



**Snapshot Valuation of a 100% Interest in:**

**Town West Daycare, Inc.**

**Financial Stmts. Through December 31, 2004**

*Prepared By:*

**Gulf Coast Financial Corporation**  
*Business Valuation Specialists*

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Tampa, FL 33606  
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Report Date – January 1, 2005

ABC Business Brokers  
Joe Broker  
111 Sample Drive  
Tampa, FL 33602

Re: Snapshot Appraisal of Town West Daycare, Inc.

Dear Mr. Broker:

We have been engaged to estimate the fair market value of the tangible and intangible assets of Town West Daycare, Inc. as of December 31, 2004 for the purpose of listing the subject business for sale. At the client's request, we have foregone a self-contained comprehensive report and provided a restricted use limited appraisal report and provided a snapshot report, which is strictly advisory and should only be used for listing purposes. Please refer to the statement of limiting conditions.

The term "Fair Market Value" is defined as:

*"The cash or cash equivalent price at which property would change hands between a willing buyer and a willing seller, neither being under a compulsion to buy or sell and both having reasonable knowledge of relevant facts."*

The function and use of this appraisal is in conjunction with listing the business for sale. This report is not intended to be used for (1) tax purposes or any purpose regarding the IRS, (2) divorce, (3) partner dispute, or (4) any other purpose in which a self-contained comprehensive valuation is needed. This appraisal may be invalid if used for any other purpose than for listing the subject business for sale.

This report is intended for use by Town West Daycare, Inc. and their advisors. All others possessing this report are not intended users. The appraiser does not authorize and is not responsible for use of this report by any party other than the client or an intended user(s).

Based on the information given to us by the client, we have completed a valuation for the purposes of listing the subject business for sale. We have summarized the methods used and weighted on the following page:

**Town West Daycare  
Summary of Valuation Methods**

	<u>Value</u>	<u>Weight</u>	<u>Extension</u>
<b>Cost Approach to Value</b>			
Tangible Asset Value (inventory & equipment)	\$51,500	0%	0
<b>Market Approach to Value</b>			
SBA - Price to SDE	\$241,264	10%	24,126
SBA - Goodwill to SDE	\$256,235	0%	0
Comparable Transaction Method	\$215,981	10%	21,598
Industry Method	\$212,381	20%	42,476
<b>Income Approach to Value</b>			
Multiple of Discretionary Cash Flow	\$207,537	30%	62,261
Discounted Future Cash Flow	\$184,868	20%	36,974
Excess Earnings Method	\$208,416	10%	20,842
<b>Enterprise Value</b>			
Enterprise Value		100%	<u>\$208,277</u>
<b>Estimated Stock Value</b>			
Enterprise Value of the Business			\$208,277
Add/(Deduct): Net Working Capital Included in Sale			\$0
Deduct: Liabilities Included in Sale			\$0
Estimated Total Value Before Real Estate			<u>\$208,277</u>
Add: Real Estate Included in the Sale			\$0
Estimated Stock Value - All Assets & Liabilities			<u>\$208,277</u>

Based on the information contained in the report that follows, it is our estimate that the enterprise value of Town West Daycare, Inc. as of December 31, 2004 can be reasonably stated as \$208,277. If net working capital, liabilities and real estate were to be included in the sale, the approximate value would be \$208,277 (see page 3). The value considerations herein are contingent upon the analysis, and limiting conditions as set forth in the body of the report.

Respectfully Submitted,



Steve A. Mize, ASA  
Accredited Senior Appraiser



Michael Knox, CPA, CVA  
Certified Valuation Analyst

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## INTRODUCTION

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### **Purpose and Objective**

Gulf Coast Financial was retained to appraise the fair market value, on a controlling, non-marketable interest basis, of the 100% interest of Town West Daycare, Inc. (“Town West Daycare” or the “Company”) as of December 31, 2004.

The purpose of this appraisal is to provide an independent valuation opinion to assist the client with establishing an asking price for the potential sale of the business. This report is intended for use by Town West Daycare and ABC Business Brokers. All others possessing this report are not intended users. The appraiser does not authorize and is not responsible for use of this report by any party other than the client or an intended user.

### **Definition and Premise of Value**

For purposes of this appraisal, we define fair market value as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both having reasonable knowledge of relevant facts, and with both seeking their maximum self-interests.

We have appraised the 100% interest of Town West Daycare under the appraisal premise of value in continued use, as part of a going-concern business entity. We concluded that this appraisal premise was appropriate based upon our analysis of the highest and best use of the subject operating business.

