Plain English Guide™

Business Valuation Made Easy

Tips and techniques to help you understand how to value any business

By Stanley Helm

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ISBN: 978-1-9337-0134-9

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Business Valuation Made Easy

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Chapter 1

NOTE: This Business Valuation Guide usually accompanies Business Valuation Software which is not available with this e-book version of the Plain English Guide. Several people have requested the guide separately in e-book format which is why it is available here.

How much is your business worth?

Arriving at a selling price for a business is one of the most complicated matters faced by both buyers and sellers. Weøve seen situations where the asking price for a business was $200,000 but the business eventually sold for $15,000, and other situations where the asking price was $250,000 but the business actually sold for $1.2 million!

We want to make it clear at the outset that there is NOT one single method that magically works every time for valuing every type of business.

Factors to consider

There are numerous factors which can affect the final price of a business, some of which the seller can control and several which neither buyer nor seller can control. Some factors are discussed at the end of this section. Some other important factors include:

- Expectations or flexibility of the seller
- Type of buyer
- Negotiation skills and positions of both parties
- Availability of credit or funding

Expectations or flexibility of the seller

Only 20% of businesses listed for sale actually culminate in sale to a qualified buyer. The other 80% of listings donøt result in a sale for a variety of reasons but one overwhelming reason is the overly optimistic and inflexible expectation of the seller regarding the price or terms. Many

potential buyers wonøt even look at the business if the price or terms are unrealistic to start with. Those potential buyers who might be willing to look at the business under acceptable price or terms are often rebuffed by the sellers because of their inflexible expectations.

Unwillingness to be flexible in the face of current market conditions can result in an owner being stuck with a business and perhaps filing bankruptcy or suffering serious losses rather than getting out when an opportunity is available.

Type of buyer

A õfinancial buyerö is one who is interested in a business only as an investment which may be run by the buyer or by a hired manager. The financial buyer will focus on the lowest price possible in order to improve the return on investment. If the buyer is planning to run the business himself, he will need the price to be low enough to cover a reasonable salary for himself plus adequate cash flow to pay for any debt associated with buying the business.

In contrast, a õstrategic buyerö is one who wants to buy a business to expand a business they already own. The strategic buyer might want to add a business outlet in a new location or supplement his current business line by adding a complementary product or a supply source or distribution channel. A strategic buyer will typically be prepared to pay a higher price for a business because of the strategic benefit for his existing business.

Negotiation skills and positions of both parties

Once a seller has found a potential buyer for his business, a large factor influencing the final selling price is the negotiating skills, as well as negotiating position, of each party. If the seller has been losing money and has creditors threatening to file suit or evict the business, then his negotiating position is obviously very weak. He may be willing to get anything possible in order to avoid total loss of the business through eviction and possible personal liability for guarantee of business obligations. This was exactly the situation where one client started with an offering price of $200,000 but settled for only $15,000 on the day before the business was to be evicted.

Weøve also seen situations where potential buyers had no cash going into the purchase of a business but were able to get the seller to carry the entire amount of the sale price and even provide working capital.

Honesty is required if both parties are to feel comfortable after the sale, but the skills each party brings to the table, plus the position of both parties, can have a big impact on whether or not a sale can be completed.

Availability of credit or funding

Another major factor influencing sale of a business is the availability of funds for the buyer to both purchase the business and provide working capital. If the buyer has a source of funds such as a retirement distribution or proceeds from the sale of an asset, that could help make a deal

possible. But if the buyer has to rely on bank loans for either part of the purchase or working capital, the situation could fluctuate dramatically based on economic conditions.

Prior to 2008, banks made some business loans and counted on business owners using home loans for much of the funding. Home loans could be bundled and sold off in bonds but the bank had to keep business loans on its own books. Starting in 2008, however, credit became much tighter for home loans, and the same stringent standards started to impact business loans.   In short, a major credit source significantly retracted, making it more difficult for buyers to obtain funds.

If buyers cannot get the funding to purchase the business or for working capital, then business sellers have to consider whether they want to continue to hold their business or reduce the price as many home sellers also had to do when credit dried up.

Chapter 2

Financial Statements

Most buyers will want to see financial statements and/or tax returns for at least the most recent three years to determine if the numbers look consistent from year to year, if they appear reasonable for the type of business, and hopefully to show that the business is growing.

For some smaller businesses, the tax return functions as the financial statement. Larger companies or franchise businesses may have a separate financial statement or even audited financial statements. Even if your company uses the tax return as the primary financial statement, there is still probably a separate financial statement available through your accountant or the business software you are using. Most businesses now use relatively inexpensive software on personal computers to gather and report financial information. The financial output from the software is often used as the source for preparing annual tax returns.

Caution

A word of warning is important here if you are selling your business. While there is a need to be open and candid with potential buyers and provide them with information, there is also an overriding concern to not provide personal or detailed information until and unless you are certain the potential buyer is both interested in buying your business and qualified to buy it. Usually this doesnøt occur until after you have a letter of intent from a qualified candidate that you or your broker have vetted.

You donøt want to give out personal information such as salaries or social security numbers that might be included on tax returns. And you certainly donøt want to be providing personal financial information to a current or potential competitor.

Recasting Financial Statements

To determine a proper valuation for your company, youøll probably have to recast your financial statements for the past three years. Itøs best to start early to recast the financial statements for presentation to a potential buyer and for valuation purposes. Recasting financial statements consists of adjusting them to reflect some personal expenses of the owners that might have been paid through the business, as frequently happens with small businesses. The idea is to have the financial statements reflect what the situation would be if operated by a manager, similar to the way a large corporation would operate.

We will address the types of expenses that should be recast in more detail later, but generally the expenses would include things such as inventory taken for personal purposes by the owner

(particularly in a store or restaurant), family travel expenses or other expenses for personal insurance, transportation or other costs.

More Caution

Just as you want to be cautious about whom you release financial statements to and when you release them, there are other concerns in recasting the financial statements.

First, be careful about having your regular business accountant recast the financial statements, especially if that accountant also prepares your business tax returns. While everyone knows that business expenses frequently include some personal expenses, the accountant is bound by IRS rules to not allow deduction on the business tax return if he is aware of the personal nature of the expenses. Instead of describing them as õpersonal expenses,ö it might be best to merely describe them as costs associated with the current owner that the future owner might not incur. The other alternative is to use a different accountant, or to have the financial statements recast by the party preparing the business valuation (if you use an outside valuation expert).

