$986,657	\$954,461	\$960,887	\$1,524,541	\$1,498,023
Operating EBITDA	\$1,693,896	\$1,641,725	\$1,657,692	\$2,564,799	\$2,520,364
Operating EBITDA %	6.37%	6.14%	5.35%	8.01%	7.34%
Seller's Discretionary Earnings	\$1,893,896	\$1,841,725	\$1,857,692	\$2,764,799	\$2,720,364

Adjustments	2018	2019	2020	2021	2022
Legal Fees	\$0	\$0	\$0	\$0	\$35,600
Excess Owner Compensation	\$65,000	\$65,000	\$40,000	\$40,000	\$55,000
Auto	\$15,400	\$15,950	\$14,250	\$14,360	\$15,950
Left Empty	\$0	\$0	\$0	\$0	\$0
Left Empty	\$0	\$0	\$0	\$0	\$0
Total Adjustments	\$80,400	\$80,950	\$54,250	\$54,360	\$106,550

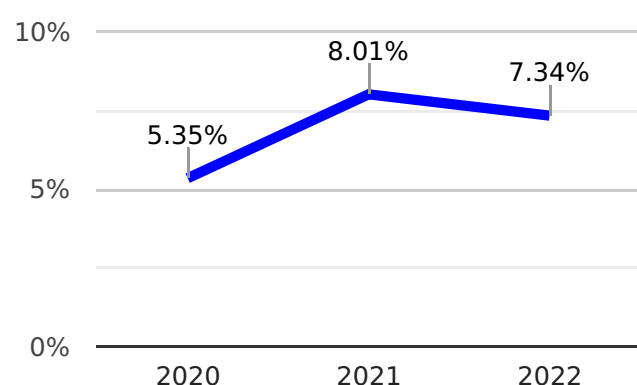
Net Operating Profit After Tax (NOPAT) applies a 37% marginal tax rate to the Operating Income. NOPAT and EBITDA reflect a debt free company (no interest, no debt). The latest \$1,498,023 of NOPAT, the \$2,520,364 of EBITDA and the \$2,720,364 of Seller's Discretionary Earnings are applied in the Market Approach Method.

Adjustments are non-operating expenses recorded as operating expenses but were not needed to operate the business. Adjustments might be compensation above or below market-based pay or discretionary expenses not expected to occur again. These adjustments 'normalize' the income stream.

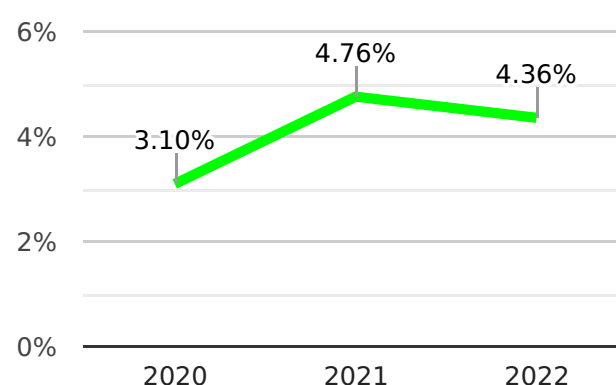
NOTE: Fiscal Year ends on December 31.

Income Statement Common-Sized	2018	2019	2020	2021	2022
SALES					
Revenues	100.00%	100.00%	100.00%	100.00%	100.00%
COST OF GOODS SOLD					
Other Cost of Goods Sold	82.46%	82.30%	83.12%	81.05%	83.94%
Total Cost of Goods Sold	82.46%	82.30%	83.12%	81.05%	83.94%
GROSS PROFIT	17.54%	17.70%	16.88%	18.95%	16.06%
OPERATING EXPENSES					
Depreciation (Opex)	0.48%	0.47%	0.43%	0.45%	0.42%
Officer's Salary	1.00%	0.99%	0.77%	0.75%	0.74%
Wages & Salary	7.35%	5.84%	5.89%	6.25%	3.72%
Other Expenses	2.82%	4.73%	4.87%	3.94%	4.26%
Total Operating Expenses	11.64%	12.04%	11.95%	11.39%	9.14%
Operating Income (Op. EBIT)	5.89%	5.66%	4.92%	7.56%	6.92%
NON-OPERATING EXPENSES					
Interest Expense	0.59%	0.51%	0.35%	0.21%	0.30%
Adjustments	0.30%	0.30%	0.18%	0.17%	0.31%
Other Non-Operating Expenses	0.47%	(0.19%)	(0.03%)	(15.68%)	(0.29%)
Net Profit Before Tax	4.52%	5.04%	4.42%	22.85%	6.60%
OTHER KEY INCOME STREAMS					
Net Operating Profit After Tax (37% marginal rate)	3.71%	3.57%	3.10%	4.76%	4.36%
Operating EBITDA	6.37%	6.14%	5.35%	8.01%	7.34%

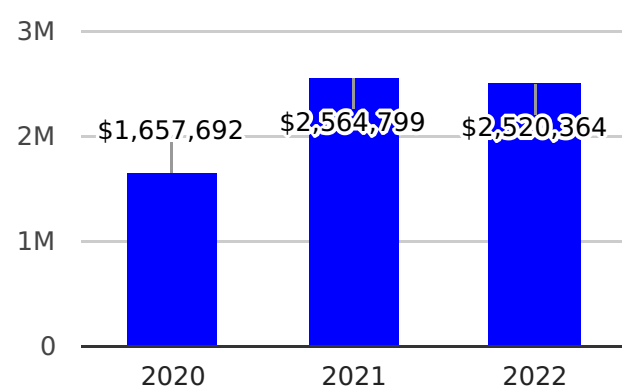
EBITDA % Trend



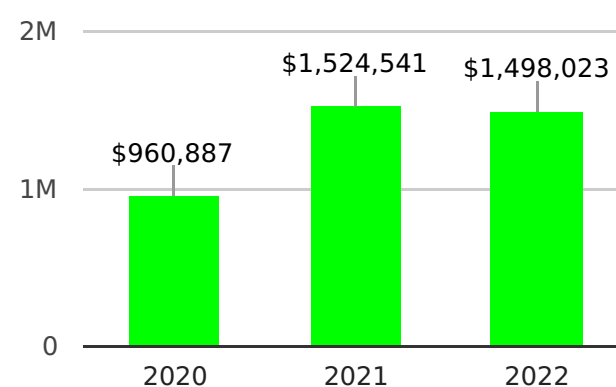
NOPAT % Trend



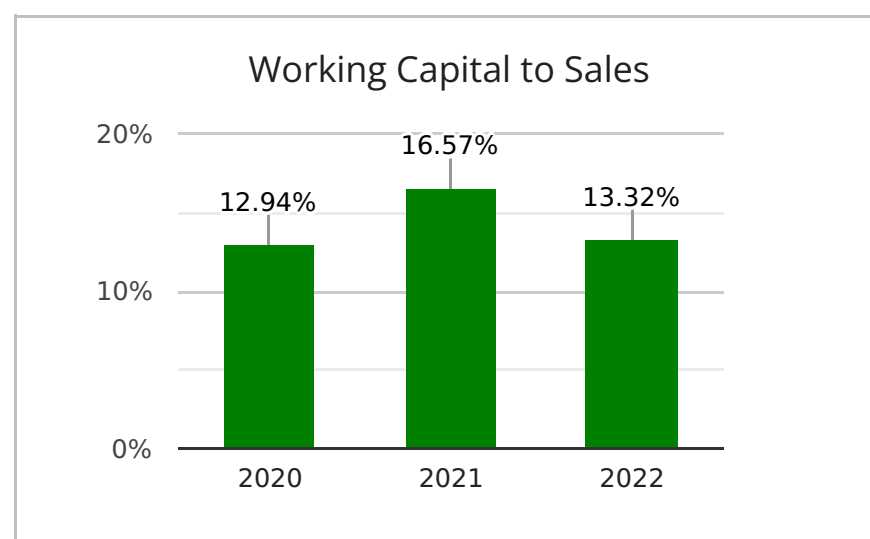
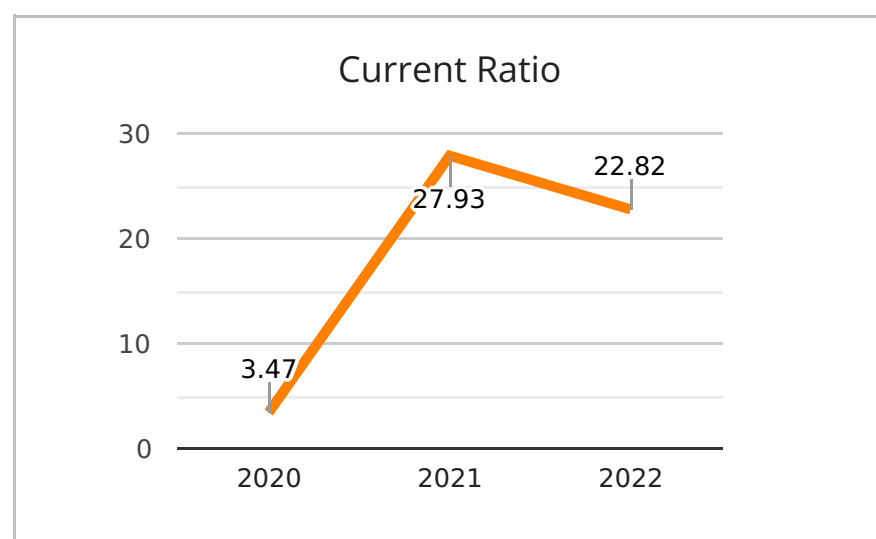
EBITDA



