

TEXTOTAPE CASE ANALYSIS

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On our honor, we have neither given nor received any aid on this assignment.

Abstract:

The objective of this case study is to analyze the purchase of Textotape Inc., in 1999 by Mr. Gray Baker from Mr. E. E. Wilson, the founder and long-time owner. The purpose of the analysis is to identify the qualitative and quantitative considerations in purchasing a small business such as the one studied.

The details of the deal are provided in the case. We have performed an independent and objective analysis of the transaction from both the buyer's and seller's perspectives to determine if it was fair to both parties and satisfied their presumptive needs. We have used the data and qualitative information provided, and made reasonable assumptions where necessary to perform our analysis. The results of our analysis are summarized below:

- Our due diligence exercise has raised a number of questions that the buyer should ask before making an offer. It included an examination of the seller's motivation, the company's position in the marketplace, its internal operations and cost structure, finances, potential liabilities, etc.
- We have built the pro-forma income statements requested by the equity financier, Red Horse Equity Partners, and used the cash-flows derived from the statements to value the company. In addition, we have modified the assumptions provided, and built pro forma statements based on them to provide input to our valuation models.
- We have used six different valuation methods, including traditional DCF (WACC), Adjusted Present Value (APV), Cash-Flows to Equity (CFE), Net Asset Value, EBITDA multiples, and market comparables for our valuation of Textotape. In addition, we have performed sensitivity analysis on our more significant assumptions to verify their validity and effect on value. This diversity of approaches provides a solid basis for our conclusion about the market value of the Company.
- We conclude that, based on our mean valuation of **\$ 6.2 million**, the Company was slightly overpriced at the negotiated purchase price of **\$7.8 million** for a stock sale.
- Our sensitivity analysis of the assumptions used indicates that even a slight increase in sales growth and / or a slight decrease in cost could have a significant positive effect on the value of the Company. In addition, we have factored in conservative estimates for Lack of Marketability (LOM) discount and small company premiums in our models. Taking all these factors into account, it would be hard to say that Mr. Baker overpaid for the Company. It is possible that he saw the potential to achieve economies and greater value that are not immediately obvious from the assumptions made.
- Another unquantifiable element which has a direct impact on the value of the company is the option that Baker has to withhold or reduce the payments to Mr. Wilson if the any of the contingent liabilities materialize (presuming such provisions were included in the seller finance contract). It is conceivable that Mr. Baker felt free to discount some of the risk associated with the transaction because of this perceived option.

In summary, we would recommend a more detailed analysis of all aspects of the company, and especially the contingent liabilities before committing to a stock purchase at a price of \$7.8 million. Our approach to the case assumes that the deal has not yet closed and provides a number of additional measures the buyer should take before accepting the deal.

Additional Due Diligence:

There are numerous issues and questions surrounding the Textotape (TTT) deal. The most immediate issue involves the owner's motivation and willingness to complete the transaction. It is important to fully understand Mr. Wilson's reasons for selling. It is equally important to get a sense of whether he understands his reasons for selling, and has thought through the impact of the transaction both financially and psychologically (see Figure 1). Sales of closely held businesses often fall through when the seller has second thoughts and backs out. Understanding Wilson's needs may enable Baker to structure the deal to maximize the probability of a successful transaction.

The following questions were prepared to guide Baker and Red Horse in the continued due diligence process.

Owner's rationale for selling:

- Why is Wilson selling?
- How long has he considered selling?
- Has he ever tried to sell TTT before?
 - If so what prevented the deal from going through?
- What are his plans after he sells? (He is 55 years old, a little early to completely retire)
 - Is he staying in the area or moving?
 - Is he going to retire?
 - Any plans to start up a new business?
- When does he want the sale to be complete?
- Does he own other businesses?
- If Baker and Wilson can reach an agreement on price and terms is there any other reason that they can't do business together?

Needs Analysis (Sellers Perspective):

Income / Employment:

How much salary and other cash has he been pulling from Textotape? Will the transaction provide him enough money? What is his tax situation?

Emotional Attachment:

How attached is he to the business?

Control:

How much value does he place on being the boss, and making the decisions? Can he give it up?

Figure 1 - Seller's "Needs" Analysis

Owner's Perspective

- How did Wilson get started in this business?
- What were his plans for the business before he decided to sell?
- What would have been the greatest obstacles to face in achieving those plans?
- Other than the aforementioned obstacles, what made Wilson decide to sell?
- What were the most significant factors in TTT's past success?

Transition of ownership:

- What kind of ownership transition period does Wilson feel would be optimal?
 - Is he willing to stay on for some weeks to hand over the business?

- Will he set up meetings with key accounts and suppliers, make introductions, etc.?
- Does he feel that the four department managers will choose to stay on? Who if anybody is likely to leave? Baker will eventually need to chat with the entire management team.

Market position and competition:

- Who are the major customers and how do they make their purchases?
- A description of the competitive landscape is needed and should include:
 - Market segmentation - how is the market divided?
 - Who are TTT's major competitors and what is their market share?
 - Is there differentiation among the competition?
 - Is the market divided geographically? How important is location?
- What, if anything keeps new players out of the market – what are the barriers to entry?
 - Is Capital investment a significant barrier to entry?
 - Acquisition of accounts a significant barrier to entry?
- What are the key market growth drivers?
 - Are there any new trends in the adhesive label business? What are TTT's plans for addressing these trends?
- What are the sales trends among the various product offerings?
 - Are any particular products more profitable than others? Is data available on the profit margins of specific products?
 - Are any products unprofitable or marginally profitable?
 - Have new products been introduced? How are they doing?

Business operations:

- Who are TTT's major suppliers? How dependent is TTT on 3M or any other supplier?
- How should new capital expenditures be allocated? – CAPEX was \$264K in 1997.
- With respect to the proprietary software that TTT uses in its business operations:
 - Who wrote the proprietary software and how much did it cost to develop?
 - How is the software maintained (version updates to correct problems and make improvements)? How often does it crash? Is it Y2K compliant?
 - How similar is the software to available commercial off-the-shelf products?
 - Note: This is a potential red flag. If this is not a professional job complete with documentation it could be quite nasty and expensive to maintain, upgrade, etc.
- Why does the company perform 100% inspection on finished goods? What quality problems has the company experienced that have led to the 100% inspection?
- Has TTT ever experienced labor problems, specifically:
 - What is the current employee turnover rate?
 - How long does it take to train a new worker and how much does it cost?
 - Can the workers unionize (need to investigate laws on organizing workers in a small business)?
 - Have there ever been any external or internal pressures to unionize the workers?

- Wage pressure: It appears that wages are very low for 1997¹. The average salary for TTT's 90 workers is around \$6.50/hr - only \$1.35 over minimum wage (\$5.15 as of Sept 1997). TTT's managers, all of whom have been with the company for several years, make around \$35K/year. This salary seems low compared to the 1998 median 4-person household income of \$56K and poverty-line salary of \$16.6K.

