profitcents® | Valuation Solution

VALUATION SOLUTION
USER GUIDE

Reduce risk and save time when performing compliant valuations

Our Valuation Solution

ProfitCents Valuation Solution is a powerful, web-based platform designed to help business valuation professionals streamline their workflow, enhance efficiency, and maximize realization rates. By leveraging advanced financial modeling and analytics, it enables users to generate precise, defensible business valuations that align with SSVS No. 1 standards. With its intuitive interface and robust features, Our Solution not only simplifies complex valuation processes but also empowers professionals to expand their advisory services and deliver greater value to clients. Whether you're conducting valuations for financial reporting, mergers and acquisitions, or strategic planning, ProfitCents Valuation Solution provides the tools and insights needed to support sound, data-driven decision-making.

Features & Benefits

- Instantly merge client data, calculations, market data and more into any report document you select.
- Track and store client documents in a secure, globally accessible online document manager.
- Use the income, market and asset approaches to arrive at an accurate value modeled after SSVS No. 1 standards.

- Benchmark business value using the ProfitCents database and other databases within the software.
- Easily generate customized client reports with the built-in report writer.
- Training and support are included to help maximize success.

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Getting Started

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About Our Data

Sageworks strives to provide you with the most representative, relevant, and useful data by maintaining our industry database with a uniform, systematic, and statistically valid filtering system. We believe that useful data must be representative, relevant, and timely. Our filtering system ensures that the industry averages used throughout our products present you with representative information that accurately reflects the economic conditions of your industry for your financial analysis, whether you segment the data by geographic region or sales range.

The Five Filters Method is used to cleanse data to remove duplicates, incorrect or sample data.

Over 1,400 industries covered, with 4MM+ financial statements to analyze operational efficiency.
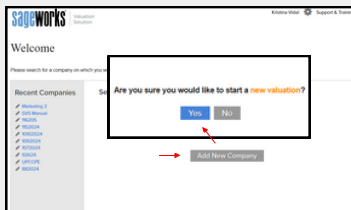
Our data is aggregated from accountants, consultants, and small to mid-sized banks.

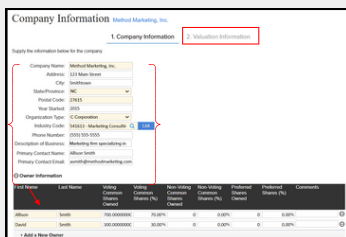# Adding a New Company
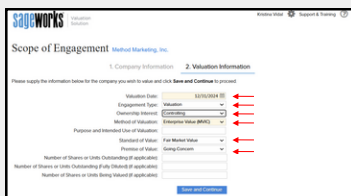## Company Information

Start a new valuation

- Select **Add New Company**.
- Select **Yes** to start a new valuation.

## Enter Company Information

- Enter all data fields, including **Industry Code** and **Owner Information**.
- Select **2. Valuation Information** at the top of the page.

Enter Valuation Information

- Assign **Valuation Date**.
- Choose **Engagement Type, Ownership Interest, Method of Valuation, Standard of Value, Premise of Value** and any applicable fields. Select **Save and Continue**.

To Edit an Existing Valuation
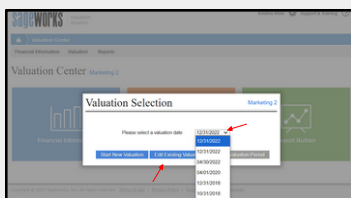
- Select a current company from the **Recent Companies** or **All Companies** list.
- Select a **Valuation Date** from the drop down menu.
- Select **Edit Existing Valuation**.

Notes:

For the Method of Valuation:
- Enterprise (MVIC) Valuation
  - Valuing the entire company, equity and debt
  - The income approaches use EBIT as an earnings stream to calculate unlevered cash flows (cash is not included in working capital)
- Equity Valuation
  - Equity Valuation only
  - The income approaches use Net Income as an earnings stream to calculate Levered Cash Flows (cash is included in working capital)
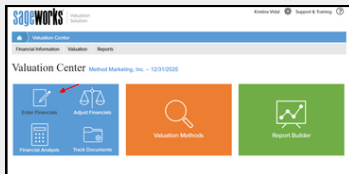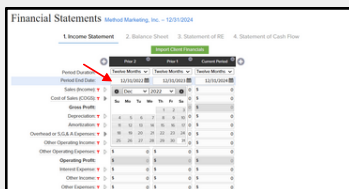
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Financial Information