Net Operating Profit After Tax



Balance Sheet	2018	2019	2020	2021	2022
CURRENT ASSETS					
Cash & Marketable Securities	\$6,512	\$45,895	\$1,683	\$34,367	\$27,243
Accounts Receivable (Trade)	\$919,229	\$839,449	\$1,041,458	\$982,495	\$2,391,081
Inventory	\$4,677,351	\$4,122,117	\$4,149,682	\$4,432,126	\$2,323,167
Other Current Assets	\$48,111	\$40,137	\$442,060	\$49,542	\$42,153
Total Current Assets	\$5,651,203	\$5,047,598	\$5,634,883	\$5,498,530	\$4,783,644
LONG-TERM ASSETS					
Fixed Assets	\$486,236	\$736,476	\$881,409	\$1,061,428	\$1,195,124
Accumulated Depreciation	\$139,088	\$265,795	\$398,269	\$543,161	\$685,710
Net Fixed Assets	\$347,148	\$470,681	\$483,140	\$518,267	\$509,414
Other Long-term Assets	\$1,569,490	\$1,569,488	\$1,569,489	\$1,569,489	\$1,569,488
Total Long-term Assets	\$1,916,638	\$2,040,169	\$2,052,629	\$2,087,756	\$2,078,902
Total Assets	\$7,567,841	\$7,087,767	\$7,687,512	\$7,586,286	\$6,862,546
CURRENT LIABILITIES					
Cur. Maturities of LT Debt	\$367,331	\$103,267	\$477,597	\$0	\$0
Accounts Payable	\$469,949	\$658,119	\$1,003,148	\$105,451	\$154,704
Notes Payable	\$24,650	\$33,566	\$22,698	\$22,966	\$36,555
Other Current Liabilities	\$94,625	\$71,281	\$121,977	\$68,471	\$18,383
Total Current Liabilities	\$956,555	\$866,233	\$1,625,420	\$196,888	\$209,642
LT LIABILITIES & EQUITY					
Term Debt	\$3,538,654	\$2,642,733	\$1,822,670	\$33,752	\$380,760
Other Long-term Liabilities	\$1,765,010	\$1,823,697	\$1,654,730	\$913,500	\$1,472,574
Total Long-term Liabilities	\$5,303,664	\$4,466,430	\$3,477,400	\$947,252	\$1,853,334
Total Liabilities	\$6,260,219	\$5,332,663	\$5,102,820	\$1,144,140	\$2,062,976
EQUITY					
Capital Stock	\$105,000	\$105,000	\$105,000	\$105,000	\$105,000
Retained Earnings	\$1,202,622	\$752,622	\$1,624,777	\$6,337,146	\$6,337,144
Other Stockholders' Equity	\$0	\$897,482	\$854,915	\$0	(\$1,642,574)
Total Stockholders Equity	\$1,307,622	\$1,755,104	\$2,584,692	\$6,442,146	\$4,799,570
Total Liabilities & Equity	\$7,567,841	\$7,087,767	\$7,687,512	\$7,586,286	\$6,862,546

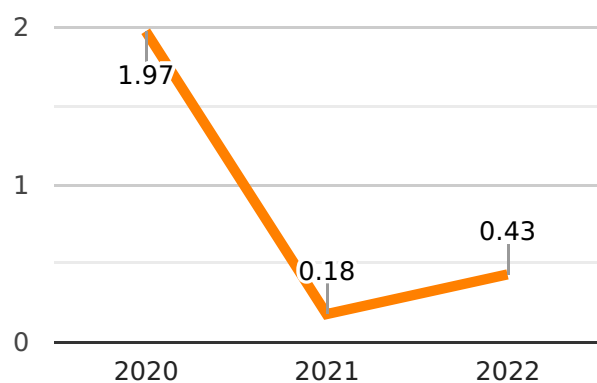


POINTS TO CONSIDER

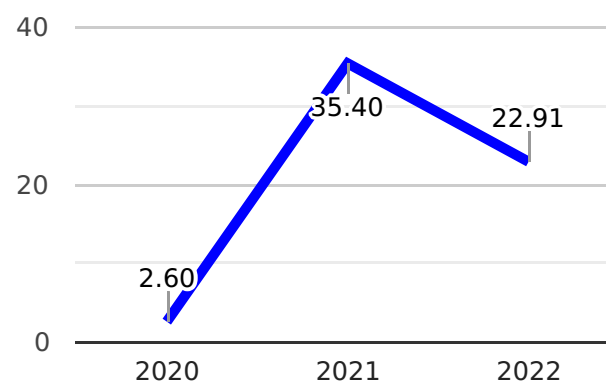
Current Ratio: The Current Ratio is a liquidity measure of the short-term balance sheet (current assets/current liabilities). Because current liabilities are relatively small, the working capital adjustment using the current ratio is not applicable. Rather we estimate \$2,500,000 for the needed working capital. The Company has excess working capital of \$1,961,880.

Balance Sheet (Common-Sized)	2018	2019	2020	2021	2022
CURRENT ASSETS					
Cash	0.09%	0.65%	0.02%	0.45%	0.40%
Accounts Receivable	12.15%	11.84%	13.55%	12.95%	34.84%
Inventory	61.81%	58.16%	53.98%	58.42%	33.85%
Other Current Assets	0.64%	0.57%	5.75%	0.65%	0.61%
Total Current Assets	74.67%	71.22%	73.30%	72.48%	69.71%
LONG-TERM ASSETS					
Total Fixed Assets	6.43%	10.39%	11.47%	13.99%	17.42%
Accumulated Depreciation	1.84%	3.75%	5.18%	7.16%	9.99%
Net Fixed Assets	4.59%	6.64%	6.28%	6.83%	7.42%
Other Long-term Assets	20.74%	22.14%	20.42%	20.69%	22.87%
Total Long Term Assets	25.33%	28.78%	26.70%	27.52%	30.29%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
CURRENT LIABILITIES					
Current Maturities of LT Debt	4.85%	1.46%	6.21%	0.00%	0.00%
Accounts Payable	6.21%	9.29%	13.05%	1.39%	2.25%
Notes Payable	0.33%	0.47%	0.30%	0.30%	0.53%
Other Current Liabilities	1.25%	1.01%	1.59%	0.90%	0.27%
Total Current Liabilities	12.64%	12.22%	21.14%	2.60%	3.05%
LONG TERM LIABILITIES					
Term Debt	46.76%	37.29%	23.71%	0.44%	5.55%
Other Long-term Liabilities	23.32%	25.73%	21.52%	12.04%	21.46%
Total Long Term Liabilities	70.08%	63.02%	45.23%	12.49%	27.01%
Total Liabilities	82.72%	75.24%	66.38%	15.08%	30.06%
STOCKHOLDERS' EQUITY					
Capital Stock	1.39%	1.48%	1.37%	1.38%	1.53%
Retained Earnings	15.89%	10.62%	21.14%	83.53%	92.34%
Other Stockholders Equity	0.00%	12.66%	11.12%	0.00%	(23.94%)
Total Stockholders' Equity	17.28%	24.76%	33.62%	84.92%	69.94%
Total Liabilities & Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Debt to Net Worth



Debt Service Coverage

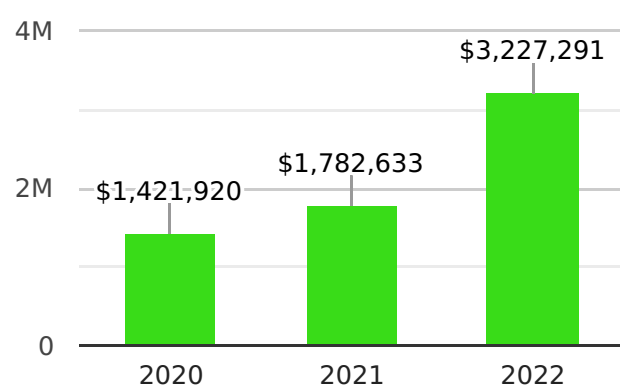


POINTS TO CONSIDER

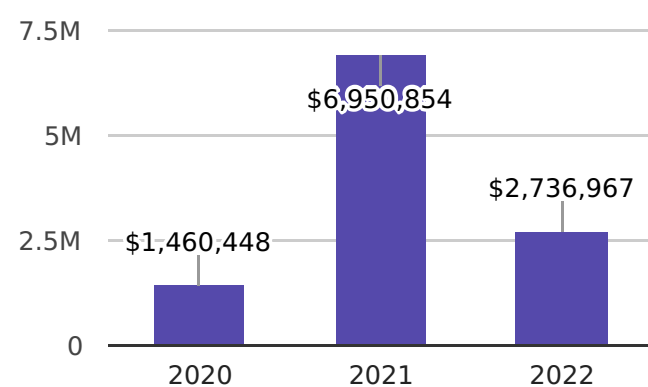
Leverage: A company's capital structure should allow for adequate liquidity which can be measured by the Debt to Net Worth Ratio (< 4:1 is best) and the Debt Service Coverage Ratio (> 1.25 is acceptable). The Company has a comfortable debt to equity capital structure. The Company's Debt Service Coverage seems to be adequate.

UCA Cash Flow Statement	2020	2021	2022
Revenues	\$30,985,812	\$32,001,372	\$34,348,597
Change In Accounts Receivable	(\$202,009)	\$58,963	(\$1,408,586)
CASH FROM SALES	\$30,783,803	\$32,060,335	\$32,940,011
Cost Of Goods Sold	(\$25,756,556)	(\$25,936,479)	(\$28,831,054)
Change In Inventory	(\$27,565)	(\$282,444)	\$2,108,959
Change In Accounts Payable	\$345,029	(\$897,697)	\$49,253
Production Costs	(\$25,439,092)	(\$27,116,620)	(\$26,672,842)
CASH AFTER PRODUCTION	\$5,344,711	\$4,943,715	\$6,267,169
Operating Expenses (non-cash items excluded)	(\$3,571,564)	(\$3,500,094)	(\$2,997,179)
Change In Other Current Assets	(\$401,923)	\$392,518	\$7,389
Change In Other Current Liabilities	\$50,696	(\$53,506)	(\$50,088)
Total Operating Cost	(\$3,922,791)	(\$3,161,082)	(\$3,039,878)
CASH AFTER OPERATIONS	\$1,421,920	\$1,782,633	\$3,227,291
Change In Other Long-term Liabilities	(\$168,967)	(\$741,230)	\$559,074
Income Taxes Paid	\$0	\$0	\$0
Other Non Op. Expenses (Income)	(\$7,804)	(\$5,016,257)	(\$98,645)
Total Other Operating Expenses (Income)	(\$176,771)	(\$5,757,487)	\$460,429
CASH AFTER ALL OPERATIONS	\$1,598,691	\$7,540,120	\$2,766,862
Interest Paid	(\$109,958)	(\$68,350)	(\$103,800)
CASH AFTER FINANCING COST	\$1,708,649	\$7,608,470	\$2,870,662
Current Maturities of Long-term Debt	(\$103,267)	(\$477,597)	\$0
CASH AFTER DEBT AMORTIZATION (CADA)	\$1,605,382	\$7,130,873	\$2,870,662
Capital Expenditures	(\$144,933)	(\$180,019)	(\$133,696)
Intangibles	\$0	\$0	\$0
Change In Other Long-term Assets	(\$1)	\$0	\$1
Fixture & Investments	(\$144,934)	(\$180,019)	(\$133,695)
CASH AFTER INVESTMENTS - surplus or (needs)	\$1,460,448	\$6,950,854	\$2,736,967
Change In Short Term Notes	(\$10,868)	\$268	\$13,589
Change Long-term Debt	(\$342,466)	(\$1,788,918)	\$347,008
Financing Activity	(\$353,334)	(\$1,788,650)	\$360,597
Addbacks	(\$54,250)	(\$54,360)	(\$106,550)
CHANGE IN CASH (before tax or distributions)	\$1,052,864	\$5,107,844	\$2,991,014