\$	# workers	Salary	\$/hr
141231	4	35308	16.97
69782	4	17446	8.39
1214893	90	13499	6.49

Figure 2 – Salary Analysis

- Bonus Plan - Do wages reflect bonuses paid?
 - What is the payout per employee from the bonus plan?
 - Does the bonus plan compensate for superior profits earned by the business or the whole market?
- The current facilities seem to be rather large given the market size and present manufacturing capacity. The facility can support \$10 - \$15 million in manufacturing capacity. Current sales are around \$5.5M and the total market is estimated at \$20M. Are/were there any plans to expand sales outside the regional market? Why does Textotape need so much space?
 - Does the lease allow TTT to sublet space?
 - Has TTT ever considered providing manufacturing services for other firms or Offering warehouse services to its customers?
- Does Textotape have a safety program?
 - Is there a full or part time safety officer?
 - Are safety incidents and near misses tracked?
 - Do employee incentives address workplace safety?
 - Is the plant currently meeting OSHA requirements?
 - Why is Worker's Comp going through the roof?
- What is the rationale for having separate managers for flexography and silk-screening? Has TTT ever operated with a single production manager?
- Recent financial statement indicate an increase in shipping costs. Why did shipping go up 15% and sales only went up 11% in 1997?
- Does TTT track the number of products returned to correct quality or other problems? If so is there any correlation between this data and the recent increase in shipping costs?

Financials:

- Bad receivables – Only 34% are current and 42% are over 60 days.
 - What are their credit / collection policies and procedures? (Due diligence to date indicates that the office staff is kept busy filling orders. Is TTT checking credit policies and limits before taking orders?)
 - Baker should consider reviewing receivables / collectables. Although it may not be practical during the due diligence period; a detailed account by account audit should be conducted immediately post acquisition.

¹ This may be due to the dates having been changed on the case without changing the figures.

- Why does Wilson have cash overdrafts each year? This could be evidence of a cash flow problem.
- What are the details of the employee bonus plan?
 - How much is outstanding for the current year (i.e. due to the employees)?
 - What are the incentive drivers?
 - What are the age and service time criteria for the profit sharing plan?
- What are the details of the pension plan?
 - What are the age and service time criteria for the pension plan?
 - Pension plan funding appears to be adequate but Baker needs to confirm that the obligations match the investments.
 - Could changes in the performance of investments require more funding?
 - What is the interest rate sensitivity?
 - What is the Market sensitivity?
 - Who is managing the plan?
- What is going on with the lease on the building?
 - Why did rent go up by 57% and 43% last two years? If the 1998 rent is “close to market” then why did it go up by 43% in 1999?
 - What is TTT’s basis for suggesting that the changes are commensurate with the market?
 - Can TTT renew the lease at reasonable rates in 1998?
- Is it possible to get more than one year of historical balance sheets?
 - What happened to the other assets, the deferred tax asset and liability, and the capital lease obligations that were on the 97 balance sheet?
- What is the nature of the prepaid expenses?
- What is the nature of the accrued liabilities?
- Why is the increase in capital lease obligations shown as a source of cash flow? (If one borrows money and then purchases equipment, one realizes a financing cash inflow and an investing cash outflow. If one enters into a capital lease to finance a piece of equipment then one incurs a non-cash transaction, except for any down payment paid in cash.)
- How did TTT have \$276K on the books for FY1998 depreciation if there is \$438K of P&E on the books with straight line depreciation and five years left. What method(s) is/are used for depreciation?
- Insurance cost changes:
 - Workman’s compensation increased by over 100% since 1997. What happened?
 - Health insurance premiums increased by 25% since 1997. What happened?
 - Why does Wilson recommend \$3 million in blanket coverage if the company has not had an umbrella policy in the past? This is a gigantic red flag.

Issues concerning potential contingent liabilities:

- Is Wilson aware of any pending lawsuits? Is Wilson aware of any potential issues that could evolve into lawsuits?
 - Have there been any recent workplace injuries or past workplace injuries that created unresolved issues?

- Have there been any workplace or job related injuries involving non-TTT employees (i.e. truck drivers, contractors, etc)
- Are there any specific customers who harbor complaints about TTT's products and services? Are there any potential customer lawsuits involving TTT?
- Baker should repeat the "Safety" questions he posed to Wilson during interviews with TTT's line managers, employees, and even vendors. Even if there has not been a lawsuit or an OSHA investigation, a lax focus on safety could mean that there are problems around the corner.
- Is Wilson (or other managers, vendors, etc) aware of any current or pending product liability claims? This is a big concern: the labels are often used by the customers to comply with government regulations. Safety labels, Proper Use labels, Warning labels etc. could all be a source of liability for TTT. This may go a long way in explaining the 100% inspection policy.
- Is Wilson (or other managers, vendors, etc) aware of any environmental problems? The contract for disposal of hazardous materials with Browning Ferris and the associated records should be audited. Although waste disposal is the responsibility of the contractor, the liability for the waste stays with the producer of the waste. If this is a stock acquisition (as proposed) then Baker will inherit all liability associated with the waste including any liability for the disposal facilities (landfill, incinerator etc.)
- What are TTT's pro forma projections of pension plan expenditures and revenues? On what assumptions are these projections based? A professional valuation of the pension plan assets and liabilities should be obtained.

Pro-forma income statements and balance sheets as requested by Red Horse:

The following table lists the assumptions used in the pro-forma statements requested by Red Horse. The pro-forma statements are attached as **Exhibits 1 and 2**.

Assumptions Given by Red Horse	
Sales growth rate - annual	5.0%
Avg COGS as % sales w/o deprec	50.0%
Avg Opex as % sales w/o deprec	24.0%
1998 Depreciation	275,864
Remaining Net PPE	437,537
Avg remaining life - yrs	5
Depreciation method	SL
Goodwill amortization - asset pchse	15 yr SL
No interest expense	
No capital expenditures	
Income tax rate	34.0%
A/R / sales	15.0%
Inventory / sales	3.0%
Prepaid exp / sales	2.0%
Average payables / sales	4.0%
Average other accrual / sales	3.0%

Figure 3 – Baker/Red Horse Initial Assumptions

***Do the assumptions made in the pro forma financial statements seem reasonable?
If not then what should be changed?***

Sales Growth:

A 5% sales growth assumption makes sense if the drop in 1994 sales was due to some non-recurring cause. A trend of past sales from 1993 to 1998 yields a low R Squared (0.220) indicating that a linear fit may be inappropriate. However, depending on the reason for the decline in 1994 and subsequent growth, a 5% sales growth may not be unreasonable. If 1993 is discarded as an outlier a much better fit results (very high R squared of 0.969) indicating that a linear growth projection is appropriate. CAGR for sales from 1994 to 1998 is 8%, making the 5% projection fairly conservative.²

Depreciation/CAPEX:

The assumption that additional PPE expenditures would not be necessary over the five year period following the sale is unrealistic. Average capital expenditures for 1996 and 1997 were over \$200K. This assumption affects CAPEX as well as depreciation. A more

² Since the last quarter of 1998 was projected, if we calculate the CAGR from 1994 through 1997 only, the rate is 10%.

realistic assumption would include a 3-year remaining life, and annual capital expenditures of \$200K, with an average five-year life. Figure 4 depicts the resulting depreciation:

Depreciation Schedule		1999	2000	2001	2002	2003
Remaining Net PPE end of 1998	437,537					
Remaining useful life	3.00					
Depreciation		145,846	145,846	145,846	-	-
Capital expenditures per year	200,000					
Useful life	5.00					
Depreciation		40,000	80,000	120,000	160,000	200,000
Total depreciation		185,846	225,846	265,846	160,000	200,000
45.8% in COGS		85,117	103,437	121,757	73,280	91,600
Remainder in SG&A		100,728	122,408	144,088	86,720	108,400

Figure 4: Depreciation Projections

Exit price / Terminal value:

The assumed exit price of \$10 million appears reasonable. Terminal values ranging from \$9 million to \$12 million were calculated using the capitalization of earnings method and the Multiple of EBITDA method, using assumptions consistent with Baker-Red Horse. The remaining 10 years of goodwill amortization (value of approximately \$0.5 million) would not be a factor if the business is sold to a third party after five years.