Second, whatever you do, do not under any circumstances try to have the recast financial statements reflect revenue that you have not been recording for the business. Telling your potential buyer that you have been dishonest with the government automatically raises the question of whether you are now being honest with the buyer. The buyer will also be rightfully concerned about government action and financial liability that can arise after the sale is consummated, especially if the buyer is put on notice of the unreported income.

More important, though, a disclosure of unreported income automatically puts your accountant on notice that prior tax returns are incorrect. The accountant may be under a legal obligation to report your underreporting to the IRS or other tax authorities. Besides additional taxes, interest and penalties due, the admission of underreporting revenue in the past could result in criminal charges against you and other owners or family members involved in the business.

Another major concern is that once you put such a disclosure in writing, you donøt know who will have access to it in the future and how it might be used against you. The other side gets a lot of negotiating power, either for current negotiations or to resolve future issues, if they have a record of your admission that you cheated a variety of tax authorities before the sale.

Even if your recast financial statements include some added expenses, as outlined below, keep in mind that only expenses that can be documented should be included. If you try to adjust out expenses to make your net income look better, but cannot document those expenses, it will only raise questions about your credibility and hurt the negotiation process.

What should be included in recasting financial statements

Usually, recast financial statements only reflect expenses that the new buyer might not incur after buying the business. Again, be cautious that the amounts do not reflect outright violation of

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tax laws. The amounts usually reflect items that may have been a bit more aggressive for the current owner, but which the new owner might not incur. Those expenses most generally fall into the following categories:

1. *Inventory* Some business owners, especially with retail stores and restaurants, remove inventory for use at home. Removal of inventory will cause Cost of Goods Sold to appear higher (more expense) on the income statement. This is another area where you want to be careful before documenting it because you are putting people on notice that you have directly violated tax laws.

2. *Auto expenses* are common with most small businesses. Many owners take a full deduction for their auto expenses, even if the vehicles are partially used for personal purposes. The portion allocated to personal use should be deducted from expenses.

3. *Travel expenses* sometimes also reflect the cost of additional days the business owner wants to take for vacation purposes, or cost for family members to travel along to turn some business trips into a vacation. Travel and meal expenses should be decreased by the amount attributable to those personal travel situations.

4. *Wages or commissions* paid to family members may also be inflated, especially if children or spouses are put on the payroll at inflated rates or for little or no work. For example, a spouse might be listed as a bookkeeper for the company at a wage substantially higher than the average cost for a bookkeeper who is not part of the family. Or children of the owner could be included on the payroll at inflated rates to provide additional funds for their college or auto expenses.

5. *Telephone and utility bills* might include cell phones or personal phones of the owners. Business owners frequently justify the phone bills in their own minds because they have to be constantly on call for the business.

6. *Dues and subscriptions* can include personal subscriptions for journals or magazines the current owner enjoys, or dues for organizations to which the current business owner wants to be involved but which might not be necessary for the business under new management.

7. *Insurance or medical costs* might be inflated if the current owner pays for personal or family medical costs that are not covered for all employees, or if the owner carries auto coverage for personal vehicles or medical coverage for adult children who are at college or unemployed.

8. *Depreciation expense* might include depreciation of personal assets such as boats, trailers or other vehicles that are included on the company books. Or the expense in past years could reflect depreciation on assets that the owner is going to take out of the business at or before closing the sale. The depreciation for those items should be deducted from depreciation expense to get a more normal amount that the new owner should expect.

9. *Officers' compensation* might be higher than the norm for the type of duties involved to reflect extra profit drawn out of the business via salaries.

10. *Retirement plan expense* might be higher than the new owner would incur, especially if the seller is older and has been loading up on personal retirement funding in recent years.

11. *Charitable contributions or advertising* might reflect causes which the current business owner likes to support but which the buyer might not be interested in supporting. For example, the current owner might want to support specific sports teams or athletes, but the new owner might not be as inclined to support those activities.

Other expenses may be included sometimes but often reflect blatant use of business funds for personal uses. Caution should be used before listing these items as they may suggest potential tax liability or impugn the honesty and integrity of the seller.

Remember, the idea in recasting financial statements is to make them appear more realistic for a regularly operating company without a lot of involvement by the owner or the ownerøs family.

What recast financial statements look like

We prefer to use a spreadsheet program, such as Excel®, to recast the financial statements. The top spreadsheet is used to illustrate the recast financial statements. The second sheet provides detail regarding the adjustments. An example of a recast of financial statements is included in the Appendix, but a brief example is illustrated below:

	Original Financial Statement		Adjustment	Recast Financial Statement
Sales	1,000,000			1,000,000
Cost of Goods Sold	380,000	a	(10,000)	370,000
Gross Margin	620,000			630,000
Operating Expenses:				
Salaries	300,000	b	(20,000)	280,000
Payroll taxes	33,000	b	(2,200)	30,800
Rent	70,000			70,000
Travel	25,000	c	(10,000)	15,000
Insurance	22,000	d	(4,000)	18,000
Telephone	7,000	e	(800)	6,200
Utilities	6,000			6,000
Supplies	2,000			2,000
Dues and subscriptions	3,000	f	(2,500)	500
Fringe benefits	17,000	g	(7,000)	10,000
Advertising	15,000	h	(3,500)	11,500

Total Operating Expenses	500,000		(50,000)	450,000
Income before interest, taxes, depreciation and amort. (EBITDA)	120,000			180,000
Depreciation expense	20,000	i	(5,000)	15,000
Earnings before interest & taxes (EBIT)	100,000			165,000
Interest expense	10,000			10,000
Income Taxes	20,000		13,000	33,000
Net Income	70,000		(78,000)	122,000

Explanations for adjustments to recast financial statements

a Inventory taken for personal use

b Family members on payroll

c Family on business trips

d Insurance coverage for family at college

e Personal use of telephone paid by company

f Dues for clubs enjoyed by current owner

g Heavy funding of pension plans for owner and family

h Support of little league teams

i Depreciation of vehicle to be removed by owner

Format of Financial Statements

Notice that the format above differs slightly from the format on an income tax return or used in traditional financial statements. In those situations, depreciation and interest expense may be included with regular operating expenses; however, a different format is desirable for selling your business.

The recast financial statements should have subtotals for õEarnings before interest, taxes depreciation and amortization (EBITDA)ö and for õEarnings before interest and taxes (EBIT).ö

Most buyers or valuation experts are going to look for those two subtotals to calculate the value of the business and the amount of cash flow available.