Cash After Operations

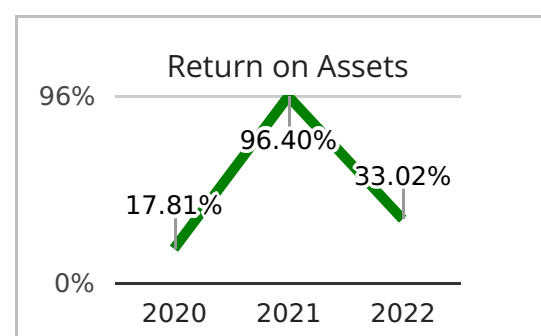
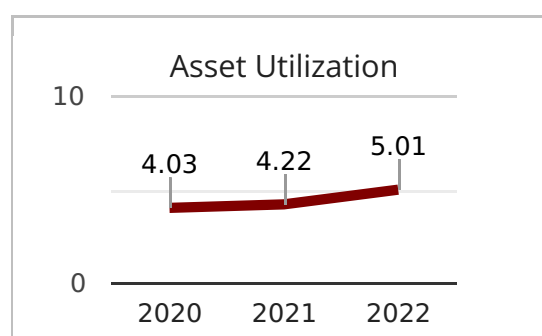
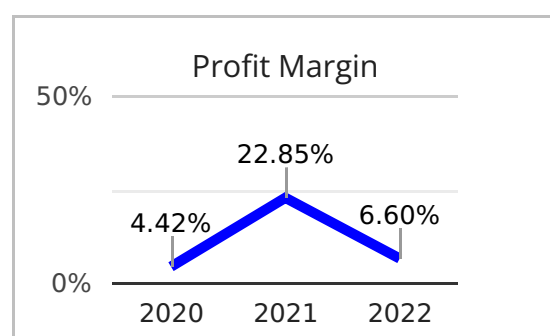


Cash Surplus (Cash Needs)



The Cash After Debt Amortization (CADA) is generally what a bank looks at when loaning money. The Cash After Investments estimates whether the company has a cash need or a cash surplus which is vital for company planning.

RATIO REVIEW	2018	2019	2020	2021	2022
PROFITABILITY RATIOS					
Sales Growth (> is better)		0.66%	15.81%	3.28%	7.33%
Gross Profit Growth (> is better)		1.60%	10.41%	15.98%	(9.02%)
Operating Expense Growth (< is better)		4.06%	15.00%	(1.59%)	(13.86%)
Operating Income Growth (> is better)		(3.26%)	0.67%	58.66%	(1.74%)
Cost Of Goods Sold	82.46%	82.30%	83.12%	81.05%	83.94%
Operating Expense	11.64%	12.04%	11.95%	11.39%	9.14%
Operating Income	5.89%	5.66%	4.92%	7.56%	6.92%
Net Profit Before Tax	4.52%	5.04%	4.42%	22.85%	6.60%
Operating EBITDA Margin	6.37%	6.14%	5.35%	8.01%	7.34%
Return on Assets (> is better)	15.89%	19.03%	17.81%	96.40%	33.02%
Return on Equity (> is better)	183.94%	88.08%	63.08%	162.04%	40.32%
Return on Capital Employed (> is better)	23.07%	29.97%	28.02%	112.93%	43.74%
LIQUIDITY RATIOS					
Current Ratio (> is better)	5.91	5.83	3.47	27.93	22.82
Quick Ratio (> is better)	1.02	1.07	0.91	5.42	11.74
Near Term Cash (cash + AR - AP)	\$455,792	\$227,225	\$39,993	\$911,411	\$2,263,620
Working Capital (> is better)	\$4,694,648	\$4,181,365	\$4,009,463	\$5,301,642	\$4,574,002
Working Capital to Sales (< is better)	17.66%	15.63%	12.94%	16.57%	13.32%
Working Capital Turnover (> is better)	5.66	6.40	7.73	6.04	7.51
ACTIVITY RATIOS					
Accounts Receivable Days (< is better)	12.62	11.45	12.27	11.21	25.41
Inventory Days (< is better)	77.89	68.33	58.81	62.37	29.41
Accounts Payable Days (> is better)	7.83	10.91	14.22	1.48	1.96
Working Capital Days (> is better)	64.47	57.04	47.23	60.47	48.60
Cash Conversion Cycle (< is better)	82.69	68.87	56.86	72.09	52.86
Asset Turnover (> is better)	3.51	3.77	4.03	4.22	5.01
Fixed Asset Turnover (> is better)	76.57	56.85	64.13	61.75	67.43
Sustainable Growth Rate (> is better)	119.56%	57.25%	41.00%	105.32%	26.21%
FINANCIAL RATIOS					
Term Debt to Net Worth	2.99	1.56	0.89	0.01	0.08
Debt To Net Worth (< 4:1 is better)	4.79	3.04	1.97	0.18	0.43
Debt to Assets (financing assets)	0.83	0.75	0.66	0.15	0.30
Capitalization Ratio (<30% is better)	74.92%	61.01%	47.09%	0.52%	7.35%
Interest Coverage (>3 is better)	8.62	10.97	13.45	108	22.83
Debt Service Coverage Ratio (1.25 is better)	2.98	6.35	2.60	35.40	22.91



POINTS TO CONSIDER

In the latest period inefficient expense controls contributed to a reduction in the Return on Assets (ROA) and the Asset Utilization positively impacted the ROA. The ROA is one of the most important measures on overall company performance. Expense controls and driving the most sales from the assets are the key to building value.

INTERIM INCOME STATEMENT AS OF 2023-02-03

Interim Income Statement		Interim
REVENUES		\$2,943,256
Cost Of Goods Sold		\$2,425,365
GROSS PROFIT		\$517,891
Gross Profit Margin		17.60%
OPERATING EXPENSES		
Amortization		\$0
Depreciation		\$112,500
Wages & Salaries		\$106,540
Officer Salaries & Wages		\$22,000
Other Expenses		\$49,000
Total Operating Expenses		\$290,040
OPERATING INCOME		\$227,851
Operating Income Margin		7.74%
Interest		\$8,650
Other Expenses (Income)		\$0
NET PROFIT BEFORE TAX		\$219,201
Addbacks		\$4,583
Reported Profit (Loss)		\$214,618