Financing:

There was no detail provided on the level of principal payments for the evergreen loans. It was assumed for this analysis that these loans would be paid off over 10 years. A check of the interest coverage ratios over the proposed 5 year period of ownership prior to exit indicates that the level of debt is reasonable. In fact a more aggressive level of leverage might be possible.

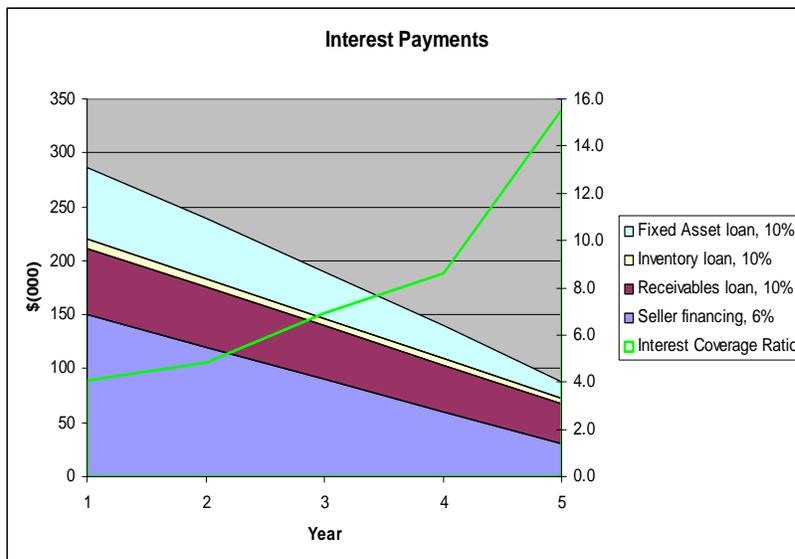


Figure 5: Interest Payments and Coverage Ratio

Recommended changes to Baker-Red Horse’s assumptions are provided in Figure 5. Pro-forma income statements and balance sheets using these assumptions are included in Exhibits 3 and 4.

In addition to the depreciation and capital expenditure changes previously described, we also made an adjustment for the allowance for doubtful accounts. We doubled this amount, which fully reserves the balances over 90 days. This changed our beginning receivables borrowing amount, which is 80% of A/R. Banks generally will not include any accounts over 90 days, or any related party receivables in the borrowing base. We assume payments on the receivables and inventory loans of 10% of the initial principal amount. We also adjusted our A/P for the resulting reduction in income taxes payable (assumes this is an actual write-off, which makes this an expense for tax purposes as well.) The new A/R as a % of sales for working capital calculations is 13.9%. We left the A/P % unchanged.

Assumptions - Team 7	
Sales growth rate - annual	5.0%
Avg COGS as % sales w/o deprec	50.0%
Avg Opex as % sales w/o deprec	24.0%
1998 Depreciation	275,864
Remaining Net PPE	437,537
Avg remaining life - yrs	3.00
Depreciation method	SL
Goodwill amortization - asset pchse	15 yr SL
Interest expense at stated rates	
Capital expenditures	200,000
LOM discount	30.0%
Income tax rate	34.0%
A/R / sales	13.9%
Increase allowance to = 100% of over 90 days	
Inventory / sales	3.0%
Prepaid exp / sales	2.0%
Average payables / sales	4.0%
Average other accrual / sales	3.0%

Figure 6: Changes to Assumptions

How do any changes made affect the pricing of the deal?

To see the effect of our change in assumptions, it is easiest to use the APV method.³ First, we will calculate the cost of equity using the build up method.

Cost of Equity	
Risk free rate 10yr Tbond 9/98	4.8%
Equity risk premium	7.1%
Small stock size premium	5.1%
Discount rate - cost of equity	17.0%

Figure 7: Cost of Equity – Build Up Method

Assuming the proposed deal terms, using the APV method to value the baseline cash flows, tax savings on non-compete payments, and interest tax shields, we obtain a value of \$8.4 million. After applying a discount for lack of marketability (LOM) of 30%, the value is \$5.9 million.

Using the Red Horse assumptions gives us a value before LOM discount that is \$571,645 greater. The difference breaks down as follows:

³ This method is discussed further in the Valuation section, and the APV valuation is included as Exhibit 7.

Source of Difference	Amount
Depreciation years 1-5	142,098
Effect of depreciation on TV	(297,787)
Capital expenditures	(691,995)
Interest tax shields	276,039
Total	(571,645)

Figure 8: Source of Valuation Differences; APV Method

What is important about the fourth quarter of 1998?

It is likely that the fourth quarter of '98 is the last period the company will be owned and managed by Wilson. In an attempt to show off the company in the best possible light to potential buyers, he may take on more and more risky orders than he normally would. It is also possible that since he expects to sell the company, agency costs come into play. Wilson may pay lavish bonuses to his employees (and to himself), spend recklessly, etc. He may not check customer credit carefully, let supplier bills pile up, and slack off on marketing/selling efforts. He could also have been managing for the short term in the recent past - try to meet earnings and growth targets at the cost of long term health of the business in order to boost the numbers that are used to form the basis of the purchase price.

Baker should therefore be especially meticulous in verifying the fourth quarter '98 numbers, and should discount any abrupt improvements in performance in the very recent past.

Is the purchase price reasonable? Are the terms? Could more have been paid or should less have been paid?

Purchase price: \$7.8 M

Terms:

- \$4.8 million in cash
- \$2.5 million in seller financed, unsecured, subordinated debt @6%
- \$0.1 million per year in management and non-comp agreement to be paid over five years.

In order to verify the fairness of the purchase price we conducted an extensive valuation exercise.

A multi-pronged approach to valuation was utilized. TTT was valued at its adjusted net asset value, by multiples of EBITDA, by market comparables and by using three different discounted cash flow methods. Sensitivity analysis was conducted to test input assumptions.

A transaction value of approximately **\$6.2M** was arrived at by averaging DCF methods with Market Comparables. This result indicates that the transaction may have been overvalued at \$7.8M.

The formal valuation analysis presented here does not take into account the option value associated with the fact that a portion of the payment for the stock is deferred. Additional value is embedded in the terms of the deal to the extent that deferred payment could be withheld in the event of some sort of contingent liability claim (workers liability lawsuit, environmental liability etc).