Buyers are interested in how much cash will be generated by the business on a regular basis. While EBITDA does not reflect exactly how much cash is generated by the business, it is a fairly good and widely accepted proxy.

Depreciation and amortization are normally listed as expenses but do not use cash like other operating expenses. Also, the buyer may have a new value for the business assets so he may have a much higher depreciation expense. The EBITDA subtotal shows what net income would be if those items were excluded to help the buyer judge the actual cash flow from the business itself.

Interest is an expense that might differ significantly for the buyer in the future, especially if he has to borrow money to finance the business. Accordingly, the amount of earnings before interest and taxes is also usually shown separately. While some tax savings might be achieved after the sale for various reasons, taxes are usually a function of the net income after deducting all other expenses.

Chapter 3

How value of a business is calculated

Remember when we told you in an earlier section that you would need current financial statements? Now is the time you need them. Almost every approach to calculating selling price eventually comes back to a factor multiplied by some number from the income statement or balance sheet.

It is important to note that there is no one magic way of calculating price for every type of business. Approaches vary by size of the business, the age of the business, whether or not the business is publicly held, the industry or neighborhood in which the business operates, the economy and numerous other factors. There is no one approach for calculating business value.

Business appraisers go to classes for years to learn the various techniques used in business valuation. Even after learning all the formulas, however, the appraisers must still use a certain amount of personal judgment based on the numerous factors that can impact business values. The final suggested value for a business is often based on an õaverageö of a combination of several different approaches.

Using the following financial statements, we will discuss some of the different approaches frequently used to determine business values.

ABC Company
Recast Income Statement
For the year ended December 31, 20xx

	Original Financial Statement		**Adjustment**	**Recast Financial Statement**
Sales	1,000,000			1,000,000
Cost of Goods Sold	380,000	a	(10,000)	370,000
Gross Margin	620,000			630,000
Operating Expenses:				
Salaries	300,000	b	(20,000)	280,000
Payroll taxes	33,000	b	(2,200)	30,800
Rent	70,000			70,000
Travel	25,000	c	(10,000)	15,000
Insurance	22,000	d	(4,000)	18,000
Telephone	7,000	e	(800)	6,200
Utilities	6,000			6,000

Supplies	2,000			2,000
Dues and subscriptions	3,000	f	(2,500)	500
Fringe benefits	17,000	g	(7,000)	10,000
Advertising	15,000	h	(3,500)	11,500
Total Operating Expenses	500,000		(50,000)	450,000
Income before interest, taxes, depreciation and amort. (EBITDA)	120,000			180,000
Depreciation expense	20,000	i	(5,000)	15,000
Earnings before interest & taxes (EBIT)	100,000			165,000
Interest expense	10,000			10,000
Income Taxes	20,000		13,000	33,000
Net Income	70,000		(78,000)	122,000

Explanations for adjustments to recast financial statements

a Inventory taken for personal use

b Family members on payroll

c Family on business trips

d Insurance coverage for family at college

e Personal use of telephone paid by company

f Dues for clubs enjoyed by current owner

g Heavy funding of pension plans for owner and family

h Support of little league teams

i Depreciation of vehicle to be removed by owner

ABC Company
Balance Sheet
December 31, 20XX

Assets		
Cash	22,000	
Accounts Receivable	125,000	
Inventory	95,000	
Prepaid Expenses	8,000	
Total Current Assets		250,000
Land	50,000	
Building	300,000	
Equipment	250,000	
Accumulated Depreciation	(150,000)	
Total Fixed Assets		450,000
Total Assets		**$ 700,000**
Liabilities & Stockholders Equity		
Accounts Payable	80,000	
Accrued Expenses	20,000	
Total Current Liabilities		100,000
Long Term Debt		350,000
Total Liabilities		450,000
Paid-in Capital	100,000	
Retained Earnings	150,000	
Total Stockholders Equity		250,000
Total Liabilities & Equity		**$ 700,000**

Chapter 4

Balance sheet approaches

Book Value

One of the simplest approaches is to value a business at the book value of the assets being acquired by the purchaser. Book value would normally be considered when a seller is eager to get out of a business and just wants to get the value of the assets of the business. This approach does not place any value on the earnings potential of the business.

Book value is defined as the net value of the assets on the financial statements of the company after subtracting accumulated depreciation expense. The total purchase price is usually further reduced by any debt that the purchaser assumes at the time of closing.

For example, using the balance sheet above, assume that a buyer will acquire ALL of the assets of the business, including its bank accounts, accounts receivable, inventory and fixed assets (building and equipment). In that situation the total assets would be valued at $700,000. If the buyer assumed all of the debts of the business, however, he would pay the seller a net price of $250,000. That amount reflects the total purchase price of $700,000 minus liabilities of $450,000 assumed by the buyer.

This type of purchase would be unusual, however, unless a fairly large company was acquiring all of the stock or assets of the existing company. The more common practice is for a buyer to acquire only the operating assets of the target company.

Assume in the case above that the parties agree that the seller will keep the current cash in the bank account as well as the accounts receivable from prior sales. The seller will also pay off accounts payable and accrued expenses. In this case, the buyer will only be acquiring the following assets and liabilities:

Inventory	$95,000
Prepaid expenses	8,000
Fixed assets (net)	450,000
Total assets acquired	553,000
Liabilities assumed	350,000
Net due to seller	$203,000

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Please keep in mind that these are only rough examples to illustrate the concept of book value. Several other matters <u>must</u> be considered in setting the book value of a companyøs assets.

The buyer would most likely want to have the inventory examined by an outside party to determine that it is all reasonably fresh and properly valued. If some of the inventory is obsolete or non-salable, the value should be written down accordingly.

The fixed assets also require examination to determine the appropriate ÷bookö value. Many business owners use tax depreciation for financial statement purposes. Tax laws in recent years have allowed business owners to completely write off the value of some pieces of equipment in the year of purchase. In those cases the book value might not reflect what the equipment is actually worth because the business owner already took a deduction for the entire value of the equipment. In those situations, a value based on õmarket valueö of the assets might be more appropriate.

If the balance sheet includes any unamortized organizational expenses or purchased goodwill, those items would typically be excluded from consideration.

There is also the issue of whether or not the buyer can assume the liabilities on the assets. If the buyer cannot assume the obligations with the current lender or refinance the debts, then the buyer might have to lease those assets from the seller or agree to pay off the debts on behalf of the seller. Weøll address that situation in more detail in a later section.