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Entering Financials
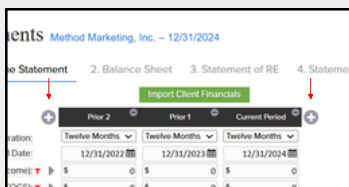## Manual Input

Enter Financials

- Hover over the blue **Financial Information** box and select **Enter Financials**.
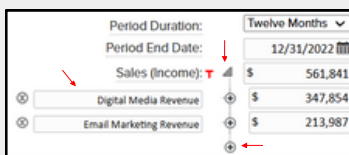
Select Period End Dates

- The Valuation Solution requires at least three periods of data.
- Select each period end date by using the calendar drop downs.

Entering Additional Periods

- Select the **+** to the left of Prior 2 to add additional prior periods.
- Select the **+** to the right of **Current Period** to add subsequent periods.

Entering Data

- Enter values on the **Income Statement** for each account where applicable.
- To enter subaccount information, select the triangle next to the main account. Enter the name of the account and the value.
- Choose the **+** to add additional subaccounts.

Entering Data

- Select **Save and Continue** to move to the **Balance Sheet**.
- Make any necessary additions to the **Statement of Retained Earnings**.
- After selecting **Save and Continue**, the **Statement of Cash Flow** will automatically populate. Select **Save and Finish**.
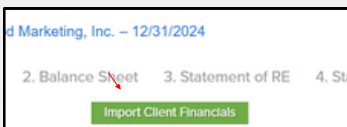
Entering Financials
Integration Methods
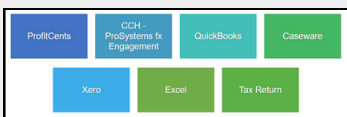
Enter Financials
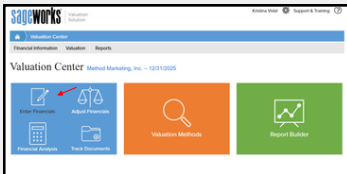
- Hover over the blue **Financial Information** box and select **Enter Financials**.

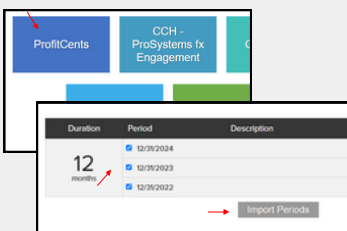## Import Client Financials

- Select the green **Import Client Financials** box.

Choose Integration Method

- Choose the integration method type.
- Refer to the documentation noted at the bottom of this page for more information on integrating with each platform.
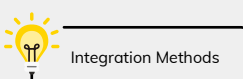
To Integrate with ProfitCents

- Select the blue **ProfitCents** box on the integration page.
- Choose which periods to import from ProfitCents.
- Select **Import Periods**.

Notes:

For more information on the different integration methods, click the icon below.

Integration Methods

Adjusting Financials

Adjust Financials
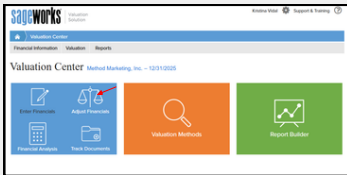
- Hover over the blue *Financial Information* box and select *Adjust Financials*.
- The adjusted financials copy over from historical data.

Making Adjustments

- Make adjustments directly in the cell.

- The cell can also be used as a calculator to add or subtract values from the original.

- The adjusted cell will highlight orange if the value differs from the historical input.
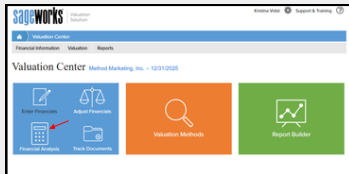- To check the historical value, click into the cell and a clock will appear.

- Type any comments in the box to the right of the account and select *Done*.
- Any comments made next to the accounts will automatically flow to the final report.

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Financial Analysis

Internal and Industry Analysis

- Hover over the blue **Financial Information** box and select **Financial Analysis**.

- Once data is input, a wide range of performance ratios are calculated.
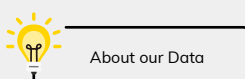- The bracket shows the number of financial statements included in each average.