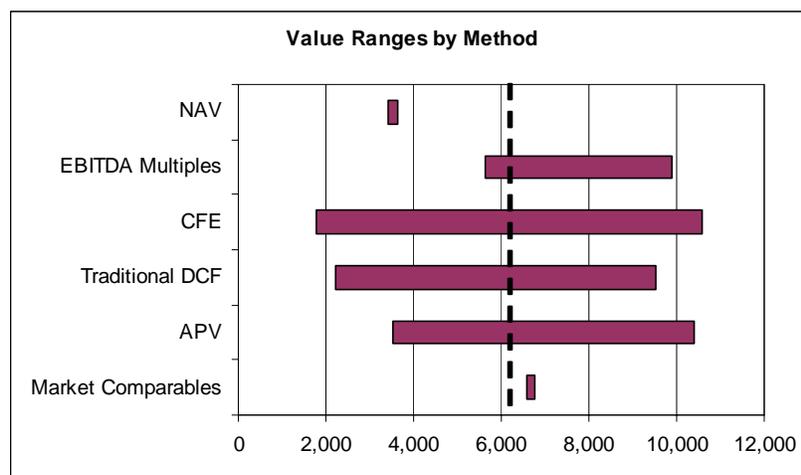


Figure 9: Valuation Ranges (by method)

Asset Approach – Adjusted Net Book Value:

The adjusted net asset value (NAV) was calculated primarily for reference, because the company is worth much more as a going concern.

Adjusted Net Assets - Pre-acquisition	
Total assets	2,979,436
Adjustments for:	
accounts receivable	(58,153)
property and equipment	892,463
less liabilities	(387,583)
Adjusted net book value:	\$ 3,426,163

Figure 10: Adjusted Net Asset Value

Market Approach - EBITDA Multiples:

Comparable transaction multiples are a good means of putting valuations in perspective relative to similar transactions that have recently occurred in the marketplace. It was stated in class that similar small business transactions have been valued in the range of 4 to 7 times EBITDA.

	1998	1999	2003
EBITDA	1,380,461	1,411,576	1,737,330
High multiple	7.0	7.0	7.0
Low multiple	4.0	4.0	4.0
High value	9,663,229	9,881,033	12,161,312
Low value	5,521,845	5,646,305	6,949,321
Compare to suggested sales price:	7,800,000	7,800,000	10,000,000
Implied multiple	5.65	5.53	5.76
Rule of Thumb: Multiple of between 4 and 7, depending on company			

Figure 11: Market Approach - EBITDA Multiple

Comparable transaction multiples are a good means of putting valuations in perspective relative to similar transactions that have recently occurred in the marketplace. Based on typical multiples paid for a business of this type, the purchase price appears reasonable.⁴

⁴ 1998 EBITDA adjusted for increasing allowance for doubtful accounts by approximately \$58,000.

Market Approach - Comparable Companies:

The valuation of Textotape based on comparable publicly traded companies is complicated by the following factors:

- Textotape is a manufacturer of specialty products for the OEM market, and therefore cannot be compared to traditional print-shops. Other specialty manufacturers who cater to a similar client-base are in completely different industries (e.g. specialty packaging, engineered components, etc) which makes comparisons difficult.
- Textotape's revenues are at the extreme low end of those of publicly traded companies. The stock prices of such small companies tend to be very volatile, making the price ratios quite unstable.

Despite these difficulties, we have compiled a list of comparable companies, which we have used to develop a valuation for Textotape. Our approach to comparables analysis is based on the following strategy:

- Identify industries and companies within industries which provide specialized manufacturing of components, custom parts and devices, and other value-added products for Original Equipment Manufacturers (OEM's).
- Among the companies identified, select those which are similar in sales revenues to Textotape (in the \$5 MM to \$100 MM revenue range). Tabulate price ratios.
- Repeat for slightly larger companies for comparison (e.g. in the \$100 to \$800 MM revenue range).

The results of our survey are shown in the tables below:

Company	Business	Market cap (\$M)	Revenue (\$M)	Profit Margin %	P/E	P/S	P/C-F
Milastar	Spec. metallurgical services	3	10.5	4.90%	6.2	0.3	2.2
Waters Instruments	Network and medic instruments	13.8	25.5	5.60%	9.9	0.5	5.7
Productivity Technologies	Ind. Systems, components	2.5	30.1	1.40%	6.2	0.1	2.3
Rotonics Manufacturing	Custom molded plastics	17.4	36.6	1.90%	15.56	0.5	6.3
General Bearing	Bearing components, tools	11.3	61.4	2.00%	14.83	0.18	3.1
Smttek International	Electronic manuf. For OEM's	18.5	78.5	3.00%	8.1	0.2	4.7
Average		11.08	40.43	3.13%	10.13	0.30	4.05

Figure 12: Comparable companies with revenues in the \$5M to \$100M range

Company	Business	Market cap (\$M)	Revenues (\$M)	Profit Margin %	P/E	P/S	P/C-F
QEP Co.	Spec. tools, floor products	55	129	2.40%	16.9	0.4	9.1
Polyair Interpak	Packaging, pool products	64.4	153	2.30%	19.9	0.4	6.2
Ennis Business Forms	Bus forms, checks, promos	257.1	263.5	6.70%	14.8	1	9.7
Amcast Industrial	Eng flow components, fittings	41.8	420	0.50%	17.7	0.1	1.6
John Harland	Bus forms, checks, docs	856	787	7.10%	15.7	1.1	7.4
Average		254.86	350.5	3.80%	17	0.6	6.8

Figure 13: Comparable Companies with Revenues in the \$100M to \$800M range

It should be noted that there is a clear difference in the price ratios of the comparable companies in the two revenue categories above. The size of the company obviously plays a big role in the valuation.

There is no clear distinction between companies in different industries with regard to market value. Companies of similar size providing similar services seem to have more or less the same price ratios.

Step 1:

Value Textotape using the average price-to-earnings (P/E) ratio of the companies with revenues between \$5M and \$100M (roughly the same class as Textotape), and using Textotape's proforma net income for 1998: Market value of Textotape = \$ 7,287,130

Step 2:

Value Textotape using average P/E of companies with revenues between \$100 MM and \$800 MM, but apply a discount of 40% to account for the risks associated with smaller companies: Market value of Textotape = \$ 7,336,279

Step 3:

Value Textotape using the average of the above two estimates:
Adjusted valuation of Textotape based on comparables = \$7,311,704

Note: There is wide variation among the companies studied in the calculation of cash-flows, and therefore, we have not used P/C-F as a valuation ratio. For the companies in this revenue range and industry distribution, Price/Sales is not a reliable indicator of value. Therefore, we have not used P/S as a valuation measure.

Step 4:

Adjust the value of Textotape for control and lack of marketability (LOM):

The value of Texttotape based on comparables obtained above uses multiples of publicly traded (and therefore relatively liquid) companies. Since Texttotape is closely held, it will not be as liquid as comparable firms. A 30% discount on the price is a reasonable discount to apply for such lack of marketability.

The above valuation also assumes a minority interest in the company. Holders of common stock usually have little say in the overall strategic direction of the company, the selection of board members, or other aspects of company business. Since Baker will be obtaining a controlling interest in the company, the price should include a premium to reflect this fact. We believe that a 20% premium is appropriate for this purpose.