In the situation above, if the buyer just purchased the inventory, prepaid expenses and equipment, the purchase price would be as follows:

Inventory	95,000
Prepaid expenses	8,000
Equipment (assumed net value)	150,000
Total purchase price	$253,000

Market Value of Assets

A variation of the book value approach is market value (or liquidation value) of the assets approach. This approach would be used in many situations, but particularly where the book value might not reflect the current value of the equipment because of tax depreciation that resulted in rapid write-off of the assets, or if the value of the buildings or equipment has increased considerably in recent years.

This approach also does NOT consider the earnings potential of the business but instead focuses on the value of the assets needed to operate the business.

The market value approach looks at how much the seller of the business could get for the assets if he were to sell them to an independent buyer, or how much the buyer would have to pay to replace the assets. When we talk about replacement cost here weøre talking about replacement cost for the õusedö assets of the business rather than the cost for new equipment. For example, how much are the vehicles worth? How much is similar equipment selling for? How much is the real estate worth?

Appraisers can help establish a value for the individual assets, but the information regarding similar asset values is usually available on the internet, in trade journal advertisements or in local advertisements for similar pieces of equipment. A savvy seller should check sources such as e-bay, craigslist and auto valuation sites on the internet, as well as trade magazines and local newspaper ads to help establish a value for assets that have been completely written off for income tax purposes.

For example, assume that the company had written off $100,000 worth of equipment under rapid depreciation tax rules in the balance sheet illustrated earlier. Similar used equipment is actually worth $80,000 rather than the zero balance on the companyøs records for that equipment. In that case, the parties would want to add $80,000 for the value of the equipment to arrive at a more accurate value for the business.

Similarly, inventory or accounts receivable might be discounted at rates of 20% or more to more accurately reflect the liquidation value of those assets.

Illustration:

Cash (@100%)	22,000
Accounts Receivable ($125,00 x 80%)	100,000
Inventory ($95,000 x 80%)	76,000
Prepaid Expenses	8,000
Total current assets	206,000
Fixed assets ($450,000 + 80,000)	530,000
Total	$ 736,000

Replacement Cost of New Assets

Another variation for establishing value is to examine what it would cost to replace the existing assets of the business with new assets. For example, what if the business had to construct a new building, or buy new vehicles or equipment?

The primary use of this approach is in situations where a buyer is thinking of getting into a business but the one offered for sale is not yet profitable. The cost of starting from scratch with new assets provides an absolute upper limit of what a potential buyer should consider paying for

a business that is not yet profitable. If the business is not turning a profit yet, it would be difficult for a seller to try to justify a cost that is higher than what it would be for the potential buyer to get all new and shiny equipment and perhaps be in a better location than the existing business.

In the illustration presented above, the book value of the fixed assets (land, building and equipment) was $450,000. Letøs assume that it would cost $700,000 to replace those assets today. In that situation, $700,000 is the maximum value that the parties should consider for the fixed assets. If the buyer is also acquiring the current assets (cash, accounts receivable, inventory and prepaid expenses), an additional $250,000 would have to be added for those items, bringing the total valuation to $950,000 for the business.

Illustration:

Current assets (cash, A/R, inventory, prepaid exp)	$250,000
Fixed asset at replacement cost	700,000
Value of business	$950,000

Chapter 5

Cash flow approaches

Unlike the asset based approaches which focus on the balance sheet and the value of the assets of the business, cash flow valuation approaches focus on the income statement and cash flow of the business. Cash flow approaches can focus on either historical cash flows or projected future cash flows. Cash flow methods always give a value of the business which includes the assets.

The cash flows are multiplied by a factor or subjected to some discount factor which shall be illustrated shortly. Unfortunately, the multipliers or discount factors, and the projected future cash flows, are subject to personal opinions and can vary widely by different persons valuing the same business. The differences could be legitimate based on different views of the value of the business to different potential buyers.

Business appraisers usually use the total for õEarnings before interest, taxes, depreciation and amortizationö (EBITDA) as the number for multiplying or discounting in calculating value ó not net income of the business. EBITDA is used because it most accurately reflects the õoperating incomeö of the business by adjusting for expenses that will differ for the new buyer of a company.

For example, the new buyer will probably finance a different amount than the current buyer, or perhaps not finance anything, so interest should be excluded from the net income figure as it is in EBITDA. The new owner will usually be buying assets at a different value than the sellerøs current net book value so he will have different amortization and depreciation amounts. Different amounts for interest, depreciation and amortization will lead to different (usually lower) income taxes. Also, depreciation and amortization expenses are not cash expenses and the formulas try to estimate the financial results based on cash flow (rather than on net income for accounting purposes).

The EBITDA numbers are typically multiplied by some number or discounted by a number. The number used for these purposes is tied to the desired õrate of returnö of the buyer. The rate of return is referred to and therefore the same as the õdiscount rateö used in the calculations. When a multiplier is used, it is the reciprocal of the discount rate.

For example, if a buyer requires a rate of return (discount rate) of 20%, that number reflects 20 divided by 100 (20 / 100) or $1/5^{th}$. The reciprocal, or the multiplier, is therefore 5. A rate of return of 25% (25 / 100 or ¼) would yield a multiplier of 4.

We will discuss how the discount number is determined in a later section titled õselecting a discount rate.ö

Historic Cash Flow Method

The historic cash flow method focuses on the historic cash flow of the business, usually over a period of 3 ó 5 years. In the example below we will use the recast income statement information provided earlier plus assumed information for other years. In your situation you would want to look at the actual historic income statements of the company.

The recast EBITDA for the example company was $180,000. We will also assume information for the two preceding years for purposes of our example.

	Year 1 (assumed)	Year 2 (assumed)	Year 3 (assumed)
Adjusted after-tax cash profit	165,000	175,000	180,000
Add:			
Decrease in working capital	10,000		
Less:			
Increase in working capital		(30,000)	(20,000)
Purchase of fixed assets		(40,000)	(40,000)
Net Cash Flow	175,000	105,000	120,000
Average of 3 years ($400,000 / 3)			133,333
Multiple			X 5
Value Based on historic cash flows			$ 666,666

Changes in working capital are added or subtracted because their result is reflected in net income of the business. As the business expands it will need additional working capital in the form of inventory and accounts receivable. That working capital must be financed somehow, and these projections look at the õcash flowö of the business so we have to make adjustments to the income statement to reflect the extra cash flow amounts.

The multiple of 5 depends on the business, industry and economic conditions. An explanation as to how the rate is selected is discussed in the section on õSelecting a Discount Rateö. Some business appraisers might prefer a multiple of 6 or 7, while others might prefer a multiple of 3 or 4.