- For the underlying calculations, users can print, view or download the **Formula Key**.

- Select the **Data Settings** button to choose which type of information is shown for the company.

- Select the **Industry Data** option to filter the industry data by **Region**, **State**, and/or **Sales Range**.
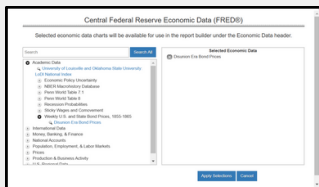
Notes:

For more information on how the data is cleaned and processed, click the icon below.

About our Data

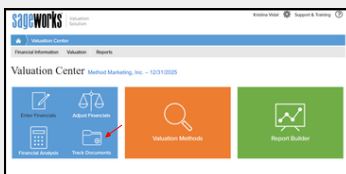# Financial Analysis (cont...)

- Choose **Save and Continue** to progress to the **Common Size Statements**.

- Select **3. Central Federal Reserve Economic Data (FRED)** to access economic data charts.
- Use **Search** or the drop down menus to find the desired Economic Data.

Track Documents
Document Manager

- Hover over the blue **Financial Information** box and select **Document Manager**.

- Track document requests sent to the client or team members. To receive documents, click on the drop-down beside the document type and mark as **Received**. If you would like to upload and/or view an uploaded document, click on the icon beside the desired document.
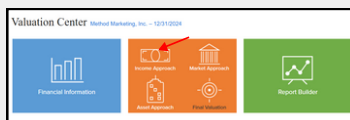
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Valuation Methods

Income Approach
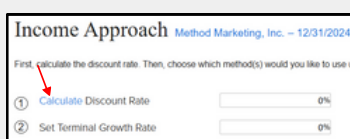
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Income Approach
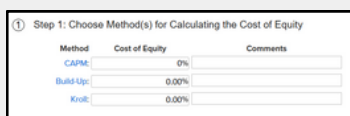## Calculate the Discount Rate

Getting Started

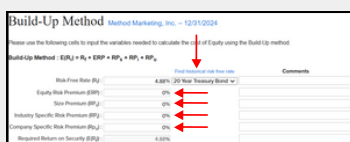- Hover over the orange **Valuation Methods** box and select **Income Approach**.

- In step one, choose **Calculate** Discount Rate.

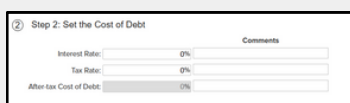## Step 1: Choose Method(s) for Calculating the Cost of Equity

- Choose **CAPM**, **Build-Up**, or **Kroll** (or a combination, or all three).

- For each method, **Find Historical Risk Free Rate** by choosing from the drop down.
- Assign values to the various premiums. The **Required Return on Security** will calculate.
- Select **Save and Continue**.

Step 2: Set the Cost of Debt

- Enter the **Interest Rate**: A good proxy is generally the rate on any debt outstanding.
- Enter the **Tax Rate**: Input the Company's effective tax rate.
- The **After-tax Cost of Debt** will calculate.

Notes:

- In the Discount Rate section, we pull the most up-to-date treasury bill/note yield.
- Most people use the 20-year bond as a proxy for the risk-free rate.

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Income Approach
Calculate the Discount Rate

Step 3: Determine the Target Capital Structure

- Enter the **Debt** (the percentage of total capital taken up by interest-bearing debt).
- The **Equity** (the percentage of total capital taken up by equity) will automatically calculate.

Step 4: Choose the Method(s) for Calculating the Discount Rate

- Fore each method, the discount rate is calculated as: (Cost of Equity*Equity)+(After-tax Cost of Debt*Debt).
- Input the weight you would like to apply to each of the cost of equity methods.
- The **Weighted Average** will calculate.
- Choose **Save** and **Finish**.