Value of Texttotape based on comparables: \$ 7,311,704

LOM discount: 30%

Control premium: 20%

Adjusted value of Texttotape: **\$ 6,580,534**

Income Approach - Discounted Cash Flow Valuation:

Three different discounted cash flow techniques were used: Traditional Discounted Cash Flow (DCF), Cash Flows to Equity (CFE), and Adjusted Present Value (APV). The CFE method is a discounted cash flow technique that provides a useful method for levered companies. The CFE method has inherent biases which tend to systematically undervalue cash flows to equity holders for companies with significant debt levels. The APV method is useful in that it values the firm as if it were 100% equity and treats tax shields associated with debt separately. By separating the effects of financing structure more information can sometimes be gained. Both methods have the advantage over traditional DCF in that it is not required to hold the capital structure constant over time.

The calculations for the three DCF methods are attached as **Exhibits 5, 6, and 7**. The results are summarized in Figure 12.

Method	Value	Value (net of LOM discount)
Traditional DCF	8,382	5,867
CFE	6,752	4,726
APV	8,409	5,886

Figure 14: DCF Method Results

As expected, the CFE method gives a much more conservative valuation. This is due to the fact that CFE undervalues the effects of debt. We feel the APV and traditional DCF methods are more appropriate for valuing a company with moderate levels of debt. CFE is more suited to valuing a highly levered firm where all cash generated is used to pay debt. The APV method is instructive because it allows us to separately value each component of the business and the deal structure, using a discount rate for each cash flow stream that is

commensurate with the level of risk. The following chart shows the breakdown of the \$5.9 million value obtained using the traditional DCF and APV methods:

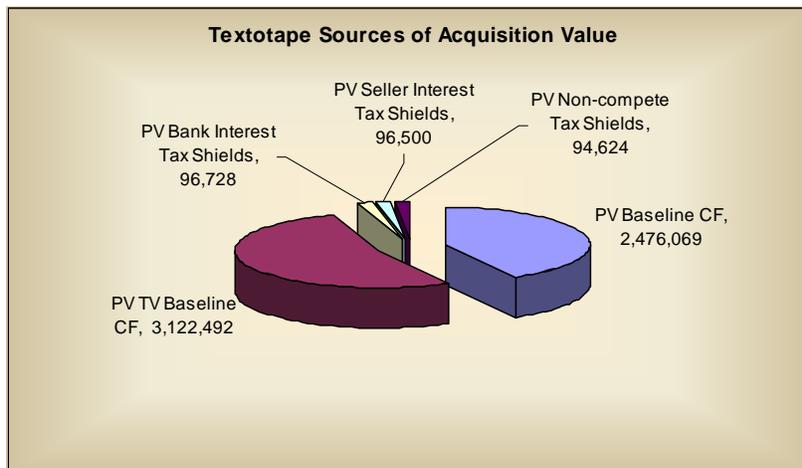


Figure 15: Sources of Deal Value

The valuation we obtained using the traditional DCF method (using WACC) is nearly identical to the valuation obtained using the APV method. Either method is considered appropriate for valuing Textotape.

Sensitivity Analysis:

Valuation was tested by varying key pro-forma assumptions. Sales growth rate was varied to test sensitivity to business conditions and the potential for expansion. COGS and operation expense were varied to test sensitivity to efficiency and cost cutting. Discount rate was varied to test sensitivity to the built up discount rate. The table and graphs below indicate the impact of the changes in key parameters on the value of the Company.

Sales Growth Rate	3%	4%	5%	6%	7%
APV	5,011	5,415	5,891	6,457	7,141
Traditional DCF	5,105	5,481	5,871	6,277	6,698
COGS % Sales	56%	52%	50%	48%	46%
APV	4,463	5,415	5,891	6,367	6,843
Traditional DCF	3,673	5,138	5,871	6,604	7,337
OPEX % Sales	28%	26%	24%	22%	20%
APV	4,939	5,415	5,891	6,367	6,843
Traditional DCF	4,406	5,138	5,871	6,604	7,337
Discount Rate	19%	18%	17%	16%	15%
APV	5,132	5,482	6,122	6,374	6,955
Traditional DCF	5,244	5,546	6,044	6,223	6,605

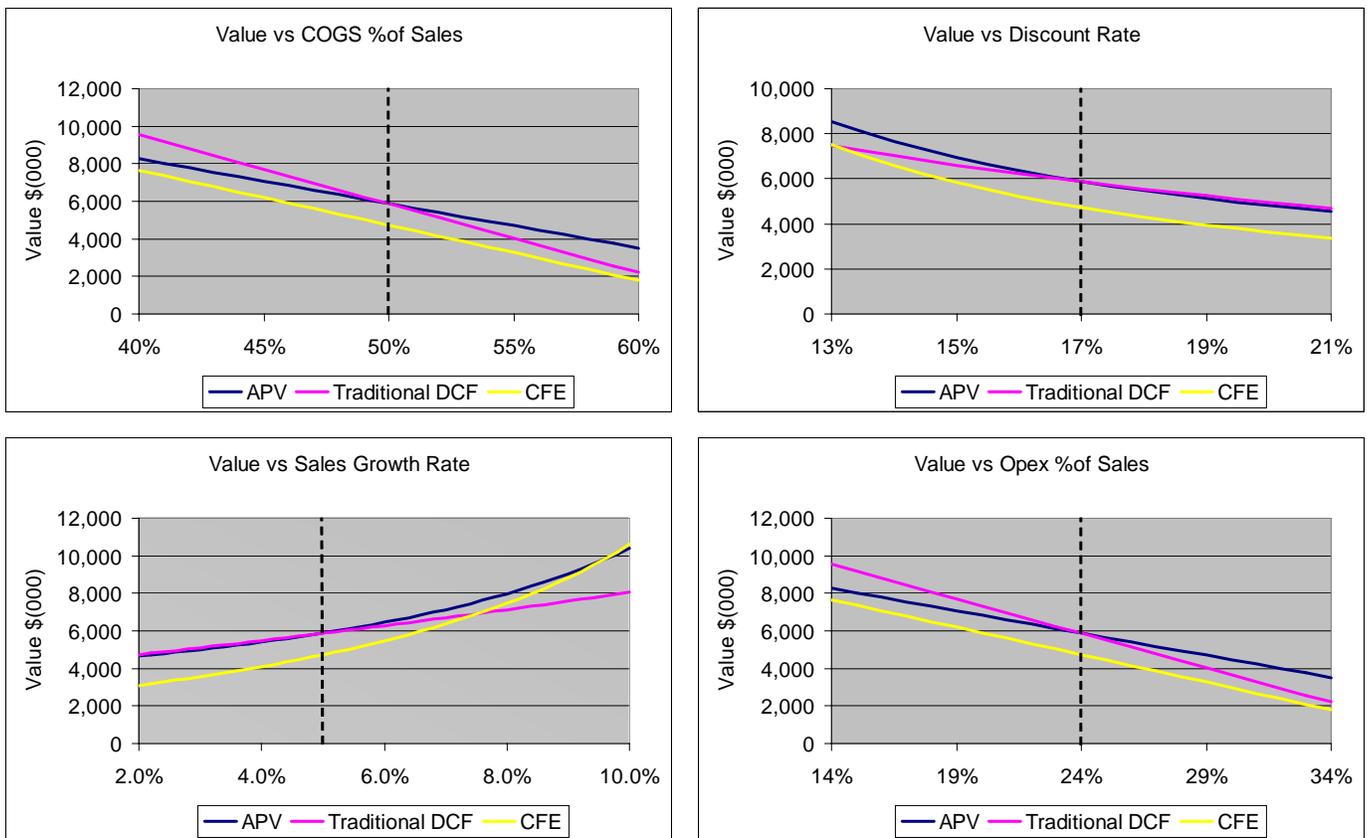


Figure 16: Sensitivity Analysis

The sensitivity analysis indicates that even though the purchase price seems high compared to the valuation of the company based on the assumed growth rates, costs, risks (as reflected by the discount rate), the Company could easily be worth a lot more if the growth rate is slightly higher, the costs are a little lower and / or the risks such as LOM are little less serious. It is plausible that Baker and Red Horse saw more value in the company than is perceptible from the base-line numbers, and made a strong offer in order to clinch the deal.