The multiple reflects the desired rate of return that a buyer expects to earn on cash invested in the business. The rate is the reciprocal of the percentage rate of return required. For example, a

20% rate of return would give a multiple of 5 (20/100 = 1/5 or a reciprocal (multiplier) of 5. A desired rate of return of 33% would yield a multiple of 3.

Small businesses usually require a higher rate of return than a safer investment, such as a certificate of deposit or stock in a large company because of the risks associated with owning and operating a small business. So, while an ordinary investor might be happy with a 5% rate of return on a CD, that same investor might require a 20% rate of return to consider an investment in a small business. A buyer might also have to borrow funds to purchase the business, so the return on the original investment would have to provide enough to pay for the debt used to acquire and expand the business, in addition to a normal return.

Forecasted Future Cash Flow Method

While the historical information is useful, a buyer is really purchasing the future cash flows of a business and those forecasted future amounts might be more relevant. While a seller can perhaps provide some estimates of the future based upon past experience, most buyers will want to use their own forecasts of future cash flows.

For the following example, weøre going to assume that the potential buyer projected future financial statements of the business. Using those projected financial statements, the potential buyer calculated EBITDA for each of the three years as we did in the example using historical financial information. As the business expands, the buyer will have to add additional working capital in the form of more inventory or accounts receivable to grow the business. Application of the future cash flows approach could be illustrated as follows:

	Year 1 (assumed)	Year 2 (assumed)	Year 3 (assumed)
Adjusted after-tax cash profit	185,000	192,000	200,000
Less:			
Increase in working capital	(10,000)	(12,000)	(15,000)
Purchase of fixed assets		(5,000)	(30,000)
Net Cash Flow	175,000	175,000	155,000
Average of 3 years ($505,000 / 3)			168,333
Multiple			x 5
Value Based on historic cash flows			$ 841,665

As with the previous example, the selection of 3 years and multiple of 5 is based on the particular business and industry as discussed in the section on õSelecting a Discount Rate.ö Some business appraisers prefer to use 5 years and might prefer a multiple ranging from 3 to 7, depending upon the desired rate of return by the buyer.

Discounted Cash Flow

Another variation of the future cash flow valuation approach is the discounted cash flow approach. In this situation, the buyer projects future net cash flows just as in the last example. Rather than use a multiplier for the average cash flow, the analyst applies a discount factor for the future cash flows. The discount factors can be calculated with financial calculators or using tables in finance or accounting books.

Using the above example, if we discounted future cash flows for five years with a 20% discount rate, the value would be calculated as follows:

Year	Estimated adj. EBITDA	Present Value
1	175,000	145,833
2	175,000	121,528
3	155,000	89,699
4	180,000	86,806
5	190,000	76,357
	Total	520,222

The selection of 5 years is somewhat arbitrary. Some business appraisers might prefer 7 or 10 years of projected future cash flow. It is difficult to predict cash flows with any degree of accuracy for more than 5 years.

Chapter 6

Selecting a discount rate

The discount rate is the same as the rate of return on investment desired by the buyer. The required rate of return for a small business is usually going to be higher than the rate of return on a safe investment such as a certificate of deposit (õCDö) because of the risks involved in owning and operating a small business. Also, a buyer will usually have to obtain outside financing for some of the business so the rate has to be high enough to cover that financing cost in addition to the rate of return on the buyerøs own funds.

The selection of a discount rate, and consequent multiplier, is not completely arbitrary. Several authors have explored the situation since the early 1900s and have consistently arrived at comparable conclusions regarding applicable discount rates to be applied to a business. Remember that the discount rate also determines a multiplier since the multiplier is the reciprocal of the discount rate.

The applicable discount rates and multipliers are as follows:

Category	Description	Discount Rate	Multiplier
1	Established business, good trade position, good management, stable past earnings, predictable future	12 - 15%	7 - 8
2	Same as Category 1 except more competitive industries	16 - 20%	5 - 6
3	Companies in highly competitive industries, little capital investment and little management depth, but with good earnings record	20 - 25%	4 - 5
4	Small business that depends on skill of one or two people, or large companies in highly cyclical industries	26 - 33%	3 - 4
5	Small personal service business with single owner/manager	26 - 33%	3 - 4

Chapter 7

Rule of thumb multipliers

Another approach that many people use to value a business is a õrule of thumbö multiple of some income statement item. Some of the multiples are based upon revenues, while others focus on gross profit, earnings before interest, tax, depreciation and amortization (EBITDA). The amount of the multiple can vary considerably depending upon the economy, the industry, the individual company and several other factors.

Note that normal multipliers used for large publicly-held companies typically cannot be used as rules of thumb for purposes of calculating the value of a closely held business. Multiples of earnings, revenues or other financial items vary considerably for smaller companies that do not have access to public markets to sell stock or debt securities. Publicly held companies are typically much larger, rather than having all their resources concentrated in one product or one geographic area, and they have been in business long enough to demonstrate their stability.

Some experienced appraisers or business brokers who handle numerous transactions in your area are probably familiar with currently applicable multipliers for your type of business, but you should be VERY cautious about trying to apply the multiplier approach on your own.

Some of the more common multipliers are as follows:

Restaurants ó 12 to 15 times pretax (but not recast) earnings, or 0.25 to 0.50 times gross income, or 2.0 to 5.0 times revenue

Fast food franchises ó 4 to 12 times gross income (includes fixtures, equipment and goodwill)

Grocery store ó 0.25% to 0.33% of gross income, plus inventory

Retail business ó 0.75 to 1.5 times net income, plus equipment and inventory

Coffee shops ó 2.0 to 2.5 times revenue (includes equipment)

Small manufacturer ó 1.5 to 2.5 times net (including equipment), plus inventory

Car dealership ó 1.25 to 2.0 times net income, plus equipment and inventory

Auto repair ó 1.0 to 2.5 times revenue

Gas station ó 2.0 to 3.0 times revenue

Insurance agency ó 1 to 2 times annual renewal commissions, or 7 to 9 times earnings

Newspaper ó 0.75 to 1.25 times gross income, including equipment

Beauty salon ó 0.25% to 0.75% of gross income, plus equipment and inventory, or 1.0 to 1.5 times revenue

Health club ó 1.5 to 2.0 times net income, including all property

Car wash ó 2.5 to 3.5 times net, including equipment

In all the cases above, if a buyer is purchasing the entire business, including cash and accounts receivable, then those assets would also have to be added for the calculation.