INTERIM BALANCE SHEET AS OF 2023-02-03

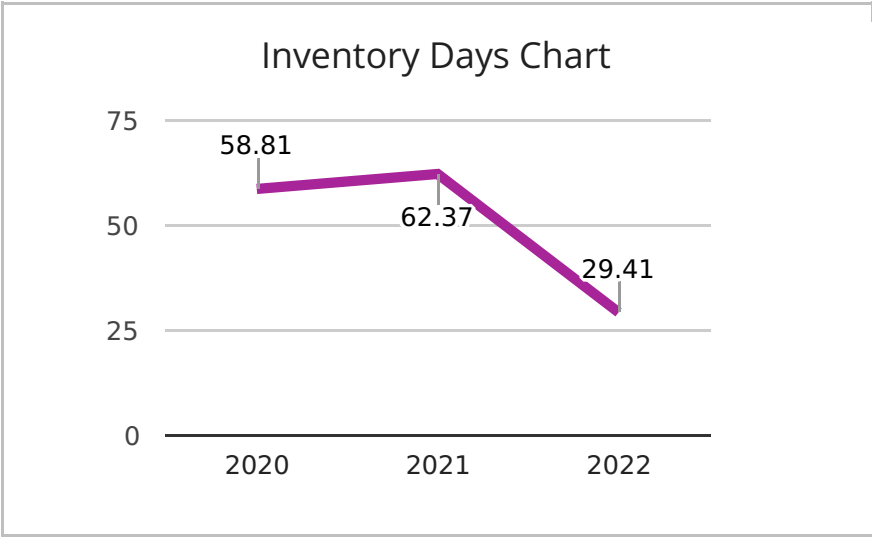
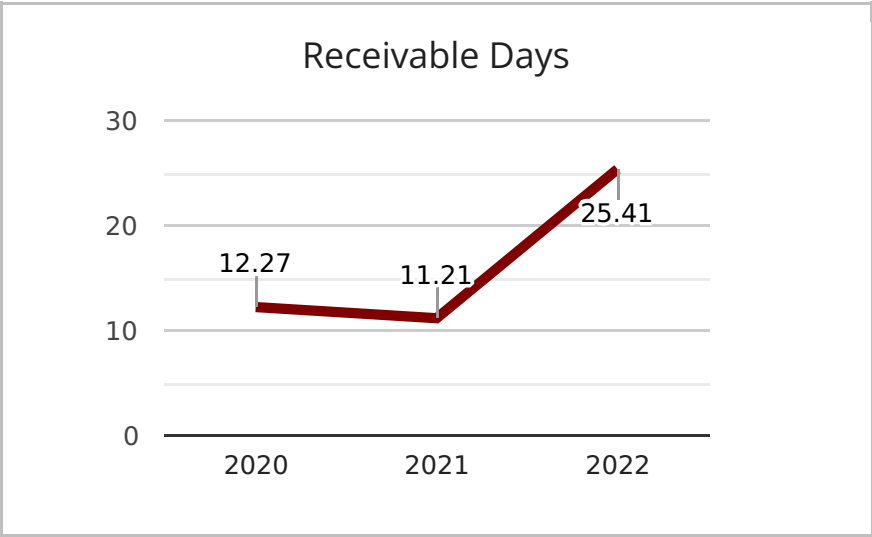
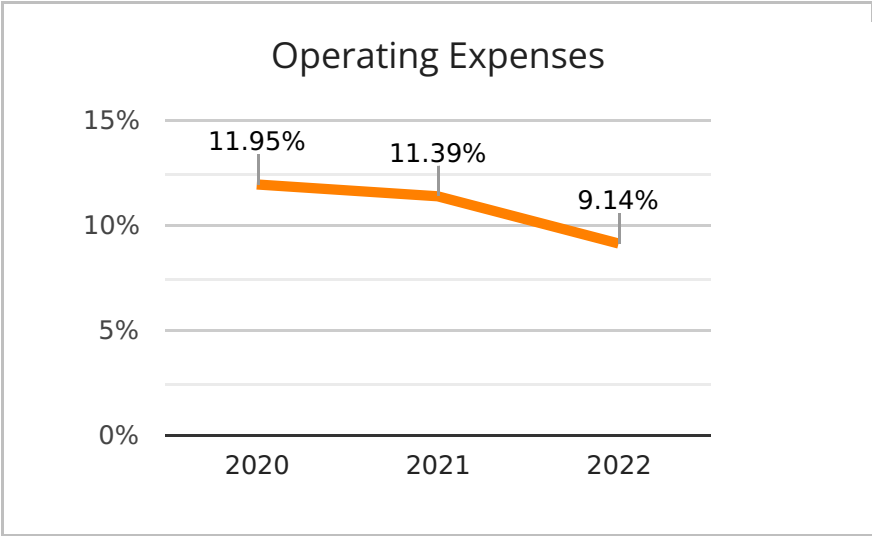
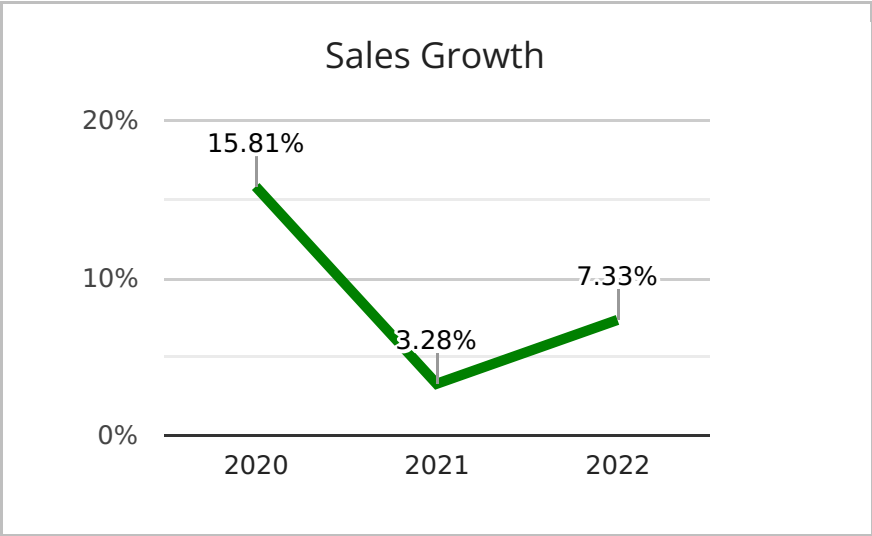
Interim Balance Sheet		Interim
CURRENT ASSETS		
Cash & Equivalents		\$54,333
Accounts Receivable (Trade)		\$2,254,211
Inventory		\$2,365,000
Other Current Assets		\$43,620
Total Current Assets		\$4,717,164
LONG-TERM ASSETS		
Net Fixed Assets		\$509,414
Other Long Term Assets		\$1,569,489
Total Assets		\$6,796,067
CURRENT LIABILITIES		
Cur. Maturities of Long Term Debt		\$0
Accounts Payable		\$136,890
Notes Payable		\$31,400
Other Current Liabilities		\$86,994
Total Current Liabilities		\$255,284
LONG_TERM LIABILITIES		
Term Debt		\$380,760
Other Long Term Liabilities		\$2,903,812
Total Liabilities		\$3,539,856
STOCKHOLDERS' EQUITY		
Equity Interim		\$3,256,211
Total Liabilities & Stockholders Equity		\$6,796,067

FORECASTING THE CASH DRIVERS

The historical ratios that drive a company’s earnings and cash flow are called the Cash Drivers and are displayed on the table below called "Cash Drivers & Forecast". These cash drivers are the engine that generates and consumes cash for all businesses and optimizing these cash flows will improve a company's value. The industry in which the company participates will likely govern what cash drivers the company may or may not have.

After talking to management and/or the client and reviewing the Company’s financial operations, the forecasted ratios have been estimated and can be found in the last column labeled "Forecast". The estimated ratios and percentages are based on past performance and reasonable expectations. All cash drivers have been reviewed for trends and expectations for future performance.

The estimated cash drivers will impact the financials of the company (income statement and balance sheet) over the next several years. The resulting income statement forecast and corresponding balance sheets will be estimated on the next page of this report. The financial forecast is applied in the Income Approach.



Cash Drivers & Forecast	2018	2019	2020	2021	2022	Forecast
Primary Cash Drivers						
Sales Growth		0.66%	15.81%	3.28%	7.33%	8.00%
Cost Of Goods Sold	82.46%	82.30%	83.12%	81.05%	83.94%	83.00%
Operating Expenses	11.64%	12.04%	11.95%	11.39%	9.14%	0.00%
Secondary Cash Drivers						
Accounts Receivable Days	12.62	11.45	12.27	11.21	25.41	25.41
Inventory Days	77.89	68.33	58.81	62.37	29.41	24.69
Accounts Payable Days	46.64	33.46	25.68	245.96	186.36	1.64
Capital Expenditures	0.00%	0.94%	0.47%	0.56%	0.39%	0.50%

Income Statement (Forecast)	2023	2024	2025	2026	2027
INCOME STATEMENT BRIEF					
Sales	\$37,096,485	\$39,693,239	\$42,471,765	\$45,444,789	\$47,717,028
Sales Growth	8.00%	7.00%	7.00%	7.00%	5.00%
Cost of Goods Sold	\$30,790,082	\$32,945,388	\$35,251,565	\$37,719,175	\$39,605,134
Gross Profit	\$6,306,402	\$6,747,851	\$7,220,200	\$7,725,614	\$8,111,895
Gross Profit Margin	17.00%	17.00%	17.00%	17.00%	17.00%
OPERATING EXPENSES					
Depreciation	\$155,805	\$166,712	\$178,381	\$190,868	\$200,412
Selling, General & Admin Expenses	\$3,553,843	\$3,802,612	\$3,644,077	\$3,899,163	\$4,094,121
Total Operating Expenses	\$3,709,648	\$3,969,324	\$3,822,459	\$4,090,031	\$4,294,533
Operating Income (EBIT)	\$2,596,754	\$2,778,527	\$3,397,741	\$3,635,583	\$3,817,362
Operating Income %	7.00%	7.00%	8.00%	8.00%	8.00%
Operating EBITDA	\$2,752,559	\$2,945,238	\$3,576,123	\$3,826,451	\$4,017,774
EBITDA %	7.42%	7.42%	8.42%	8.42%	8.42%
Net Operating Profit After Tax (NOPAT)	\$1,635,955	\$1,750,472	\$2,140,577	\$2,290,417	\$2,404,938
NOPAT %	4.41%	4.41%	5.04%	5.04%	5.04%

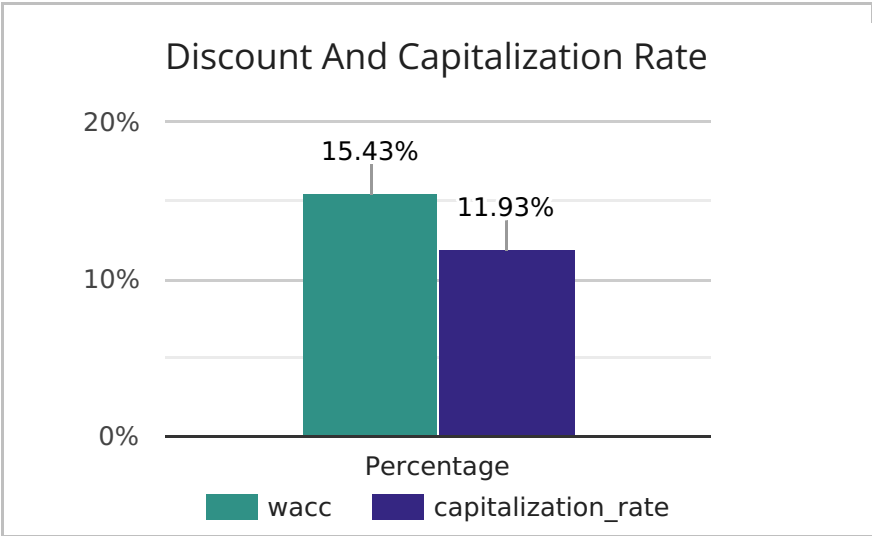
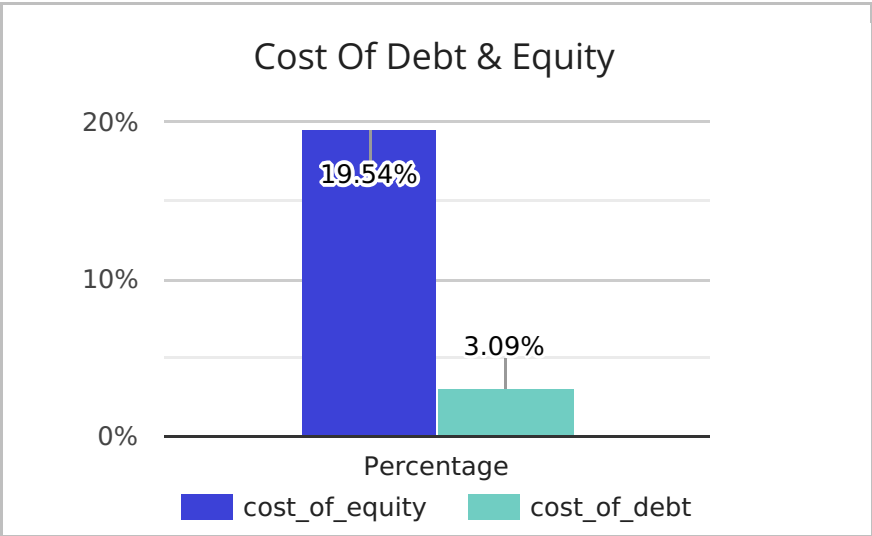
Balance Sheet (Forecast)	2023	2024	2025	2026	2027
ASSETS					
Cash	\$29,422	\$31,482	\$33,686	\$36,044	\$37,846
Accounts Receivables	\$2,582,367	\$2,763,133	\$2,956,553	\$3,163,511	\$3,321,687
Inventory	\$2,082,487	\$2,228,261	\$2,384,239	\$2,551,136	\$2,678,693
Other Current Assets	\$45,525	\$48,712	\$52,122	\$55,770	\$58,559
Current Assets	\$4,739,802	\$5,071,588	\$5,426,599	\$5,806,461	\$6,096,784
LONG-TERM ASSETS					
Net Fixed Assets	\$550,167	\$588,679	\$629,886	\$673,978	\$707,677
Other Long Term Assets	\$1,695,047	\$1,813,700	\$1,940,659	\$2,076,506	\$2,180,331
Total Assets	\$6,985,016	\$7,473,967	\$7,997,145	\$8,556,945	\$8,984,792
LIABILITIES					
Accounts Payable	\$138,677	\$148,384	\$158,771	\$169,885	\$178,379
Current Maturities of Long-Term Debt	\$0	\$0	\$0	\$0	\$0
Notes Payable	\$36,555	\$36,555	\$36,555	\$36,555	\$36,555
Other Current Liabilities	\$19,854	\$21,243	\$22,730	\$24,322	\$25,538
Current Liabilities	\$195,085	\$206,182	\$218,056	\$230,761	\$240,472
LONG-TERM LIABILITIES					
Term Debt	\$380,760	\$380,760	\$380,760	\$380,760	\$380,760
Other Long Term Liabilities	\$1,590,380	\$1,701,707	\$1,820,826	\$1,948,284	\$2,045,698
Total Liabilities	\$2,166,225	\$2,288,649	\$2,419,642	\$2,559,805	\$2,666,930
LIABILITIES & EQUITY					
Shareholders' Equity	\$4,818,791	\$5,185,318	\$5,577,503	\$5,997,140	\$6,317,863
Total Liabilities & Equity	\$6,985,016	\$7,473,967	\$7,997,145	\$8,556,945	\$8,984,792
WORKING CAPITAL					
Working Capital	\$4,544,717	\$4,865,406	\$5,208,543	\$5,575,700	\$5,856,313
Working Capital (No Debt)	\$4,515,294	\$4,833,924	\$5,174,857	\$5,539,656	\$5,818,467
Working Capital Change	\$31,465	(\$318,629)	(\$340,934)	(\$364,799)	(\$278,811)