Set the Terminal Growth Rate

- Enter the **Terminal Growth Rate**.
- This represents the long-term sustainable growth rate a company is projected to maintain forever. It is typically set at a conservative rate, often aligning with the long-term inflation rate or GDP growth rate.
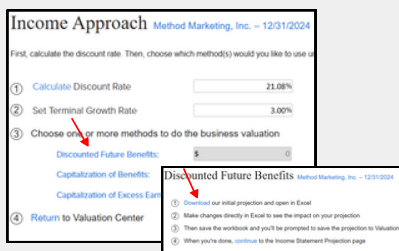
Notes:

Setting Cost of Debt, Target Capital Structure and Calculating a Discount Rate steps do not apply when conducting an equity valuation.
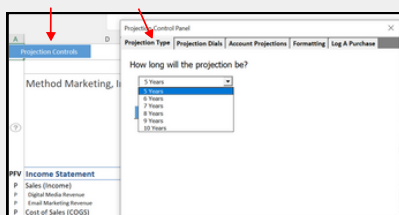
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Income Approach
## Discounted Future Benefits

Getting Started

- Select **Discounted Future Benefits** in Step 3.
- **Download** the initial projection and open in Excel.
- The ultimate goal is to conduct a discounted cash flow valuation.

Changing the Projection Type

- After opening the file, use the **Projection Control Panel** to modify the Projection.
- In the **Projection Type** tab, adjust how many years of projected data will show (5-10 years).
- By default, the program applies the Holt-Winters Smoothing Equation to the projected period data.

Projection Dials
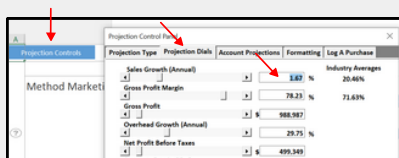
- Use the dials or type directly into the cells to adjust projection values.
- Income Statement and Balance Sheet items will adjust accordingly.
- Industry averages to the right are pulled from the Sageworks Database for benchmarking.

Notes:

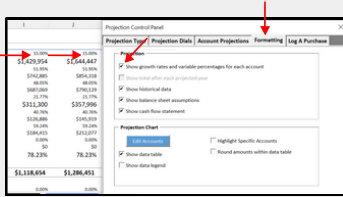For more information on how to unblock the macros when before opening the Excel file, click the icon below.

Unblocking Macros

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Projection: Growth Rates as a Percentage

- The key feature of the DFB model is the growth rates shown as percentages.
- In the **Control Panel**, select the **Formatting** tab and check the first box.
- Adjust the percentages directly in the cell and the projection will update accordingly.
- Do not overwrite the actual dollar amounts when this feature is turned on.

Projection: Logging a Purchase

- Add a purchase to projected data to determine the impact of financing/cash purchases on the company's cash flows, profitability, etc.
- From the **Control Panel**, select **Log a Purchase**.
- Enter the relevant fields including **Name**, **Amount**, **Purchase Date** and **Loan Terms** if financing the purchase.

Projection: Uploading Data to the Site

- Once finished making adjustments, upload the data back to the website.
- From the **Control Panel**, select the **Projection Dials** tab and choose **Save to Valuation**.
- This uploads the document back to the site. A confirmation and time stamp will generate on the screen.

- When finished, click **continue** on the website in Step 4 to continue to the **Income Statement Projection** page.

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Income Approach
Discounted Future Benefits (cont...)

Projection: Income Statement Projection

- The **Income Statement Projection** will populate.
- The site will time stamp when the last projection was uploaded.
- Choose **Save and Continue** at the bottom of the page.

Projection: Balance Sheet Projection

- The **Balance Sheet Projection** will populate.
- Choose **Save and Continue**.

Projection: Valuation

- Review the **Cash Flow** information.

- At the bottom of the page, the **Discount Rate**, **Terminal Growth Rate** and **Present Value of Terminal Value** will automatically calculate.
- Make adjustments if necessary.

- When finished, click **Finish the DFB Model** to return to the Income Approach page. The DFB value will populate.

Income Approach
Capitalization of Benefits

Getting Started

- From the **Income Approach** page, select the **Capitalization of Benefits** hyperlink.

Making Adjustments

- The **Cash Flow** chart will generate. If needed, select **Update from Adjusted Financials**.

- **Weight** each period in the Cash Flow chart at the bottom. **The Weighted Average Free Cash Flow** will calculate.
- Select **Save and Continue**.

Valuation

- Make any adjustments, if necessary.
- Select **Save and Finish** when complete. The **Capitalization of Benefits** value will populate on the **Income Approach** page.