Should this deal be an asset purchase rather than a stock deal? Why or why not? Why has Wilson insisted on a stock deal?

The deal has been proposed as a stock transaction. If Baker could structure the deal instead as an asset purchase, he could avoid the potential liabilities associated with product liability and environmental issues, two areas Baker previously identified during due diligence planning as red flags. In addition, if this were an asset purchase, Baker could step up the basis of the depreciable assets by over half a million dollars, which would be amortizable on an accelerated basis over 3 to 5 years rather than straight line over 15 years as part of goodwill.

As either a stock deal or an asset purchase, if Baker could convince Wilson to take less money initially and seller-finance a larger portion, he would be much better off. Baker could potentially afford to raise less capital and retain a greater portion of the business for himself. It is doubtful he could finance with only debt and his \$200,000 of equity. While this is possible from a cash flow perspective, if terms of the seller note are changed and a balloon payment is made in year 6, after the business is sold, there is not much room to survive a downturn in the business and the high debt to equity ratio would make it unlikely Textotape could secure any bank financing.

While Baker benefits from the lower interest rates of seller financing (6% versus 10%), the evergreen loans give the business some flexibility to grow (borrowing base increases as A/R and Inventory increase) or survive a downturn in the marketplace (may have flexibility with principal payments).

The non-compete payments allow interest free financing for a portion of the purchase price, and are taxed as ordinary income to the seller.

Sensitivity analysis indicates that the value of Textotape is most sensitive to operating expenses, COGS, and sales growth. Assuming Baker is satisfied after performing additional due diligence that he can continue to grow the business at moderate levels and that COGS and operating expense levels can be maintained, his biggest concern is contingent liabilities.

While he could consider an “earn-out” clause; this typically specifies additional payout if top line targets are met. Baker may want to structure the deal so that a portion of the \$4.8 million is placed in escrow for a few years, and a portion released pending successful renegotiation of the lease that is expiring (Baker could offer to pay the Seller a fee for helping to negotiate a new lease with favorable terms; although given the recent rent increases perhaps Wilson isn’t the best lease-negotiator around), and the majority reserved to pay any workers compensation claims, product liability or environmental claims that arise. Interest earned on the escrow account would go to Wilson (as it would if he received it all upfront), and he could defer paying the tax on this portion of the purchase price.

Baker and Red Horse have supposed the business can be sold in 2003 for \$10 million cash. All existing debt would stay with the business but so would cash. Would this deal make sense to Baker? For the five years that Red Horse and Baker would own Textotape would this have been a good deal? Analyze for each party?

Assuming no dividends are distributed from the business and Baker receives 20% of the \$10,000,000 assumed sales price at the end of year 5, his return is calculated as follows:

This appears to be a great deal for Baker, who puts 9% of the total equity at risk but receives an 11% carried interest. As a result, he earns a much greater return than Red Horse. If we assume that all free cash flows to equity are distributed as dividends, then the calculation of the respective returns is as follows:

	Invested	1999	2000	2001	2002	2003	NPV	IRR
CF to Invested Capital*		867,197	870,153	1,051,168	951,314	13,598,554		
Debt Service Payments	3,165,000	(868,175)	(847,452)	(827,099)	(807,154)	(787,657)		
CF to equity		(978)	22,701	224,069	144,160	12,810,897		
Red Horse	(2,000,000)	(783)	18,161	179,255	115,328	10,248,717	2,858,569	40.1%
Baker	(200,000)	(196)	4,540	44,814	28,832	2,562,179	1,014,642	69.0%
After tax cash flows**								
Red Horse	(2,000,000)	(517)	11,986	118,308	76,116	5,804,153	768,976	25.0%
Baker	(200,000)	(129)	2,997	29,577	19,029	1,667,038	590,722	54.8%

* From Traditional DCF Schedule
**Assumes 34% tax on dividends and 28% cap gains tax

Figure 17: Return on Investment for Buyers

Examine the deal from Wilson's perspective. Is this a good deal for Wilson?

Seller Receives	Time of sale	1999	2000	2001	2002	2003	Total
Downpayment	4,800						4,800
Principal		500	500	500	500	500	2,500
Interest		150	120	90	60	30	450
Non-compete		100	100	100	100	100	500
Total pretax cash flows	4,800	750	720	690	660	630	8,250
Contract price	7,300						
Basis	10						
Gross profit	7,290						
GP %	99.9%						
Capital Gain	4,793	499	499	499	499	499	
Capital gains tax @ 20%	959	100	100	100	100	100	
Ordinary income:							
Interest	-	150	120	90	60	30	
Non-compete	-	100	100	100	100	100	
	-	250	220	190	160	130	
Income tax @ 40%	-	100	88	76	64	52	
Total pretax cash flows	4,800	750	720	690	660	630	
Less taxes	959	200	188	176	164	152	
After-tax cash to seller	3,841	550	532	514	496	478	
Invested in T-bills (4.74%)	3,841	4,391	4,924	5,438	5,934	6,412	
After tax interest (2.844%)	109	125	140	155	169	182	

Conclusion: Seller can live off of the income from selling at \$7.8 mm stock purchase price at current T-bill rates.