BUILD UP METHOD, DISCOUNT AND CAPITALIZATION RATE

The Build Up Method (BUM) applies risk factors to a proposed investment to arrive at the Discount Rate which is used in the Income Approach to Value. The BUM adds the Risk-Free Rate (assumes no risk on T Bills), the Equity Risk Premium (risk of equity above the T Bill), the Company Specific Risk Premium (CSRP) which is a non-diversified company risk, the Industry Risk (specific to the subject's industry) and Size Premium Risk (smaller companies have more risk). These risk factors total the Cost of Equity which is the rate of return an investor would seek on this type of investment in the subject company. The 20 year T-bill is a "normalized" rate that considers the Federal Reserves' policies to increase the money supply which drives interest rates lower.

The CSRP was given 1.00% points which adds to the investment risk which decreases value. The Cost of Equity and the Cost of Debt are weighted proportionately to determine the industry's capital structure and is called the Weighted Average Cost of Capital (WACC) and is commonly referred to as the Discount Rate (Cost of Capital). The Discount Rate is applied to the future cash flows in the Discounted Cash Flow Method on the next page. The long-term Growth Rate is deducted from the Discount Rate to arrive at the Capitalization Rate. The Capitalization Rate is applied to the Capitalization of Earnings method reviewed on the "Valuation Approaches" page.

Discount & Capitalization Rate		Percentage
Risk Free Rate		3.50%
Equity Risk Premium		6.00%
Industry Risk Premium		1.15%
Size Premium		7.89%
Company Specific Risk Premium		1.00%
Cost of Equity		19.54%
Cost of Debt (tax effected)		3.09%
Discount Rate (WACC)		15.43%
Growth Rate Terminal Year		3.50%
Capitalization Rate		11.93%



THE WEIGHTED AVERAGE COST OF CAPITAL DETAIL

Calculating the Cost of Equity is the first part to estimate the weighted average cost of capital. Oak Street Supply's Cost of Equity is 19.54%. The information source is the CRSP Deciles Size Study from Duff & Phelps Cost of Capital (online) and the formula is:

$$K_e = R_f + ERP + R_{Pi} + R_{Ps} + CSRP$$

K_e = Cost of equity

(Source: Duff & Phelps Cost of Capital, normalized 20-year treasury)

R_f = Risk free rate of return on security

(Source: Duff & Phelps Cost of Capital)

ERP = Equity risk premium

(Source: Duff & Phelps Cost of Capital)

R_{Pi} = Industry risk premium

(Source: Duff and Phelps Cost of Capital Full Beta)

R_{Ps} = Risk premium on small stocks

(Source: Duff and Phelps Cost of Capital CRSP Decile 10B)

$CSRP$ = Company specific risk premium

(The CSRP is added to account for risk above the financial markets)

The Weighted Average Cost of Capital (WACC) or Discount Rate for Oak Street Supply is 15.43%. The WACC proportionately weights the capital structure with the industry's capitalization of equity and debt. To arrive at the WACC the Cost of Equity and the Cost of Debt need to be calculated. The formula is:

$$WACC = (K_e \times E) + (K_d \times D)$$

WACC = Weighted average cost of capital

K_e = Cost of equity

K_d = Cost of debt

E = Percentage of equity in the capital structure

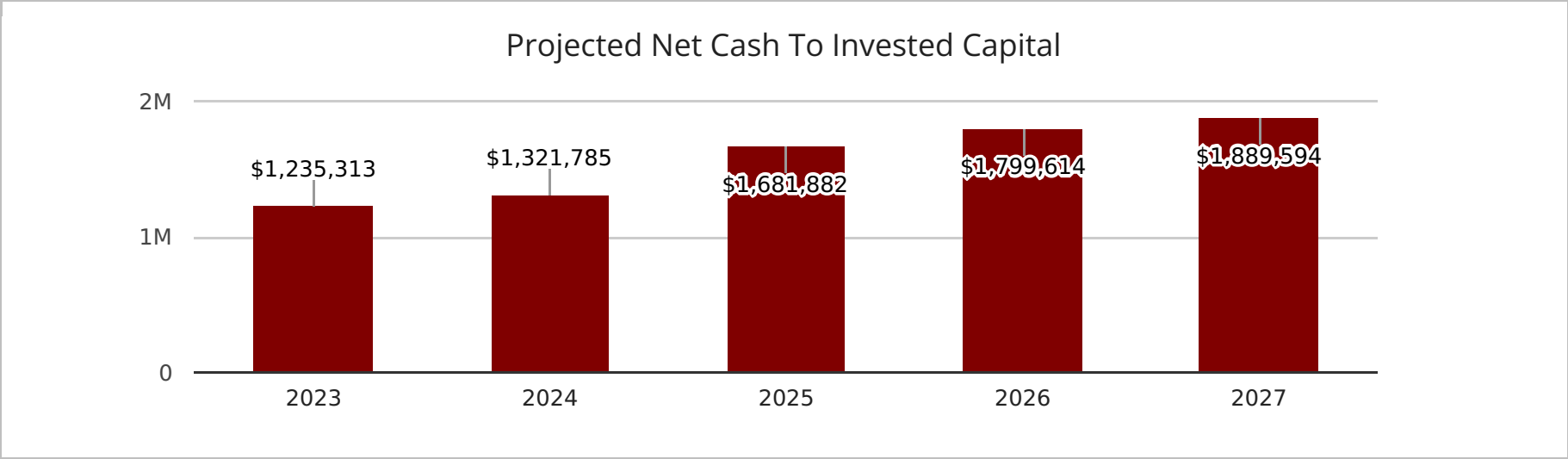
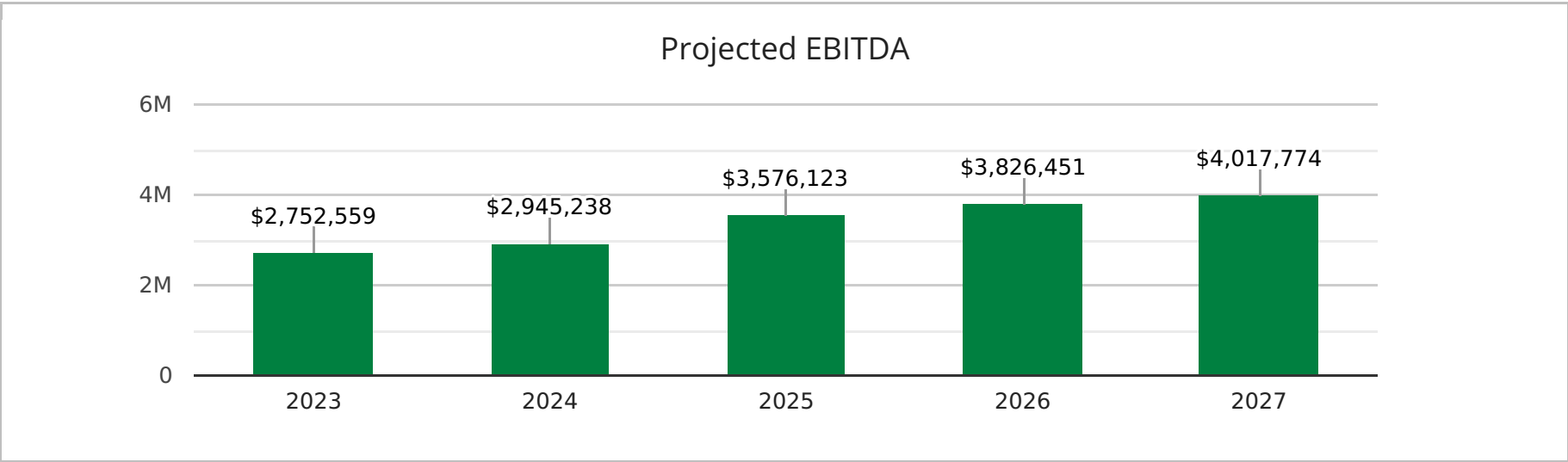
D = Percentage of debt in the capital structure

NET CASH FLOW (TO INVESTED CAPITAL)

The Net Cash Flow to Invested Capital is the cash available to debt and equity holders and is projected for a period of years (below). In the “termination” year after the last projected year, the shareholders theoretically recapitalize the business to total the sale proceeds along with the years of Operating Net Cash Flow. The Terminal Value is based on the month after the last projected year of net cash flow which is capitalized using the Capitalization Rate. The present value of the sum of the Operating Net Cash Flow plus the Terminal Value cash flow is presented on the next page under the Discounted Cash Flow Method.