In the present situation, if we assume the company is a small manufacturer and apply a multiplier of 2 the estimated value would be as follows:

EBITDA	180,000
Multiplier	x 2
Total	360,000
Plus: current assets	250,000
Estimated value	610,000

A list of multipliers for over 130 types of businesses is included in the Appendix.

Chapter 8

Comparison of values under different methods

Once an analyst has calculated the business value under a variety of alternatives listed above (plus others for more complex situations), he will typically compare all of the values to see how much they vary. Sometimes an analyst will omit one valuation result from the summary if the results are far different from the other results or if the philosophy behind the approach doesn't apply in the particular situation.

A comparison of the approaches, and average value, are illustrated below:

Approach	Value
Book Value	700,000
Adjusted book (market)	736,000
Replacement cost	950,000
Historic cash flow	666,666
Future cash flow	841,665
Discounted cash flow	520,222
Multiplier	610,000
Total	5,024,553
Weights	7
Average Value	717,793

Some business appraisers will use an average of all the estimated values but they might provide more weight to the values that they think are more appropriate. For example, if an analyst believes that book value should be given more weight than discounted cash flow, he might assign a weight of 3 for book value and perhaps a weight of 2 to historic cash flow. In that case the weighted average of the estimated values would be:

Approach	Value	Weight	Weighted Value
Book Value	700,000	1	700,000
Adjusted book (market)	736,000	3	2,208,000

Replacement cost	950,000	1	950,000
Historic cash flow	666,666	2	1,333,332
Future cash flow	841,665	1	841,665
Discounted cash flow	520,222	1	520,222
Multiplier	610,000	1	610,000
Total	5,024,553	10	7,163,219
Weights			10
Average Value			716,321

Now you understand why business valuation experts are compensated so well! The values can vary considerably between the different approaches and it frequently takes an expert to determine which value is most appropriate for the situation at hand.

Also keep in mind that the numbers above reflect the value for the entire business and assets. In most cases the buyer does not purchase the cash or accounts receivable from the seller, and frequently does not take over prior accounts payable of the business. Adjustments would have to be made for those items to arrive at a final selling price.

For example, if the buyer is not purchasing the cash or accounts receivable of the business, and is not taking over the accounts payable or accruals, the total value would be computed as follows (assuming use of the õweighted averageö value):

Weighted Average value of business		716,321
Minus:	(125,000)	
Cash	(22,000)	
Accounts receivable		
Plus: accounts payable and accruals		100,000
Value of business		669,321

Similar adjustments could be made if the buyer is not taking over the building of the business or the long term debt associated with it. Some of these examples were provided earlier in this section in the discussion of asset-based pricing models.

Chapter 9

Using a business appraiser

As you can tell from our analysis of a simple business, there are many approaches to valuing a business and they can all yield vastly different results. One of the major reasons businesses donøt sell is that owners often place an unreasonably high value on their business for the current market conditions in their area. Setting the initial price too high may scare off potential buyers who might otherwise be interested in considering the business. One way to help avoid overpricing (or under-pricing) a business is to use a qualified business appraiser or valuation expert.

In addition to added confidence about the reasonableness of the business value, getting a report from an independent business appraiser also helps justify the price for the business.

Business appraisers do not come cheap. They usually start with a background as a certified public accountant or real estate professional and then take several more hours of education specifically related to business valuations. They have to charge rates commensurate with the amount of time and investment they have in developing their skills.

Rates typically start at $150 per hour or more. A simple oral valuation, if you can get one, may cost $500 or more. A more detailed written valuation will cost $3,000 to $6,000 or more depending upon the complexity of the business being appraised. It is not unusual for valuation fees to top $20,000 for relatively small businesses and over $1 million for õfairness opinionsö when a publicly held company acquires a business.

Most qualified business appraisers have some professional designation such as the following:

CBA Certified Business Appraiser

ASA Accredited Senior Appraiser

CPA/ABV Certified Public Accountant Accredited in Business Valuations

CVA Certified Valuation Analyst

You should contact at least two or three business appraisers if you decide to use one. Inquire about their credentials, experience with businesses similar to yours, and how many appraisals theyøve done. Be sure to discuss costs, whether you will receive a written valuation report, how much time they anticipate will be involved and what kind of information they will need from you.

Chapter 10

Other factors affecting value of the business

Notwithstanding the mathematical portion of calculating the value of a business, there are numerous other factors which influence the final price of a business in any particular situation. Some were mentioned at the beginning of this section and will be briefly highlighted again, along with many other factors that can affect the price.

1. *Negotiating situation of the parties* A seller who is about to have the business closed through foreclosure is in a much weaker negotiating position than one who is in a stronger financial position.

2. *Desires of the buyer* A strategic buyer will usually be willing to pay more than a party who is buying just for financial reasons.

3. *Availability of financing or credit* If banks are not currently providing financing for this type of transaction then a buyer will not be willing or able to pay as much.

4. *Industry conditions* With the change to internet booking of personal travel it became almost impossible to sell travel agencies at any price. Similarly, if the real estate market slows down it is difficult to find a buyer at any price for some construction related businesses. Industry conditions can greatly influence the value of the business, especially if the industry is entering a downward cycle.

5. *Local economy* If the local economy is slowing or people are moving out of the area it will be more difficult to get a high price for a business.

6. *Skill needed by buyer* If a great deal of skill is needed to operate the business it might be more difficult to find any qualified buyer or to get maximum value for the business.

7. *Condition of assets of the business* If parties use a rule of thumb multiplier or income-based approach for valuing a business, the condition of the assets can greatly affect the purchase price. For example, if a buyer is looking at two different businesses and one has old outdated equipment compared to the other company with new equipment, then the buyer will discount the older business because of the future cost of replacing the equipment.

8. *Owned assets versus leased assets* Typically, a company that owns its assets will demand a higher price than a similar business that leases its assets.

9. *Lease terms* A business in a desirable location with a lease at a good rate that can be assumed will typically bring a higher price than a business which is in a poor location or locked into unfavorable lease terms.

10. *Financial stability of the company* A business with a history of many years of good financial ratios will bring a higher price than a company with a poor financial record.

11. *Terms of the sale* A flexible seller who is willing to carry part of the sale price will usually get a much better price than a seller who wants all or most of the sale price at closing.

12. *How many clients or customers will remain with the business after the sale* If the business is highly dependent upon the personal contacts of the seller, then some of the business may fall off after a new buyer takes over. This would impact any calculations based on historic or projected future earnings of the business.