Figure 15: Cash Flows from Wilson's Perspective

Exhibits

Exhibit 1: Pro-forma Income Statements

	9 mths 9/30/98	Year 12/31/98	Adjustments for Purchase	New Entity 1/2/99	Adjusted 1/2/99	1999	2000	2001	2002	2003
Net Sales	4,153	5,537	-	-	5,537	5,814	6,104	6,410	6,730	7,067
Depreciation in COGS	-	126	-	-	126	-	-	-	-	-
Cost of Goods Sold	<u>2,064</u>	<u>2,753</u>	<u>-</u>	<u>-</u>	<u>2,753</u>	<u>2,907</u>	<u>3,052</u>	<u>3,205</u>	<u>3,365</u>	<u>3,533</u>
Gross Profit	2,088	2,658	-	-	2,658	2,907	3,052	3,205	3,365	3,533
Depreciation	-	150	-	-	150	88	88	88	88	88
Non-Compete expense	-	-	-	-	-	100	100	100	100	100
Amortization - goodwill	-	-	-	-	-	314	314	314	314	314
Operating Expenses	<u>1,070</u>	<u>1,345</u>	<u>-</u>	<u>-</u>	<u>1,345</u>	<u>1,395</u>	<u>1,465</u>	<u>1,538</u>	<u>1,615</u>	<u>1,696</u>
Operating Income	1,018	1,163	-	-	1,163	1,010	1,086	1,165	1,248	1,336
Other Income (Expense)	<u>21</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income Before Taxes	1,039	1,190	-	-	1,190	1,010	1,086	1,165	1,248	1,336
Income Tax	<u>353</u>	<u>471</u>	<u>-</u>	<u>-</u>	<u>471</u>	<u>343</u>	<u>369</u>	<u>396</u>	<u>424</u>	<u>454</u>
Net Income	<u><u>686</u></u>	<u><u>719</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>719</u></u>	<u><u>667</u></u>	<u><u>717</u></u>	<u><u>769</u></u>	<u><u>824</u></u>	<u><u>882</u></u>

Exhibit 2: Pro-forma Balance Sheets

	9/30/98	12/31/98	Adj for Purchase	New Entity 1/2/99	Adjusted 1/2/99	1999	2000	2001	2002	2003
ASSETS										
Cash and equivalents	1,299	1,435	(3,388)	2,200	247	690	1,132	1,650	2,170	2,770
Receivables	829	831	-	-	831	872	916	961	1,010	1,060
Inventory	158	166	-	-	166	174	183	192	202	212
Prepaid expenses	<u>103</u>	<u>111</u>	<u>-</u>	<u>-</u>	<u>111</u>	<u>116</u>	<u>122</u>	<u>128</u>	<u>135</u>	<u>141</u>
Total Current Assets	2,388	2,542	(3,388)	2,200	1,354	1,852	2,352	2,932	3,516	4,183
Goodwill	-	-	4,708	-	4,708	4,394	4,080	3,767	3,453	3,139
Non-Compete	-	-	-	-	-	-	-	-	-	-
Net PP&E	<u>507</u>	<u>438</u>	<u>-</u>	<u>-</u>	<u>438</u>	<u>350</u>	<u>263</u>	<u>175</u>	<u>88</u>	<u>-</u>
Total Assets	<u><u>2,895</u></u>	<u><u>2,979</u></u>	<u><u>1,321</u></u>	<u><u>2,200</u></u>	<u><u>6,500</u></u>	<u><u>6,597</u></u>	<u><u>6,695</u></u>	<u><u>6,873</u></u>	<u><u>7,056</u></u>	<u><u>7,322</u></u>
LIABILITIES										
Accounts payable	194	221	-	-	221	244	245	268	270	295
Receivables loan	-	-	664	-	664	664	664	664	664	664
Inventory loan	-	-	83	-	83	83	83	83	83	83
Fixed asset loan - current	-	-	133	-	109	120	132	145	159	-
Seller Note - current	-	-	500	-	500	500	500	500	500	-
Other accruals	<u>142</u>	<u>166</u>	<u>-</u>	<u>-</u>	<u>166</u>	<u>183</u>	<u>184</u>	<u>201</u>	<u>203</u>	<u>221</u>
Total Current Liabilities	336	388	1,380	-	1,744	1,794	1,808	1,862	1,880	1,264
Seller Note - LT portion	-	-	2,000	-	2,000	1,500	1,000	500	-	-
Fixed asset loan - LT portion	-	-	532	-	556	436	304	159	-	-
Common stock	10	10	(10)	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Retained earnings	<u>2,548</u>	<u>2,582</u>	<u>(2,582)</u>	<u>-</u>	<u>-</u>	<u>667</u>	<u>1,383</u>	<u>2,152</u>	<u>2,976</u>	<u>3,858</u>
Total Liabilities & Equity	<u><u>2,895</u></u>	<u><u>2,979</u></u>	<u><u>1,321</u></u>	<u><u>2,200</u></u>	<u><u>6,500</u></u>	<u><u>6,597</u></u>	<u><u>6,695</u></u>	<u><u>6,873</u></u>	<u><u>7,056</u></u>	<u><u>7,322</u></u>

Exhibit 3: Revised Pro Forma Income Statements

	9 mths	Year	Adj for	Newco	Adjusted	1999	2000	2001	2002	2003
	9/30/98	12/31/98	Purchase	1/2/99	1/2/99					
Net Sales	4,153	5,537	-	-	5,537	5,814	6,104	6,410	6,730	7,067
Depreciation in COGS	-	126	-	-	126	85	103	122	73	92
Cost of Goods Sold	<u>2,064</u>	<u>2,753</u>	<u>-</u>	<u>-</u>	<u>2,753</u>	<u>2,907</u>	<u>3,052</u>	<u>3,205</u>	<u>3,365</u>	<u>3,533</u>
Gross Profit	2,088	2,658	-	-	2,658	2,822	2,949	3,083	3,292	3,442
Depreciation	-	150	-	-	150	101	122	144	87	108
Non-Compete expense	-	-	-	-	-	100	100	100	100	100
Amortization - goodwill	-	-	-	-	-	316	316	316	316	316
Operating Expenses	<u>1,070</u>	<u>1,345</u>	<u>58</u>	<u>-</u>	<u>1,404</u>	<u>1,395</u>	<u>1,465</u>	<u>1,538</u>	<u>1,615</u>	<u>1,696</u>
Operating Income	1,018	1,163	(58)	-	1,105	909	945	984	1,173	1,221
Other Income (Expense)	<u>21</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>(287)</u>	<u>(239)</u>	<u>(190)</u>	<u>(140)</u>	<u>(88)</u>
Income Before Taxes	1,039	1,190	(58)	-	1,132	623	706	795	1,034	1,133
Income Tax	<u>353</u>	<u>471</u>	<u>(20)</u>	<u>-</u>	<u>451</u>	<u>212</u>	<u>240</u>	<u>270</u>	<u>352</u>	<u>385</u>
Net Income	<u>686</u>	<u>719</u>	<u>(38)</u>	<u>-</u>	<u>681</u>	<u>411</u>	<u>466</u>	<u>524</u>	<u>682</u>	<u>748</u>