Notes:
- Calculation differs slightly depending on MVIC vs Equity Valuation.
  - MVIC earnings stream = EBIT
  - Equity earnings stream = Net Income

Income Approach
Capitalization of Excess Earnings

Getting Started

- From the **Income Approach** page, select the **Capitalization of Excess Earnings** hyperlink.
- The current period financials pull from the historical financials.

Making Adjustments

- Make Balance Sheet adjustments if needed by overwriting the adjusted value or entering the adjustments in the **Adjustments** column in the middle. Select **Save and Continue**.
- Cells will highlight orange if the value in the cell is different from the historical value.

Cash Flow

- **Weight** the periods in the Cash Flow chart at the bottom. Select which type of economic earnings to use in the dropdown. **The Weighted Average Free Cash Flow** will calculate.
- Select **Save and Continue**.

Valuation

- Enter the **Required Return on Net Tangible Assets**: the amount that the Company would require as a return on the capital invested in tangible assets.
- Enter the **Capitalization Rate**: a rate that reflects the amount of risk involved in the economic earnings generated by the Company.
- Enter **Other Adjustments** if necessary.
- Select **Save and Finish** when complete. The **Capitalization of Excess Earnings** value will populate on the Income Approach page.

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Valuation Methods

Asset Approach

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Asset Approach

Getting Started

- Hover over the orange **Valuation Methods** box and select **Asset Approach**.

Making Adjustments

- Enter any Balance Sheet adjustments in the **Adjustments** column.
- The adjusted cell will highlight orange, along with the **Adjusted Values** cell.
- To check the historical value, click into the cell and a clock will appear.
- Be sure to offset the adjustment so that it balances. The program **WILL NOT** assume where to offset the adjustment.
- Clicking the **Update from Adjusted Financials** button will automatically update the values from previously adjusted accounts.

Valuation

- The **Adjusted Net Asset Value** will automatically calculate.
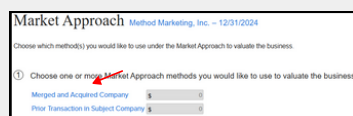- Select **Finish** to return to the **Valuation Center**.

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Valuation Methods
Market Approach

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Market Approach
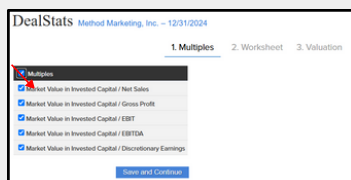## Merged & Acquired Company

Getting Started

- Hover over the orange **Valuation Methods** box and select **Market Approach**.
- Select **Merged and Acquired Company** in Step 1.

Select Source

- Choose which source(s) to use to valuate the business. Please note a separate subscription is needed to access these sources.
- The following sources are supported:
  - DealStats
  - BizComps
  - Done Deals
  - IBA

Select Multiples

- For each source used, check which multiple(s) to use to valuate the business.
- Select **Save and Continue**.

Market Approach
Merged & Acquired Company (cont...)

Worksheet

- Enter the **Mean**, **Median**, and **Harmonic Mean** for each multiple. These values can typically be found on the summary page of the source report.
- The **Implied Company Values** for each will calculate.
- **Weight** each multiple.
- Select **Save and Continue**.

Valuation

- On the **Valuation** page, choose which measure to use to calculate the **Implied Value** from the dropdown.
- Make any necessary **Adjustments**.
- Weight **Asset Sales** and, if applicable, **Stock Sales**.
- The **Equity Value** will calculate at the bottom of the page.
- Select **Save and Finish**.

Merged and Acquired Valuation

- Repeat the process for the different sources, if using more than one.
- Assign a **Weight** to each source.
- The **Merged and Acquired Company Valuation** will calculate.
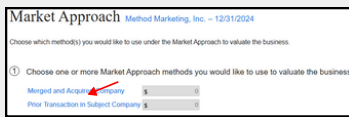- Select **Save and Finish**.