Chapter 11

Using the Business Valuation Software

> NOTE: The Business Valuation Software is not available with this e-book Plain English Guide but is sold separately through plainenglishguides.com. Several people have requested the guide separately in e-book format which is why it is available here.

The Business Valuation Software is a template based on Microsoft Excel® spreadsheet software.

Opening the software

You can open the template using Excel®.

How to use the software

The software is set up with various sheets as indicated by the tabs at the bottom of the page. You should start with the first tab (Bal Sheet) and work your way successively through the tabs.

Enter information pertaining to your company in the spaces indicated in green. The balance sheet and income statement worksheets are set up to handle most companies. Your business might use more accounts or fewer. Combine accounts where necessary to enter your information into the format provided.

After entering information on one sheet, click on the tab for the next worksheet at the bottom and enter information on that page.

When you have finished entering information, including the assessment worksheet, the Business Valuation Software will automatically calculate estimated values for your business based on the information you entered.

The valuation is based on multiples for other similar companies that have sold in recent years. Please keep in mind, however, that the actual price of any business can vary considerably depending upon the circumstances, current economy and geographic considerations.

An example using the information provided earlier is included.

Saving a business valuation

To save your business valuation, click õfileö in the upper left corner of your toolbar and select õSave As.ö Select a name that you would like to use for your file and enter that name when prompted.

Business Valuation Multiples

	Net Sales	Gross Profit	EBIT	EBITDA	Disc Earn	Book Value
Agriculture, Forestry and Fishing						
Animal specialty services	0.6	0.6	1.0	4.0	1.3	4.4
Landscape counseling and planning	0.5	0.9	2.8	4.0	2.6	1.5
Lawn and garden services	0.5	0.7	2.9	3.2	1.8	7.7
Construction						
Carpentry work	0.4	0.7	4.3	3.9	2.2	2.8
Electrical work	0.4	1.3	4.7	5.3	2.6	4.6
Plumbing, heating and air conditioning	0.4	0.9	4.9	3.6	2.7	1.8
Roofing, siding and sheet metal	0.3	0.9	12.1	11.6	3.5	2.1
Specialty trade contractors	0.6	1.1	4.6	4.2	2.8	3.6
Water, sewer and utility lines	0.6	2.2	12.0	11.2	5.9	2.7
Finance, insurance and real estate						
Fire, marine and casualty insurance	0.5	0.5	0.5	1.8	14.6	7.4
Insurance agents, brokers and service	0.9	1.3	3.9	6.8	3.3	0.8
Investment advice	2.1	2.1	8.1	7.0	--	13.3
Mortgage bankers and loan correspondents	0.5	0.6	3.2	3.6	3.6	2.5
Patent owners and lessors	4.7	6.7	12.9	12.9	--	4.0
Real estate agents	0.6	0.7	2.7	2.1	2.0	0.2
Security brokers and dealers	0.7	0.7	6.4	6.0	--	1.0
Manufacturing						
Computer peripheral equipment	1.5	5.0	20.6	18.2	2.7	8.1
Electrical equipment and supplies	0.9	4.0	26.1	23.8	3.9	7.6
Electronic equipment	2.3	4.9	7.5	13.5	--	3.7
Electronic connectors	0.7	2.6	9.9	3.8	2.1	1.1
Fabricated metal products	0.7	1.8	5.6	5.3	4.2	2.0
Fabricated structural metal	0.6	1.1	4.1	3.8	3.2	1.2
Instruments to measure electricity	1.0	2.1	12.0	8.5	--	6.7
Laboratory analytical instruments	0.7	2.8	6.4	8.5	4.3	2.4
Manufacturing industries	0.8	2.1	7.9	7.0	2.9	2.7
Men's and boys' clothing	0.9	2.2	44.9	12.0	--	2.2
Millwork	0.5	1.6	6.6	6.3	3.8	3.3
Motor vehicle parts and accessories	0.8	2.3	5.6	6.6	2.1	4.2
Optical instruments and lenses	0.8	2.2	5.9	5.4	--	4.9
Orthopedic, prosthetic and surgical appl	2.1	3.6	13.7	13.4	10.2	2.5
Paper mills	0.8	3.5	5.1	3.6	2.0	1.1
Pharmaceutical preparations	2.8	4.2	17.6	15.5	--	5.6
Plastics, metals and resins	1.0	4.3	30.9	6.8	78.9	2.4
Plastics products	0.6	2.9	11.2	9.0	4.7	2.3

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Printed circuit boards	0.8	3.5	9.2	7.6	6.0	4.1
Process control instruments	1.7	4.8	14.6	12.7	--	9.6
Radio, television and communications equip	1.5	3.7	8.7	19.6	--	3.8
Semiconductors and related devices	3.8	8.9	48.1	85.1	--	13.6
Signs and advertising specialties	0.6	0.9	5.3	5.2	3.1	1.0
Special industry machinery	1.2	3.4	6.9	6.5	4.1	4.0
Sporting and athletic goods	0.6	1.9	13.2	43.0	38.3	3.4
Surgical and medical instruments	3.9	6.6	11.9	9.9	--	6.3
Telephone and telegraph apparatus	1.3	2.7	28.8	19.9	--	3.6
Wood kitchen cabinets	0.4	1.0	4.7	4.6	2.6	1.3
Mining						
Oil and gas field services	1.7	4.3	9.8	7.3	2.1	2.8
Oil and gas well drilling	1.6	2.4	20.1	9.8	--	3.6
Printing and publishing						
Commercial printing	0.6	1.0	4.8	5.4	2.7	2.1
Commercial printing and lithography	0.6	0.9	5.0	5.7	2.6	2.1
Miscellaneous publishing	1.9	2.6	11.1	10.1	3.8	5.1
Periodicals	1.4	2.4	18.6	16.8	2.1	2.9
Retail trade						
Boat dealers	0.3	1.3	4.0	4.1	2.9	1.0
Computer and software stores	0.3	0.6	4.7	13.5	3.0	3.2
Drinking places	0.6	0.9	4.4	4.3	3.9	5.0
Drugstores and proprietary stores	0.4	1.5	5.1	5.7	3.4	4.2
Eating and drinking places	0.4	0.6	2.9	3.7	2.5	1.9
Floor covering stores	0.4	1.2	2.9	1.8	1.8	1.2
Florists	0.5	0.7	1.9	1.8	1.5	2.3
Furniture stores	0.3	0.8	7.0	4.5	3.8	3.3
Gasoline service stations	0.1	1.0	5.1	3.2	2.2	1.2
Gift, novelty and souvenir shops	0.5	1.0	3.9	3.6	2.7	0.9
Grocery stores	0.3	1.0	6.0	4.4	3.5	1.2
Hardware stores	0.6	1.4	12.0	5.4	2.8	1.0
Hobby, toy and game shops	0.5	1.0	2.8	2.6	2.6	1.8
Liquor stores	0.4	1.8	6.3	8.7	4.8	2.5
Lumber and other building materials	0.4	1.4	7.1	9.0	4.2	1.9
Merchandising machine operators	0.7	1.4	2.3	4.1	2.3	1.3
Miscellaneous food stores	0.5	1.1	3.3	6.4	1.8	6.4
Miscellaneous home furnishings	0.4	0.8	2.7	3.6	2.2	2.2
Miscellaneous retail stores	0.4	0.7	2.9	3.6	2.7	1.6
Retail bakeries	0.4	0.6	4.5	5.9	2.4	1.3
Retail nurseries and garden stores	0.5	1.0	5.2	5.0	3.6	3.4
Sporting goods and bicycle shops	0.3	0.9	3.4	3.9	2.9	1.1
Used merchandise stores	0.4	0.6	3.4	3.8	2.6	2.6