### **Scope**

This is a limited appraisal. USPAP defines “limited appraisal” as the act or process of developing an opinion of value resulting from invoking the Departure Rule. We have entered into an agreement to perform a service that calls for something less than, or different from, the work that would otherwise be required by the revenue ruling 59-60. This is not a self-contained comprehensive valuation report.

**Departures Taken.** USPAP notes the report of an appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and departures taken. We have not performed a site survey and have relied upon information given to us by the client. We have not audited, inspected or reviewed the subject Company’s financial statements. Our valuation model was developed to help list a business for sale, with some of the methods not normally used in valuation for other purposes.



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**Financial Statements.** As mentioned above, we have relied upon the financial statements given to us by the client and the client's advisors. We have accepted these financial statements and assume they are accurate and correct.

### **Valuation Procedures**

The appraisal included the following procedures:

- Interviews were conducted with the client and others believed to be reliable. A brief summary of the subject Company's history and operating experience is included in this report.
- Research was conducted regarding industry trends and the impact of the national, regional and local economy on the subject Company. A brief summary of this information is included in this report.
- Research was conducted on similar public and private companies. Databases such as Pratt's Stats, Mergerstat, Done Deals, Compustat and Disclosure were all used in the search for comparable companies. Our findings are summarized in this report.
- The financial records of the subject Company were analyzed and determination was made regarding the firm's liquidity, debt coverage, leverage and overall performance.
- An analysis was made of the subject Company's tangible and intangible assets with regards to the nature of the assets, their acquisition and related costs, and their market values. A recasted balance sheet has been prepared reflecting the book values and market values of the assets and liabilities. The recasted balance sheets have been included in this report.
- An analysis was made of the subject Company's historical income statements and tax returns. A spreadsheet of normalized income statements have been prepared for appraisal purposes, reflecting the future financial performance of the Company based on historical operating experience and the future outlook for the Company and its industry. The spreadsheet of normalized income statements and related footnotes are included in this report.
- The Asset Based Approach, Market Approach and Income Approach were all considered in the course of this appraisal assignment. The appraisal methods and procedures utilized to determine indications of value and the final conclusion of value are reported herein.



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## Valuation Methodology

Our opinion of Fair Market Value considered going-concern and net asset value premises. These premises assume that the subject Company is an on-going enterprise, with management operating in a rational manner with a goal of maximizing owner value of the underlying assets. In completing this appraisal, we have attempted to follow the standards and guidelines established by the Uniform Standards of Professional Appraisal Practice (USPAP), the American Society of Appraisers (ASA), the National Association of Certified Valuation Analysts (NACVA) and Revenue Ruling 59-60, particularly as it pertains to Section 5(b), in regard to valuation.

## What is Being Valued?

We are estimating the value of the assets and liabilities that are included in the sale. Items included in our estimate of value are as follows:

Inventory	\$1,500
Fixed Assets	\$50,000
Cash	\$0
Accounts Receivable	\$0
Other Current Assets	\$0
Other Assets	\$0
Real Estate	\$0
Assumption of Liabilities	<u>\$0</u>
Total Assets/Liabilities Included in Sale	<u>\$51,500</u>
Goodwill	To Be Determined

## Sources of Information

- Financial statements (Tax Returns) for subject Company for years 2002 to 2004
- Gulf Coast Financial profile (including interim statements and cash flow recast)
- Interview with the client
- U.S. Industrial Outlook – The U.S. Department of Commerce
- Selected Interest Rates – The Federal Reserve Board / Beige Book
- Regional Economy – Economy.com / Federal Reserve
- Local Economy – Economy.com / Various Local Websites
- First Research – Industry Research
- Bizstats / Pratt Stats / IBA Database – comparable transactions
- RMA statistics (Risk Management Associates)
- Ibbotsons & Associates (SBBI)
- Cost of Capital Yearbook



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## Limiting Conditions

The analysis and conclusions in this report are based in part on the following:

- A. As agreed upon with the client prior to the preparation of this appraisal, unless otherwise indicated, this is a Limited Appraisal because it invokes the Departure Provision of the Uniform Standards of Professional Appraisal Practice. As such, information pertinent to the valuation has not been considered and/or the full valuation process has not been applied. Depending on the type and degree of limitations, the reliability of the value conclusion provided herein may be reduced.
- B. Unless otherwise indicated, this is a Summary Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard 10 of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning and analyses is retained in the appraiser's file. The information contained in the report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
- C. Information used in the analysis and report was obtained from sources believed to be reliable; however, the validity of this information and the conclusions therefore are not warranted by the appraiser, his agents or employees.
- D. Financial statements, operating histories and other data relating to the Company, ownership interest, or assets being appraised which were provided by management, the owners, or their representatives have been accepted by the appraiser without further verification, except as specifically set forth in the appraisal report. This report should not be considered an audit, review, or compilation as defined by the American Institute of Certified Public Accountants, but is, rather a valuation prepared for the limited purpose described herein.
- E. All opinions of value stated herein are presented as the appraiser's considered opinion based on the facts and data set forth in the appraisal report. No responsibility is assumed for changes in market conditions or for the inability of the owner to locate a purchaser at the appraised value.
- F. The appraiser's analysis assumes marketable title to all of the tangible and intangible assets being appraised herein and that they are free and clear of all encumbrances, except as fully disclosed in the financial statements and related footnotes included in the appraisal report.