Market Approach
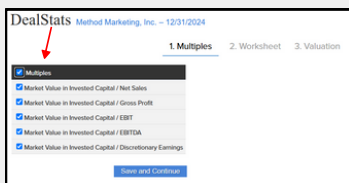## Prior Transaction in Subject Company

Getting Started

- Hover over the orange **Valuation Methods** box and select **Market Approach**.
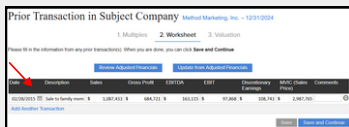- Select **Prior Transaction in Subject Company** in Step 1.
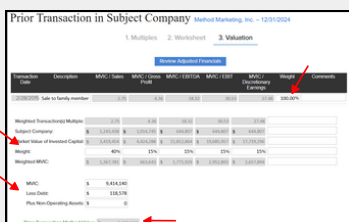
Select Multiples

- Choose which multiple(s) to use from past transactions in the subject company to future transaction(s).
- Select **Save and Continue**.

Enter Worksheet Data

- Fill in each of the fields in the Worksheet.
- **Date**: Input a transaction date for the transactions in the Company.
- **Description**: Input a description / identifier for the previous transactions in the Company.
- **For each chosen multiple**: Input the most recent figure as of the date of the prior transaction.
- Add another transaction if applicable. When finished, choose **Save and Continue**.
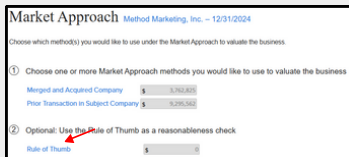
Valuation

- **Weight** each transaction if more than one. If only one, enter 100%.
- **Weight** each multiple.
- Make any adjustments necessary. The **Prior Transaction in Subject Value** will calculate. Select **Save and Continue**.
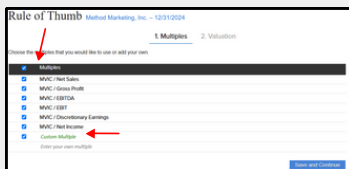
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Market Approach
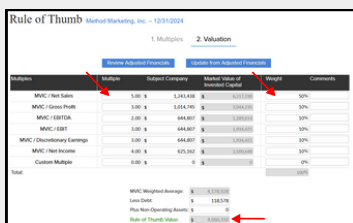## Rule of Thumb

Getting Started

- Hover over the orange **Valuation Methods** box and select **Market Approach**.
- Select **Rule of Thumb** in Step 2.
- This method is a reasonableness check for other valuation methods.

Select Multiples

- Choose which multiple(s) to use to valuate the company or input a **Custom Multiple**.
- Select **Save and Continue**.

Valuation

- For pre-defined multiples, **Subject Company** information will automatically populate.
- Enter the desired value for each of the chosen multiples. The **Market Value of Invested Capital** will calculate.
- Apply a **Weight** to each multiple.
- Make any necessary adjustments.
- The **Rule of Thumb Value** will calculate. When finished, choose **Save and Continue**.

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Final Valuation

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Final Valuation
Determine the Final Company Value

Getting Started

- Hover over the orange Valuation Methods box and select **Final Valuation**.

Apply Discounts & Weighting

- The value for each valuation method used will populate on the **Final Valuation** screen.
- If applicable, apply a **Minority** and/or **Marketability Discount** to each method.
- **Weight** each method being used to valuate the company.
- Note: It is not necessary to use all of the methods listed.

Conclusion of Value

- The **Equity Value** will calculate based on the discounts and weighting.
- Assign the **Interest Being Valued**, if not 100%.
- The ability to **Round** the value can be chosen from the dropdown box.
- A **Range** may also be applied to the value.
- The **Conclusion of Value** and **Range of Value** will populate at the bottom of the page.
- Select **Save and Finish**.

Report
Builder

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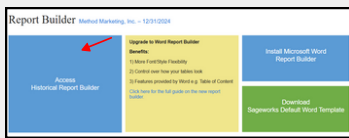
Report Builder
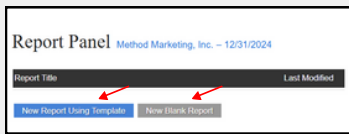## Historical Report Builder

Getting Started

- Select the green **Report Builder** box from the **Valuation Center**.
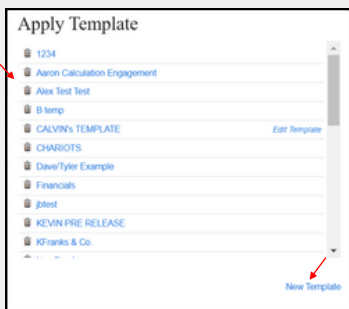- On the left hand side, choose **Access Historical Report Builder**.