Women's clothing stores	0.6	1.1	3.8	3.8	2.6	2.0
Services						
Accounting, auditing and bookkeeping	1.1	1.2	4.0	7.3	2.3	7.7
Advertising agencies	0.7	1.9	2.9	9.1	4.9	2.3
Advertising, miscellaneous	0.6	1.6	4.3	4.3	2.0	1.4
Amusement and recreation	0.6	0.8	2.5	4.6	2.7	8.6
Automotive services	0.8	1.0	4.6	4.8	3.2	2.3
Automotive repair shops	0.4	0.7	4.1	4.9	3.5	2.2
Automotive body/top repair and paint shops	0.5	0.8	5.0	5.1	2.5	1.2
Beauty shops	0.4	0.5	2.4	3.1	1.6	1.9
Building maintenance service	0.7	0.8	2.3	2.3	3.0	5.1
Business consulting services	1.1	3.0	11.4	10.8	2.8	5.6
Business services	0.7	1.0	3.6	5.4	2.8	3.6
Car washes	1.2	1.4	6.3	7.3	4.2	1.8
Child day care services	0.5	0.5	3.7	3.8	2.8	1.1
Coin-operated laundries and cleaning	1.1	1.3	4.6	3.7	3.3	2.2
Commercial art and graphic design	0.5	0.9	15.4	12.7	2.4	3.6
Commercial nonphysical research	0.8	2.4	10.8	12.6	2.3	5.8
Commercial physical research	2.2	8.2	29.6	13.6	--	5.8
Computer integrated systems design	1.0	2.5	11.0	15.6	2.0	5.9
Computer-related services	1.5	3.2	11.2	13.2	5.1	4.0
Custom computer programming svc	2.9	4.8	13.2	9.8	1.9	8.3
Data processing and preparation	2.8	5.7	14.6	13.8	2.4	7.3
Dentist office and clinics	0.6	0.6	62.7	33.7	1.2	1.6
Detective and armored car services	0.6	1.5	3.9	5.4	2.6	4.6
Direct mail advertising services	0.6	1.3	5.6	5.6	2.7	6.4
Dry-cleaning plants, except rugs	0.8	1.0	9.7	5.8	4.3	2.5
Employment agencies	0.3	1.1	7.3	8.5	3.6	3.5
Engineering services	1.0	2.4	7.8	8.0	4.0	3.0
Equipment rental and leasing	1.1	1.3	4.9	5.1	3.2	4.6
Help supply services	0.4	1.5	5.2	4.9	2.4	3.7
Home health care services	0.5	1.0	4.7	3.6	2.4	4.2
Information retrieval services	0.7	1.2	12.3	7.4	1.8	8.4
Management consulting services	1.0	2.1	10.4	10.4	3.3	5.2
Medical laboratories	0.9	1.3	12.0	4.5	1.7	1.0
Medical doctor offices and clinics	0.4	0.4	8.0	7.8	1.0	2.8
Miscellaneous personal services	0.6	0.7	1.9	2.6	2.4	3.9
Pest control and disinfecting svc	1.1	1.7	13.7	10.0	5.0	5.0
Physical fitness facilities	0.6	0.7	3.7	3.2	2.5	2.2
Prepackaged software	2.3	4.0	18.4	15.9	3.3	8.5
Repair services	0.6	0.8	4.5	4.4	2.7	2.1
Schools and educational svc	0.8	1.0	2.9	3.5	2.3	1.7

Security systems services	1.6	2.3	7.0	5.8	3.1	2.7
Skilled nursing care facilities	0.8	2.3	18.8	13.7	2.3	4.7
Testing laboratories	0.7	1.2	3.7	3.4	4.7	2.3
Travel agencies	0.8	1.2	8.8	10.7	13.2	6.4
Transportation and Communications						
Airports, flying fields and services	0.6	1.9	11.3	10.7	--	4.1
Cable and pay television services	1.5	4.1	10.7	9.7	--	4.3
Communication services	0.9	2.5	10.5	9.9	4.5	3.6
Courier services (except by air)	0.8	0.9	2.6	2.5	2.0	--
Radio and telephone communications	0.6	3.1	11.1	4.4	1.1	3.0
Refuse systems	0.9	1.5	7.7	6.2	2.8	3.8
Telephone communications except radio	0.7	2.1	9.0	7.6	1.6	4.7
Trucking (except local)	0.7	1.4	11.9	4.9	4.5	2.0
Trucking local without storage	0.6	0.6	5.0	4.9	3.1	2.3
Wholesale Trade						
Electrical apparatus and equipment	0.8	2.3	8.9	7.7	3.0	4.5
Electronic parts and equipment	0.6	1.4	6.4	9.0	2.9	2.2
Groceries and related products	0.4	0.7	5.7	2.2	1.4	2.0
Hardware	0.4	1.5	8.8	20.1	7.4	1.8
Industrial supplies	0.5	1.0	7.1	6.0	2.6	1.5
Medical and hospital equipment	0.4	1.8	12.7	4.8	2.2	2.5
Motor vehicle supplies and new parts	0.4	1.8	4.1	7.6	3.9	6.3
Nondurable goods	0.3	0.9	4.1	7.6	3.9	6.3
Petroleum products	0.3	2.1	7.6	12.0	8.8	2.5