Mid-Year or End-of-Year Convention Note: When applying the discount rate, it is typical to use either the end-of-year or mid-year in assuming the timing of the annual cash flows. Normally the mid-year best reflects the timing of the cash flows as the first half of cash flows will be overly discounted and the last half of the year will be under discounted. However the mid-year convention is best as the first and last half both cancel each other out and the middle of the year takes precedence. The end-of-year convention assumes the cash flows will come in at the very end of the year such as strong retail holiday sales. This report uses the mid-year convention.

Net Cash Flow to IC	2023	2024	2025	2026	2027
Revenue	\$37,096,485	\$39,693,239	\$42,471,765	\$45,444,789	\$47,717,028
Growth Rate	8.00%	7.00%	7.00%	7.00%	5.00%
EBITDA	\$2,752,559	\$2,945,238	\$3,576,123	\$3,826,451	\$4,017,774
EBITDA %	7.42%	7.42%	8.42%	8.42%	8.42%
Income Taxes (37% Marginal Rate)	(\$960,799)	(\$1,028,055)	(\$1,257,164)	(\$1,345,166)	(\$1,412,424)
Capital Expenditures	(\$185,482)	(\$198,466)	(\$212,359)	(\$227,224)	(\$238,585)
Working Capital Change	(\$370,965)	(\$396,932)	(\$424,718)	(\$454,448)	(\$477,170)
NCF to Invested Capital	\$1,235,313	\$1,321,785	\$1,681,882	\$1,799,614	\$1,889,594



DISCOUNTED CASH FLOW METHOD (INCOME APPROACH)

The Net Cash Flow (NCF) is projected for 5 years. In the “termination” year after the fifth year, the shareholders theoretically recapitalize the business to total the sale proceeds and 5 years of operating net cash flow. The terminal value is based on the month after the fifth year's net cash flow which is capitalized using the Capitalization Rate. The DCF Method is the present value of the two cash flows.

Discounted Cash Flow Method (NCF to IC)		Present Value
Discounted Value of Operating Net Cash Flow		\$5,470,648
Discounted Cash Flow of Terminal Value		\$8,598,203
Discounted Cash Flow Method (DCF)		\$14,068,852

CAPITALIZATION OF EARNINGS METHOD (INCOME APPROACH)

The Capitalization of Earnings Method is based on the next year’s forecasted Net Cash Flow to Invested Capital which is the NCF available to shareholder's and debt holders. The Capitalization Rate is adjusted for the company's mature growth rate. The Net Cash Flow is divided by the Capitalization Rate which calculates the company's Capitalized Value. The Capitalization of Earnings Method capitalizes one single year of net cash flow which is more applicable to mature companies with stable earnings and less so for those with significant variances.

Capitalization of Earnings Method (NCF to IC)		Present Value
Next Year of Projected NCF to IC		\$1,235,313
Capitalization Rate		11.93%
Capitalized Method (NCF / Cap Rate)		\$10,356,847

SELLING MULTIPLES (MARKET APPROACH)

The Market Approach applies industry selling multiples (mean) to the Company's EBIT, EBITDA, Net Operating Profit After Tax and Sellers Discretionary Earnings. The Company's applied multiples can be adjusted higher or lower than the industry multiple as the Company is out-performing or under-performing the industry.

Market Multiples Method	EBITDA	EBIT	NOPAT	SDE	Sales	Gross Profit
Industry Average Selling Multiple	5.20	5.40	8	2.60	0.56	2.20
Adjusted Selling Multiple	5.20	5.40	8	2.60	0.56	2.20
Subject Company Data	\$2,520,364	\$2,377,815	\$1,498,023	\$2,720,364	\$34,348,597	\$5,517,543
Market Multiples Method	\$13,105,893	\$12,840,201	\$11,984,188	\$7,072,946	\$19,235,214	\$12,138,595

NET ASSET VALUE METHOD (ASSET APPROACH)

The asset approach subtracts the market value of the liabilities from the market value of the assets to arrive at the Net Asset Value. If the asset and liabilities have been adjusted, this will be expanded on the next two pages.

Net Asset Value		Value
Total Assets		\$7,071,067
Total Liabilities		\$3,539,856
Net Asset Value		\$3,531,211

NET ASSET VALUE AS OF 2023-02-03

Net Asset Value	Historic	Adjustment	Adjusted
CURRENT ASSETS			
Cash & Equivalents	\$54,333	\$0	\$54,333
Accounts Receivable	\$2,254,211	\$0	\$2,254,211
Inventory	\$2,365,000	\$0	\$2,365,000
Other Current Assets	\$43,620	\$0	\$43,620
Total Current Assets	\$4,717,164	-	\$4,717,164
LONG-TERM ASSETS			
Net Fixed Assets	\$509,414	\$275,000	\$784,414
Other Long-Term Assets	\$1,569,489	\$0	\$1,569,489
Total Assets	\$6,796,067	-	\$7,071,067
CURRENT LIABILITIES			
Current Maturities of LT Debt	\$0	\$0	\$0
Accounts Payable	\$136,890	\$0	\$136,890
Notes Payable	\$31,400	\$0	\$31,400
Other Current Liabilities	\$86,994	\$0	\$86,994
Total Current Liabilities	\$255,284	-	\$255,284
LONG-TERM LIABILITIES			
Term Debt	\$380,760	\$0	\$380,760
Other Long-Term Liabilities	\$2,903,812	\$0	\$2,903,812
Total Liabilities	\$3,539,856	-	\$3,539,856
NET ASSET VALUE	\$3,256,211	-	\$3,531,211

NOTE: The balance sheet has been adjusted to reflect current market values of applicable assets and liabilities.

In this case the the Fixed Assets have been adjusted to reflect the current value of the equipment.

WEIGHTING OR ALLOCATING VALUE: Valuations are part subjective and relate to the quality of the benefit stream, risk and market conditions. Various methods and calculations have been selected and weighted that best represent company value. The DCF was weighted 50.00% as it measures future cash flow, risk and value over several years. The Capitalization of Earnings was not used because this years NCF was not a consistent measure or the DCF was used. EBITDA was weighted 50.00% because it serves as a good proxy to operating cash flow value. EBIT was not used because it wasn't a good measure of debt free operating income or EBITDA was a better measure. NOPAT was not used as the tax adjusted operating income did not reflect value or other calculations were more relevant. The Fair Market Value (FMV) for 100% of Oak Street Supply's enterprise value is \$13,587,372.