Creating a New Report

- From the **Report Panel**, select **New Report Using Template** or **New Blank Report**.

New Report Using Template

- Select a previously generated template in the **Apply Template** pop up, or select **New Template** to create a new one.
- Users can insert hotfeeds into the template from the list on the left hand side of the **Report Builder**.
- The template will pull the specific data from that hotfeed into the report.
- Templates can be accessed across all companies and are saved to the template "bank".
- When finished, choose **Generate Report** to download the finished **Valuation Report**.
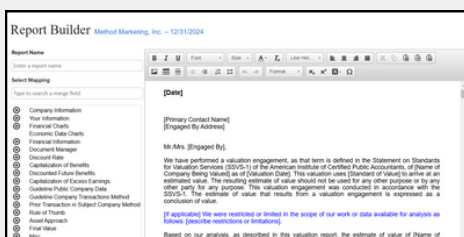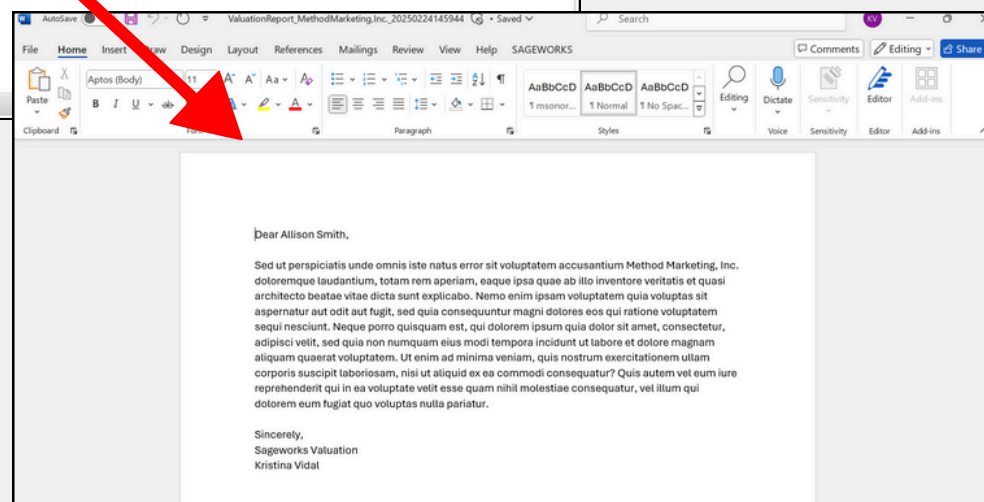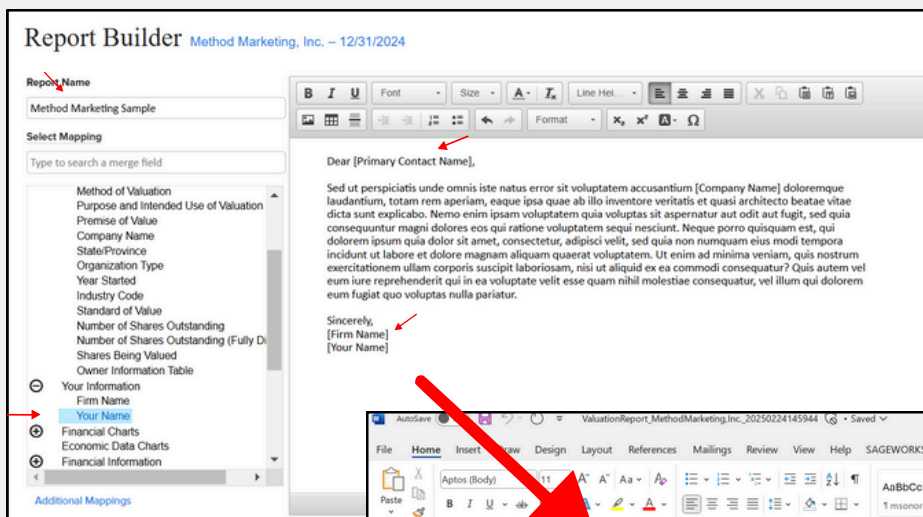
Report Builder
## Historical Report Builder (cont...)