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- G. No opinion of title is being rendered herein, nor does the appraiser, his agents or employees accept any responsibility for matters of a legal nature affecting the Company, ownership interest or assets being appraised.
- H. This report is not to be construed, directly or indirectly, as a recommendation to invest, divest, or to lend; it is strictly our independent opinion for the purpose described herein, based upon the information, explanations and materials provided to us and subject to the assumptions and qualifications noted herein. Potential investors and/or lenders should perform or obtain their own analysis of the Company's financial position for their particular purposes.
- I. This report is not intended for general circulation or publication, nor may it be reproduced or used for any purpose other than that specifically noted herein, without our written permission in each specific instance. We do not assume any responsibility or liability for losses incurred by the Company, the directors, shareholders or owners thereof, or to other parties, as a result of the circulation, publication, production or use of this report contrary to the provisions of this paragraph.
- J. We reserve the right to review all calculations included or referred to herein and to revise our opinion in the light of any facts, trends or changing conditions that existed at the valuation date of which we are made aware subsequent to the date hereof; however, we will not be under any obligation to do so, unless prior arrangements have been made in writing relative to such additional services.
- K. Our opinion of value does not include the recognition of a "special purchaser premium," if such were to be applicable due to the ability of a specific buyer who could utilize the tangible and intangible assets described herein in a unique or synergistic manner.
- L. The client by accepting this report, agrees that neither the appraiser nor any of his agents or employees will be required to give testimony, nor to be in attendance in court or at any government hearing with reference to the matters herein, unless prior arrangements have been made in writing relative to such additional services.
- M. This valuation was intended to help the client list the subject business for sale. It is not intended for (1) tax purposes or any purpose regarding the IRS, (2) divorce, (3) partner dispute, or (4) any other purpose in which a self-contained comprehensive valuation is needed.

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## EXECUTIVE SUMMARY

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### General Business Information

Name of Business:	Town West Daycare
Address:	123 Town Drive, Tampa, FL 33645
NAICS Code:	624410
Type of Business:	Day Care
Type of Statements Used:	Tax Returns
Type of Entity:	Sole Proprietorship
State Of Incorporation:	Florida

### Financial Information

Last Full Year Revenue:	\$321,410
Last Full Year EBITDA (adjusted):	\$46,246
Adjusted Book Value (valuation date):	\$51,500 (furniture, fixtures, equip. & inv.)

### Valuation Methodology

Our methodology included adjusted book value, private comparable transactions (from both our SBA database and Pratt Stats database), industry method (rule of thumb), multiple of discretionary earnings, discounted future earnings and the excess earnings method. The appraiser has calculated each of the methods, but details have been omitted in the report.

### Description of the Business

Town West Daycare operates as a daycare facility in Tampa, Florida. The business was originally founded in 1999 and is currently licensed for 75 children. The daycare facility is at full capacity and there is a waiting list. Town West Daycare is located near the Westshore residential area in a stand-alone facility. The current lease is 10 years with 3 5-year options.