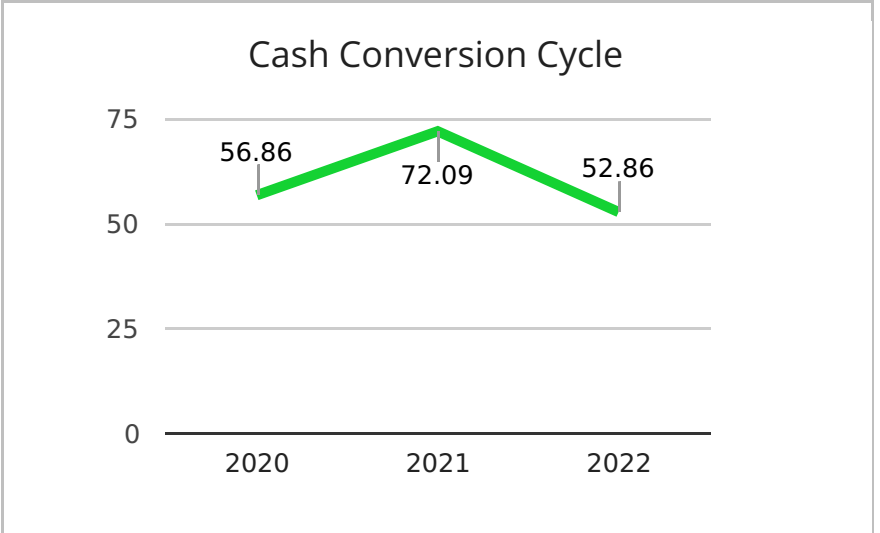
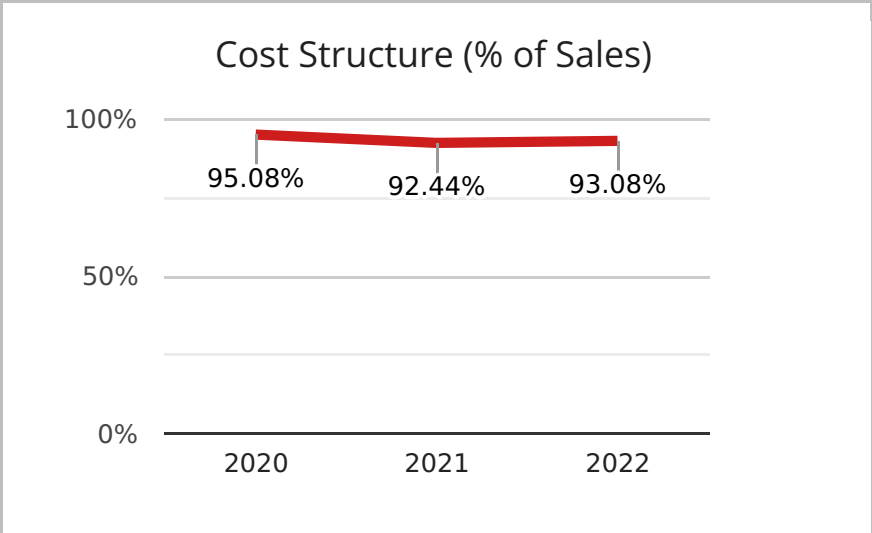
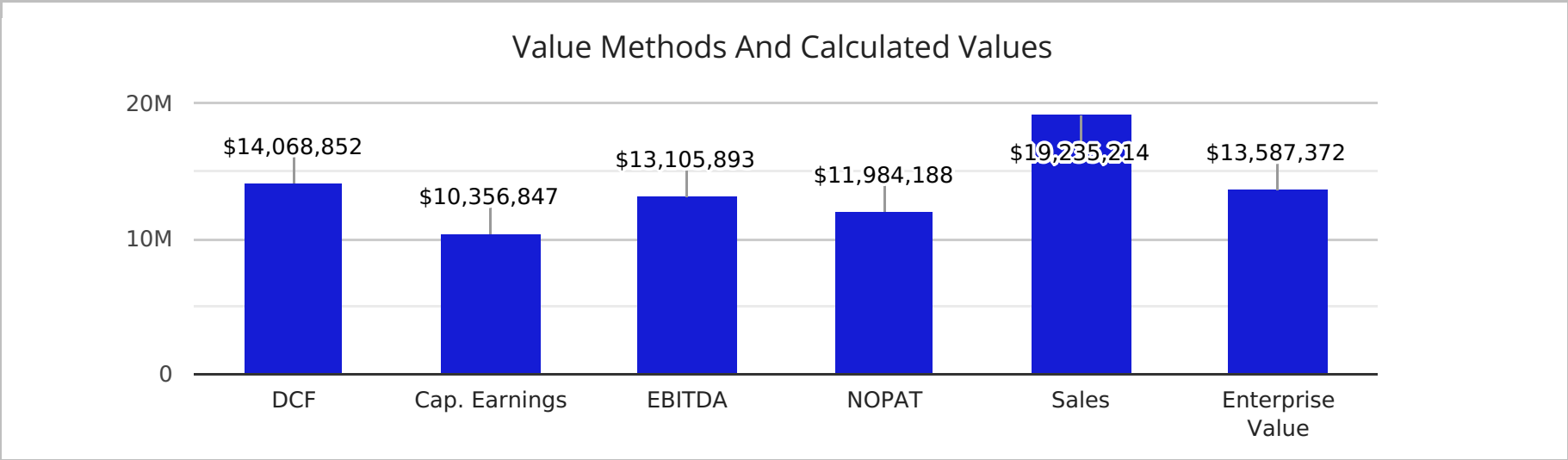
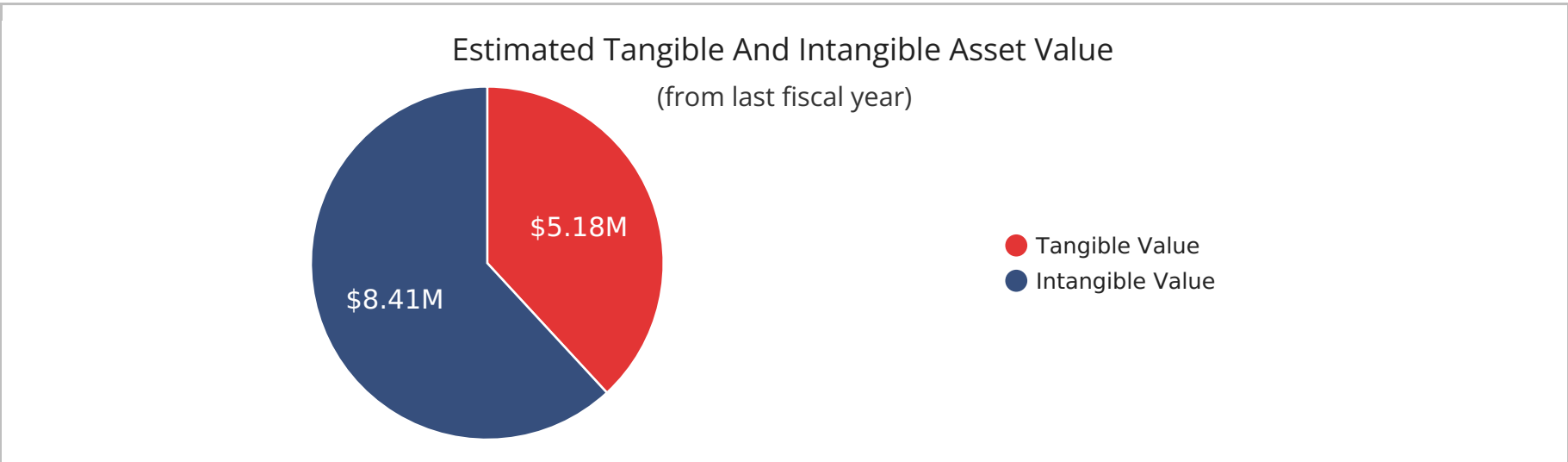
Weighting for Enterprise Value	Valuation	Weighting	Applied Value
Discounted Cash Flow Method (Income)	\$14,068,852	50.00%	\$7,034,426
Capitalization of Earnings Method (Income)	\$10,356,847	0.00%	\$0
EBITDA Calculation (Market)	\$13,105,893	50.00%	\$6,552,946
EBIT Calculation (Market)	\$12,840,201	0.00%	\$0
Net Asset Value (Asset Approach)	\$3,531,211	0.00%	\$0
Net Operating Profit After Tax Calculation (Market)	\$11,984,188	0.00%	\$0
Enterprise Value for 100% of Company		-	\$13,587,372
Enterprise Value After WC Adjustment		-	\$15,549,252
Equity Value for 100% of Company		-	\$15,168,492

Allocation for Shares	Share Value
Shares Outstanding	5,000,000
Shares Being Valued (Share Lot)	5,000,000
Equity Value for 100% of Company	\$15,168,492
Value for Share Lot	\$15,168,492
Value Per Share \$	3.03

VALUATION CONCLUSION

The Company is being valued for 5,000,000 shares of the Company. The Fair Market Value (enterprise value) of Oak Street Supply is estimated at \$13,587,372. After any balance sheet adjustments (see balance sheet note) the adjusted value is \$15,549,252 and after term debt if any, the equity value is \$15,170,000. The value is \$3.03 per share.

See page 26 for an asset transaction and proceeds (example).



INTANGIBLE ASSETS

Intangible assets are goodwill and other assets that are not itemized or listed on the balance sheet. Tangible assets are hard assets or physical assets that are used to produce goods and services. Intangible assets (copyrights, brands, customer list, patents) most likely produce a higher return than the tangible assets. We estimated the value of both assets to put the company value into more perspective.

COST STRUCTURE

Companies build value by reducing their cost structure, improving cash management (cash conversion cycle) and efficiently managing fixed assets if applicable. Efficiencies or optimization increases net cash flow and business value.

CASH CONVERSION CYCLE

The Cash Conversion Cycle (CCC) is the amount of days the company invests cash into the business before it cycles to cash again. The lower the CCC Days (AR Days + Inventory - AP Days) the more the cash flow, which impacts value.

ASSET VERSUS A STOCK TRANSACTION

ASSET VS STOCK TRANSACTION

This discussion is for educational purposes only; talk to your professional advisor before making any decisions. In a business sale a transaction can be structured as a stock or an asset sale. In a stock sale a buyer purchases shares of a company and assumes the balance sheet assets (tangible and intangible assets) and liabilities and contracts. In an asset sale the buyer and seller negotiate what operating assets and liabilities are being transferred. Talk to your accountant or advisor to discuss your specific needs and goals.

ADVANTAGES AND DISADVANTAGES

ASSET PURCHASE: In an asset purchase, the buyer can step up the depreciable basis of the assets over the current values which can be depreciated or amortized (goodwill), increasing future cash flow by reducing the taxable profit. The seller may have higher tax implications, depending on the entity structure. The buyer can negotiate what assets and liabilities are being transferred, limiting the liability risk. Contracts might need to be renegotiated and assets might need to be retitled.

STOCK PURCHASE: A stock purchase is less complicated where the buyer is assuming the balance sheet without the ability to step up the basis of the assets. The buyer is assuming the assets and liabilities (and any potential legal exposure) and is basically stepping into the position of the seller.

ASSET TRANSACTION EXAMPLE

Lets review a typical asset transaction. The seller retains ownership of the legal entity and is compensated for the business value, retains the cash, receivables and inventory (or sells to the buyer) and retains or pays off all liabilities. The buyer sets up a new legal entity (and balance sheet) that purchases the selected assets and transfers any assumed liabilities (if any).

Below is an example of the seller's proceeds and the buyer's required capital calculations. Fixed assets and intangible assets are typically being purchased and transferred to the buyer. At closing, an asset allocation of the purchase price is made that applies specific values to the tangible and intangible assets for tax purposes.

RECIEVBLES AND INVENTORY ADJUSTMENTS

Whether assuming or purchasing the receivables and inventory, the buyer will review the receivables aging report and discount the receivables depending on their collectability and only purchase the inventory that is sell-able. If inventory is older, outdated or has diminished in value, this will impact transferable value.

Asset Transaction (Seller Proceeds)	Value
Estimated Enterprise Value	\$13,587,372
Cash Retained	\$54,333
Receivables Retained (or sold to buyer)	\$2,254,211
Inventory Retained (or sold to buyer)	\$2,365,000
Liabilities Retained (or paid off by seller)	(\$3,539,856)
Net Value or Proceeds to Seller	\$14,721,060

Asset Transaction (Buyer's Required Capital)	Value
Purchase Price	\$13,587,372
Inventory Purchase	\$2,365,000
Working Capital Cash	\$370,965
Buyer's Required Capital	\$16,323,337

APPRAISER’S INDEPENDENCE

A business appraiser offers an objective and independent opinion of value of the business interest and does not act in an advisory function. In this valuation, the appraiser is offering an objective and independent opinion of value of the business interest. The appraiser is independent of the client and has no ownership interest, employee benefits or role in the company, is not an officer of the company and has no ongoing role in the future of the company. The consideration paid to an appraiser for an engagement should not be subject to meeting a client’s expected concept of value. The appraisal fee for this valuation engagement is not dependent on any expectations of the client's perceived value of the asset being valued. Regarding this valuation engagement, we are not acting as an advisor, are not receiving any benefits other than the flat valuation fee paid and have retained total independence.

ADJUSTMENTS TO THE FINANCIAL STATEMENTS

A valuation reviews the benefits stream (income measure such as EBITDA) where owner discretionary spending is adjusted or added back to earnings to 'restore' the financial statements to a normalized basis. These adjustments can be made on the income statement and would include items such as one-time charges not expected to occur again and any shareholder distributions beyond a normal salary or expenses not pertinent to the day-to-day operations of the business. The balance sheet can also be adjusted to separate non-operating assets from the operating assets. The value of the non-operating assets is added to the fair market value.