New Blank Report

- With this option, the user has the ability to create a completely customized report.
- Enter a **Report Name**.
- Type the report in the blank space and format as desired. Data is inserted from the software by selecting the hotfeeds on the left hand side.
- Opening the '**+**' will show the categories under each heading.
- When finished, **Save** and then **Generate Report**.
- The report can be downloaded into a Word or PDF document.
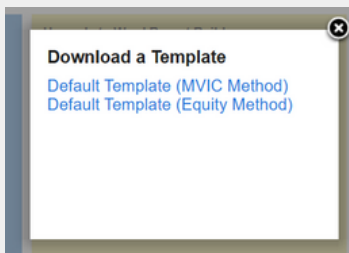
Report Builder
Word Report Builder

Getting Started
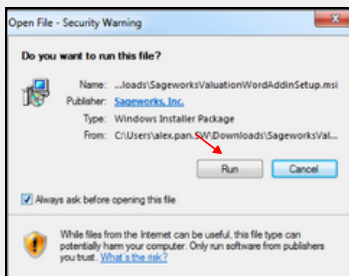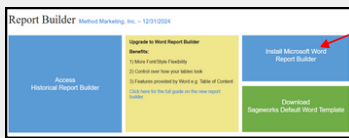
- Select the green **Report Builder** box from the Valuation Center.
- Select **Install Microsoft Word Report Builder** in the blue box.
- Download the Microsoft Word add-in installer. Open the file and click **Run**.
- Follow the instructions to install the add-in.
- **Note**: This needs to be completed once. Upon opening Microsoft Word, a **SAGEWORKS** ribbon can be found in the navigation.
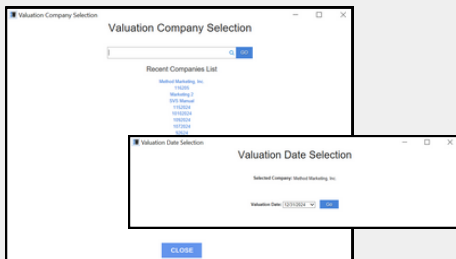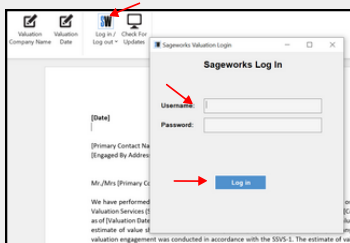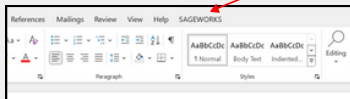
Generating a New Report

- From the **Report Builder** page, select **Download Sageworks Default Template**.
- Select which template to use, depending on the type of Valuation being performed (**MVIC** or **Equity Method**).
- The report will download into a Word document.

Report Builder
## Word Report Builder (cont...)

Adding Data to the Report

- Open the document and select the **SAGEWORKS** ribbon in the navigation bar at the top of the page.
- Click on **Log In** and enter **Username** and **Password**. Select **Log In** again.
- Select or search for the company and click **Go**.
- Select the **Valuation Date** and click **Go**.
- Choose the **Refresh** button to replace the dynamic mapping fields with data from the software correlating to the company and valuation date selected.
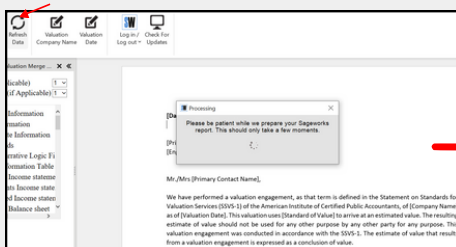
Updating Data
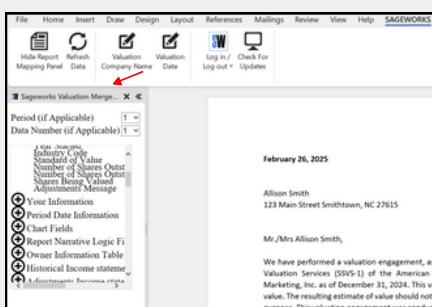
- Data fields can be inserted into the report by utilizing the hotfeeds in the **Report Mapping Panel** to the left of the page.
- If changes are made in the software, select the **Refresh** button at the top of the page to replace the old information with new data.

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For questions or more information, please contact:

profitcents.support@abrigo.com