## CASH FLOW ANALYSIS

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	Projected 2005
<b>Revenue</b>				
Gross Sales	\$321,456	\$362,541	\$321,410	\$325,998
<b>Pre-Tax Profit</b>				
Unadjusted Pre-Tax Profit	12,541	21,415	18,451	24,569
<b>Non-Recurring Items</b>				
Depreciation & amort.	11,214	12,562	14,141	10,125
Interest expense	8,014	7,485	8,654	9,541
Officer compensation	44,151	45,000	40,000	45,000
Family salaries/benefits	0	0	0	0
Officer insurance	0	0	0	0
Officer auto	0	0	0	0
Personal expenses	0	0	0	0
Other add-backs	0	0	0	0
Other add-backs	0	0	0	0
Historical rent	0	0	0	0
Fair market rent	0	0	0	0
Total Add Backs	<u>63,379</u>	<u>65,047</u>	<u>62,795</u>	<u>64,666</u>
<b>Calculation of Cash Flow</b>				
Pre-Tax Profit +	12,541	21,415	18,451	24,569
Total Add-Backs =	<u>63,379</u>	<u>65,047</u>	<u>62,795</u>	<u>64,666</u>
Seller's Discretionary Earnings	<u>75,920</u>	<u>86,462</u>	<u>81,246</u>	<u>89,235</u>
Less Replacement Salary	<u>-35,000</u>	<u>-35,000</u>	<u>-35,000</u>	<u>-35,000</u>
EBITDA	<u><u>40,920</u></u>	<u><u>51,462</u></u>	<u><u>46,246</u></u>	<u><u>54,235</u></u>
as % of Sales	12.73%	14.19%	14.39%	16.64%
Cash Flow Weight	1	2	3	4
Weighted SDE	<u>\$84,952</u>			
Weighted EBITDA	<u>\$49,952</u>			
Weighted Revenue	<u>\$331,476</u>			
Weighted EBIT	<u>\$41,241</u>			

Notes: None.



## VALUATION SUMMARY

	Value	Weight	Extension
<b>Cost Approach to Value</b>			
Tangible Asset Value (inventory & equipment)	\$51,500	0%	0
<b>Market Approach to Value</b>			
SBA - Price to SDE	\$241,264	10%	24,126
SBA - Goodwill to SDE	\$256,235	0%	0
Comparable Transaction Method	\$215,981	10%	21,598
Industry Method	\$212,381	20%	42,476
<b>Income Approach to Value</b>			
Multiple of Discretionary Cash Flow	\$207,537	30%	62,261
Discounted Future Cash Flow	\$184,868	20%	36,974
Excess Earnings Method	\$208,416	10%	20,842
<b>Enterprise Value</b>			
Enterprise Value		100%	<u>\$208,277</u>
<b>Estimated Stock Value</b>			
Enterprise Value of the Business			\$208,277
Add/(Deduct): Net Working Capital Included in Sale			\$0
Deduct: Liabilities Included in Sale			\$0
Estimated Total Value Before Real Estate			<u>\$208,277</u>
Add: Real Estate Included in the Sale			\$0
Estimated Stock Value - All Assets & Liabilities			<u>\$208,277</u>

As shown above, we calculated a low value (asset approach not included) of \$184,868 and a high value of \$256,235. Based on our analysis and experience in the market, we feel the appropriate value for the subject Company is \$208,277, which calculates to be a price to revenue of 0.63x, price to EBITDA of 4.17x and price to SDE of 2.45x. The price multiples are based on weighted averages.

The Enterprise Value of \$208,277 includes the inventory, furniture, fixtures, equipment and goodwill. If net working capital, liabilities and real estate were to be included in the sale, the approximate value would be \$208,277.



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## PRICE JUSTIFICATION AND REVIEW

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In this section, we are reviewing the final price and the fairness of the deal based upon a hypothetical “willing buyer” and “willing seller” transaction. This review does not take into consideration strategic acquisitions or potential “synergies” that may occur in an acquisition. The analysis in this section is based upon normal deal terms that occur in the marketplace for this size and type of business.

### Enterprise Value

Highest Value	\$256,235
Lowest Value (not including asset approach)	\$184,868
Selected Value	\$208,277
Goodwill (based on enterprise value)	\$156,777

### Enterprise Value Multiples

Enterprise Value to Last Full Year Revenue	0.65
Enterprise Value to Weighted Revenue	0.63
Enterprise Value to Last Full Year EBITDA	4.50
Enterprise Value to Weighted EBITDA	4.17
Enterprise Value to Last Full Year Seller Discretionary Earnings	2.56
Enterprise Value to Weighted Seller Discretionary Earnings	2.45

### Enterprise Goodwill Multiples

Goodwill to SDE (last full year)	1.93
Goodwill to SDE (weighted)	1.85

\* goodwill multiples do not include R/E, liabilities and working capital)

The multiples listed above are based on the enterprise value, which is the total purchase price not including debt, excess working capital or non-operating assets/liabilities. In most acquisitions, the acquirer is most likely to purchase the assets of the business and not the debt or excess assets. For review purposes, we calculated the enterprise value at \$208,277. Price to last year’s EBITDA was 4.50x. Price to weighted EBITDA was 4.17x. Price to last year’s SDE was 2.56x and price to weighted average SDE was 2.45x. The range of multiples are consistent with the industry and privately held acquisition multiples.