BUILD UP METHOD (BUM)

The BUM's purpose is to measure the totality of a company's business risk. The risk measure starts with a risk-free rate which is the expected return on 20 Year Treasury Bills backed by the U.S. government. These risk-free investments generally offer a low risk and therefore lower rates of return. A company does not have the backing of the U.S. government and as an equity risk, the risk is higher than the T Bill. This Equity Risk is the risk of the equity investment beyond that of the risk-free rate. The Company Specific Risk Premium considers the non-diversified risk or the fact that this risk can't be diversified or spread over several companies or industries. In this valuation, we are including a size risk premium due to the subject company being smaller than the Guideline Public Companies used in the comparisons.

CAPITALIZATION METHOD

The Capitalization Method converts a company's benefit stream to a present value of the business. The Capitalization Method can use alternative measures such as Cash Flow to Equity or Cash Flow to Invested Capital. The formula is Benefit stream / Cap Rate.

CAPITALIZATION RATE

The Capitalization Rate is a percentage number calculated by deducting a company's growth rate from the Discount Rate. The Capitalization Rate is used to convert a company's single period benefits (income stream) to a capitalized value of a business.

DISCOUNTED CASH FLOW METHOD

Discounted Cash Flow (DCF) is the present value of future income streams. The DCF Method calculates the present value of a company's benefits stream (cash flow) and termination value, to present value of the business value. DCF utilizes the discount rate in the calculation.

DISCOUNT RATE

The Discount Rate is the risk rate used in a valuation to convert multiple periods of future benefits (income stream) to a capitalization value (present value). The discount rate utilizes the weighted average cost of capital (WACC) debt and equity participants would require given the risk of the future income stream of a business. The smaller the discount rate, the larger the business value.

EXCESS WORKING CAPITAL

When companies sell, buyers expect sellers to deliver the appropriate working capital at the closing, that is consistent with the industry or the needed liquidity to maintain the business. This working capital variance can be positive (cash back to seller) or negative (credit to buyer). If working capital is insufficient, buyers will consider the variance as purchase price which means a reduction in value.

GUIDELINE PUBLIC COMPANIES METHOD

The Market Approach uses selling multiples from Guideline Public companies where stock is traded daily. Accessing private data on company transactions can be difficult and spotty. Publicly traded companies are typically larger than private companies, are better capitalized, have more transparency, and are openly traded. Therefore, private company multiples are normally discounted by 30% due to size and liquidity. Public companies traded in volume presents a strong valuation model.

NET CASH FLOW TO INVESTED CAPITAL

The Net Cash Flow (NCF) to Invested Capital is a widely used measure in determining the cash flow that is available to debt holders and shareholders. The NCF begins with the earnings before interest, taxes, depreciation and amortization or EBITDA. Interest is added back to reflect a debt free company (no debt, no interest paid). Because taxes will be paid and capital expenditures may be needed, these costs are subtracted from the EBITDA numbers. This net cash flow is used in the Discounted Cash Flow and Capitalization of Earnings Method.

WEIGHTING THE METHODS OF VALUE

Some valuation methods might better reflect value for a specific company. Experts select which methods best fits with the subject company being appraised to arrive at the Fair Market Value. A weighted average best suits most companies for a market-based appraisal. This valuation weighs up to five different methods to arrive at Fair market Value.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

The weighted average cost of capital is the rate of a company's funding (debt and equity). WACC is the amount the debt and equity holders expect to receive and is the minimum return that is normally required by a company. If a company's ROIC is greater than the WACC, value is being created. If less, value is being diminished.

MARKET VALUE OF EQUITY (MVE)

The Market Value of Equity (MVE) is based on the income stream of a business including interest on debt and principal amounts. By deducting the interest payment from the Net Cash Flow and considering the change in the debt (principal), the company is valuing its equity. The Net Cash Flow to MVE is the cash available to the shareholders as the debt holders have been paid.

MARKET VALUE OF INVESTED CAPITAL (MVIC)

The Market Value of Invested Capital (MVIC) is based on the income stream of a business and does not include interest on debt or any principal amounts. By not deducting any interest payment from the Net Cash Flow and not considering the change in the debt (principal), the company is valuing the business based on the enterprise value of debt and equity. The Net Cash Flow to MVIC is the cash available to the shareholders and the debt holders.

SCOPE OF APPRAISAL

The scope of the appraisal defines the comprehensiveness of the process, the extent of the procedures used, and the detail of information collected and analyzed. The valuation scope ranges between a limited and a comprehensive valuation. A 'Calculated Value' such as this valuation, is a limited valuation. A calculated valuation provides an approximate indication of enterprise value or range of value based on limited procedures and information deemed to be relevant. The information collected is deemed to be accurate as presented by company management.

STANDARD OF VALUE

The standard of value refers to the type of value to be assessed. There are four types of values: Fair Market Value, Fair Value, Investment Value and Intrinsic Value. The Fair Market Value is the most common standard and is the value an asset would expect to sell for on the open market given broad assumptions. The Fair Value deals mostly with a fair value for legal purposes, and not the market or economic value. The Investment Value is based on what an asset would sell for given a specific buyer which is opportunistic in nature and is considered strategic. The Intrinsic Value considers all factors any prudent investor would see in the inherent value of a business and does not consider any extreme aspects of market conditions or behaviors.

GOODWILL (INTANGIBLE ASSETS)

Goodwill is the portion of the business value beyond the value of the identifiable tangible and intangible assets of the business. Goodwill is an intangible asset and is usually the result of an acquisition or purchase.

EARNINGS BEFORE INTEREST & TAXES

Earnings before interest and taxes (EBIT) is the operating income of a business. Interest and taxes while important, are considered non-operating expenses. This report recasts the income statement into the operating income and expenses and then the non-operating income and expenses. The EBIT is one of the most critical numbers as it reflects a company's earnings power.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION

The EBITDA is EBIT plus depreciation and amortization. Depreciation is the charge or cost of fixed assets that are being depleted every year. The amortization is a depletion charge against goodwill which is usually the result of an acquisition. EBITDA is a common number business people use a great deal in that it represents a company's operating efficiency. EBITDA is useful as it can be compared to other companies with various debt, capital investment depreciation policies.

NET OPERATING PROFIT AFTER TAXES

NOPAT measures the operating income (EBIT) after income taxes. This is a more conservative operating number as it includes tax liabilities, depreciation and amortization.

SELLER'S DISCRETIONARY EARNINGS

SDE is the amount of profit left in the business after all expenses have been paid, plus owner wages taken plus depreciation and amortization, if any. SDE usually adds back one owner's earnings if there are multiple business owners who take salary. SDE is mostly used in smaller businesses where the company is more dependent on the owner and it might be more of a lifestyle type business.

FIXED, TANGIBLE AND INTANGIBLE ASSETS

Fixed assets are the long-term tangible assets (property and equipment) that are expected to have a useful life greater than one year where the company uses these assets to produce sales. Fixed assets are depreciated over a period of time and usually need to be replenished. If a company does not replenish these assets, the company's performance will deteriorate. Where tangible assets can be seen and touched, intangible assets can't. Intangible assets include customer lists, brand appeal, proprietary processes and systems. patents, goodwill and other assets not usually listed on the balance sheet.

TERM DEBT

Term debt is interest bearing debt that is to be repaid longer than one year. The current maturities of long-term debt are to be repaid within one year. Term debt is usually bank debt that is used to finance a transaction, equipment and other long-term needs. Short-term needs are often referred to as revolving credit for receivables, inventory, etc.

WORKING CAPITAL

Working capital is the current assets less the current liabilities. Working capital has to finance sales, so it is critical to maintain strong cash policies so the company can efficiently grow sales. Working capital shortages can gradually bring stress and insolvency.

RATIO ANALYSIS

Ratio analysis uses information from the income statement and balance sheet to document a company's profitability, liquidity, activity and financial performance. See the breakdown on the Ratio Review Page for the specific detail. It is critical to understand what ratios are important to your industry and company.

ENGAGEMENT'S LIMITING CONDITIONS

1. This valuation is only valid for the stated purpose and as of the date listed in the Appraisal Assignment.
2. This valuation was performed with information from the Company and/or the Client. This information may include financials, ownership positions, business conditions, forecasted assumptions and other data and has been accepted and deemed to be accurate, but has not been verified. Exit45 and the appraiser make no representations or warranties to the accuracy of this information.
3. This valuation relied upon industry information and has been accepted but not validated, but deemed accurate. Exit45 makes no representations on the accuracy of this content.
4. Forecasted numbers are reliant on historical data and the Company or Clients vision and assumptions going forward. Because actual results can be different from forecasted results, sometimes significant variances can occur.
5. Forecasted numbers and the valuation conclusion both are predicated on continuous management execution and expertise and the company continuing to operate in such a manner as to not diminish the operations which may impact value. Because assumptions are based on client assumptions and Exit45 has not performed an audit of the company or its financials, Exit45 does not make any representations or warranties to the valuation conclusion as the forecast can differ from actual performance.
6. This valuation does not offer or imply any investment or accounting advice in any way. The value in this report is the product of both Company or Client information that was used in the valuation process to determine value. This report is only to be used by the intended user (the client) and only for the purpose listed in the Appraisal Assignment.
7. Any future work where the client is in need of testifying or expert witness testimony, will require a separate Expert Witness Agreement between the client and Exit45 and the appraiser.
8. Exit45 is not obligated to perform any future services that deal with any subject matter in this report including testimony or attendance in court, or conference calls or meetings of any type unless a separate agreement is made between the parties. Any separate agreement must agree on the services and pricing required.
9. Exit45 is not responsible for any environmental conditions or governmental laws, codes or rulings in any event that relate to the subject company, its shareholders or client's diminished value in the asset being appraised. Exit45 has not conducted any compliance, analysis or review on property or general company compliance with any governmental organizations or authorities and Exit45 makes no representations or warranties on these conditions.
10. Exit45 recommends that the client further investigate or contact specific professionals who can provide guidance on any governmental, environmental, legal, operational or financial matters that may impact value.
11. No changes to this report can be made. Only Exit45 is allowed to make changes.
12. This report does not present a fairness opinion as to an actual value for a proposed transaction, a solvency opinion or an investment opinion unless expressly stated in the Appraisal Assignment. Values of exchanged assets may be significantly different from the appraisal value on a specific date and between specific parties.