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## FIRM PROFILE

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### Overview

Gulf Coast Financial is a full service valuation firm providing Intermediaries, Banks, Attorneys and their respective clients with business valuation services. The firm and its appraisers belong to the most respected appraisal associations in the country and hold the highest industry designations, making them experts in their field.

### Experience

The staff of Gulf Coast Financial undertakes hundreds of assignments each year and testifies on a regular basis. Our senior valuation analysts have experience in valuing businesses in a variety of different industries including manufacturing, distribution, retail, healthcare, banking and finance, engineering and high technology. This diverse background allows us to knowledgeably undertake valuation and litigation assignments for virtually every possible business and purpose.

### Appraisers and Advisors

#### Steve A. Mize, ASA

Managing Partner; Gulf Coast Financial Corporation. Mr. Mize holds the prestigious ESBM degree in Finance and he is an Accredited Senior Appraiser of the American Society of Appraisers in Business Valuation.. His background is in providing fairness opinions and valuations for closely held companies and their securities. He specializes in valuing growth-oriented candidates who are focusing on long-term growth, mergers, or acquisitions. His strength is in corporate/entrepreneurial finance with several years' experience in Mergers & Acquisitions, feasibility analysis, and strategic planning. Mr. Mize is experienced in litigation support and responsible for all projects requiring expert witness testimony.

#### Michael Knox, CPA, CVA

Michael Knox is a Certified Public Accountant in the State of Florida and has worked in public and private accounting for more than twelve years. He is a member in good standing with the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants. While in public accounting he performed various accounting services; SEC filings, tax preparation, tax planning, business consulting, and auditing, for individuals, corporations, estates, trusts, not for profit organizations and home owners associations. He has served as the Chief Financial Officer for Family



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Finance, Inc., as the Controller for One Up Golf and Sportswear, Inc. and as a branch Controller for The Freightliner Corporation.

Darren Mize

Chief Operating Officer; Gulf Coast Financial Corporation. Mr. Mize holds a BA degree in Performance Management and has a background that includes over ten years of national marketing and sales experience. Previously, Darren held a Senior Management role with Fringe Benefits Management Company, one of the Nation's most well respected TPA/Benefit Managers in the public sector. His strength is in the development of corporate alliances and national distribution networks. Darren has extensive experience in developing strategies for small to mid-market merger and acquisition candidates and leads the division responsible for marketing a national valuation program, which provides affordable valuation services to small businesses.

Austin Webb

Valuation Analyst; Gulf Coast Financial. Mr. Webb is a Princeton Alum and currently heads up GCF's ESOP valuation division. Before working with Gulf Coast Financial, Mr. Webb worked for iStar Financial (a \$2.4 billion capital providing firm) specializing in the structure/pricing of deals (investment grade, mezzanine, equity) ranging in size from \$20 million to \$100 million. Mr. Webb worked with Bear Stearns before iStar Financial.

David Micelli

Valuation Analyst; Gulf Coast Financial. Mr. Micelli is a candidate member of the American Society of Appraisers and holds a BS degree in Finance and an AA degree in Computer Programming. His background includes over eighteen years as Secretary/Treasurer of a privately held business.

Gary G. Campbell

Vice President; Gulf Coast Financial. Gary G. Campbell joined Gulf Coast Financial in 2003. Mr. Campbell's background in financial analysis is based on 25 years of commercial lending experience in the banking industry. Having worked for Compass Bank in Birmingham, AL where he established a solid base of SBA loans, Mr. Campbell moved to New Orleans, LA and was in charge of that bank's national and regional accounts. Customers included such nationally known companies as Sears, AT&T, and ADM. Mr. Campbell also worked with numerous oil and oil field support companies in the region.

Upon leaving the Bank of New Orleans, Mr. Campbell then spent almost 20 years working in community banks as a commercial lender and President and CEO. His



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experience with closely held companies, partnerships, and sole proprietorships as well as experience with managing the bank and working with other bank presidents in the industry rounded out his financial analysis with all types of businesses and financial institutions.

Bringing years of financial analysis, risk analysis, and personal experience in working with small business owners to the valuation industry, Mr. Campbell is concentrating on working with Trust Officers, Attorneys, Certified Financial Planners, and Accountants in areas of estate planning, estate distribution, and litigation support.

Lori Mitchell

Valuation Analyst; Gulf Coast Financial. President, Financial Media, Inc. Lori is a Florida State University graduate with a degree in Entrepreneurship and Small Business Management. Lori is a valuation analyst, specializing in leveraged buy-outs and mergers & acquisitions. Lori also heads up the Financial Media division of Gulf Coast Financial, which produces Selling Memorandums, Business Plans and Confidential Business Reviews.