Exhibit 4: Revised Pro Forma Balance Sheets

	9/30/98	12/31/98	Adj for	Newco	Adjusted	1999	2000	2001	2002	2003
			Purchase	1/2/99	1/2/99					
ASSETS										
Cash and equivalents	1,299	1,435	(3,434)	2,200	200	199	222	446	590	940
Receivables	829	831	(58)	0	772	872	916	961	1,010	1,060
Inventory	158	166	0	0	166	174	183	192	202	212
Prepaid expenses	<u>103</u>	<u>111</u>	<u>0</u>	<u>0</u>	<u>111</u>	<u>116</u>	<u>122</u>	<u>128</u>	<u>135</u>	<u>141</u>
Total Current Assets	2,388	2,542	(3,492)	2,200	1,250	1,362	1,443	1,728	1,936	2,354
Goodwill	0	0	4,747	0	4,747	4,430	4,114	3,797	3,481	3,164
Non-Compete	0	0	0	0	0	0	0	0	0	0
Net PP&E	<u>507</u>	<u>438</u>	<u>0</u>	<u>0</u>	<u>438</u>	<u>452</u>	<u>426</u>	<u>360</u>	<u>400</u>	<u>400</u>
Total Assets	<u>2,895</u>	<u>2,979</u>	<u>1,254</u>	<u>2,200</u>	<u>6,434</u>	<u>6,244</u>	<u>5,983</u>	<u>5,885</u>	<u>5,817</u>	<u>5,918</u>
LIABILITIES										
Accounts payable	194	221	(20)	0	202	263	225	288	251	315
Receivables loan	0	0	618	0	618	556	494	433	371	309
Inventory loan	0	0	83	0	83	75	66	58	50	42
Fixed asset loan - current	0	0	109	0	109	120	132	145	159	0
Seller Note - current	0	0	500	0	500	500	500	500	500	0
Other accruals	<u>142</u>	<u>166</u>	<u>0</u>	<u>0</u>	<u>166</u>	<u>183</u>	<u>184</u>	<u>201</u>	<u>203</u>	<u>221</u>
Total Current Liabilities	336	388	1,290	0	1,678	1,697	1,601	1,624	1,533	886
Seller Note - LT portion	0	0	2,000	0	2,000	1,500	1,000	500	0	0
Fixed asset loan - LT portio	0	0	556	0	556	436	304	159	0	0
Common stock	10	10	(10)	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Retained earnings	<u>2,548</u>	<u>2,582</u>	<u>(2,582)</u>	<u>0</u>	<u>0</u>	<u>411</u>	<u>877</u>	<u>1,401</u>	<u>2,084</u>	<u>2,832</u>
Total Liabilities & Equity	<u>2,895</u>	<u>2,979</u>	<u>1,254</u>	<u>2,200</u>	<u>6,434</u>	<u>6,244</u>	<u>5,983</u>	<u>5,885</u>	<u>5,817</u>	<u>5,918</u>

Exhibit 6: Valuation – CFE Method

TEXTOTAPE, INC. CASH FLOWS TO EQUITY METHOD						
	1999	2000	2001	2002	2003	Terminal
Sales	\$ 5,813,754	\$ 6,104,442	\$ 6,409,664	\$ 6,730,147	\$ 7,066,655	\$ 7,419,988
COGS	2,906,877	3,052,221	3,204,832	3,365,074	3,533,327	3,709,994
Operating expenses	1,395,301	1,465,066	1,538,319	1,615,235	1,695,997	1,780,797
Depreciation	185,846	225,846	265,846	160,000	200,000	200,000
Amortization	316,435	316,435	316,435	316,435	316,435	
Non-compete payments	100,000	100,000	100,000	100,000	100,000	-
Interest						
Taxes	309,160	321,257	334,639	398,957	415,104	587,927
Operating Cash Flows	600,135	623,617	649,593	774,446	805,791	1,141,270
Change in A/R	(99,680)	(43,603)	(45,783)	(48,072)	(50,476)	28,620
Change in Inventory	(8,306)	(8,721)	(9,157)	(9,614)	(10,095)	(10,600)
Change in Prepays	(5,537)	(5,814)	(6,104)	(6,410)	(6,730)	(7,067)
Change in A/P & Accrued Liabilities	78,304	(37,607)	80,338	(35,471)	82,582	(33,115)
Net Change in WC	(35,219)	(95,745)	19,294	(99,567)	15,280	(22,162)
Amortization	316,435	316,435	316,435	316,435	316,435	-
Depreciation	185,846	225,846	265,846	160,000	200,000	200,000
Capital Expenditures	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Free Cash Flows to Invested Capital	867,197	870,153	1,051,168	951,314	1,137,506	1,119,108
Repayment of principal	-678,043	-712,550	-927,393	-875,547	-672,426	0
Interest on debt	-286,596	-238,792	-187,537	-114,797	-47,243	0
Interest tax savings	97,443	81,189	63,762	39,031	16,062	0
Cash Flows to Equity	\$ (0)	\$ 0	\$ 0	\$ 0	\$ 433,900	\$ 1,119,108
Beginning debt	3,865,960	3,187,917	2,475,367	1,547,974	672,426	-
Ending debt	3,187,917	2,475,367	1,547,974	672,426	-	-
Average interest rate	8.13%	8.43%	9.32%	10.34%	14.05%	0.00%
Terminal Value						9,318,134
Value Equity	6,751,825	7,207,074	7,731,761	8,334,359	9,318,134	-
Debt / Value	0.27	0.18	0.08	-	-	-
Equity / Value	0.73	0.82	0.92	1.00	1.000	-
After tax cost of debt	5.6%	6.2%	6.8%	9.3%	0.0%	-
Cost of equity	17.0%	17.0%	17.0%	17.0%	17.0%	-
WACC	13.9%	15.1%	16.2%	17.0%	17.0%	-
Discount factor, mid yr	0.9368	0.9321	0.9277	0.8546	0.9245	-
Value of Equity, non-marketable basis		6,751,825				
LOM discount		30.0%				
Value of Equity, marketable basis		4,726,277				

Exhibit 7: Valuation – APV Method

TEXTOTAPE, INC. APV METHOD						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Terminal</u>
Sales	\$ 5,813,754	\$ 6,104,442	\$ 6,409,664	\$ 6,730,147	\$ 7,066,655	\$ 7,419,988
COGS	2,906,877	3,052,221	3,204,832	3,365,074	3,533,327	3,709,994
Operating expenses	1,395,301	1,465,066	1,538,319	1,615,235	1,695,997	1,780,797
Depreciation	185,846	225,846	265,846	160,000	200,000	200,000
Amortization	316,435	316,435	316,435	316,435	316,435	-
Interest						
Taxes	343,160	355,257	368,639	432,957	449,104	587,927
Operating Cash Flows	666,135	689,617	715,593	840,446	871,791	1,141,270
Change in A/R	(99,680)	(43,603)	(45,783)	(48,072)	(50,476)	28,620
Change in Inventory	(8,306)	(8,721)	(9,157)	(9,614)	(10,095)	(10,600)
Change in Prepaids	(5,537)	(5,814)	(6,104)	(6,410)	(6,730)	(7,067)
Change in A/P & Accrued Liabilities	78,304	(37,607)	80,338	(35,471)	82,582	(33,115)
Net Change in WC	(35,219)	(95,745)	19,294	(99,567)	15,280	(22,162)
Amortization	316,435	316,435	316,435	316,435	316,435	-
Depreciation	185,846	225,846	265,846	160,000	200,000	200,000
Capital Expenditures	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Baseline cash flows	<u>\$ 933,197</u>	<u>\$ 936,153</u>	<u>\$ 1,117,168</u>	<u>\$ 1,017,314</u>	<u>\$ 1,203,506</u>	<u>\$ 1,119,108</u>
Terminal Value of baseline CF						9,784,041
Discount factor @ 17%**	0.9245	0.7901	0.6752	0.5771	0.4932	0.4559
PV TV						4,460,704
PV of CF Yrs 1-5	862,704	739,626	754,329	587,049	593,533	
PV of tax savings on GW yrs 6-15						
PV of Baseline cash flows	3,537,242					
PV of Terminal cash flows	4,460,704					
Interest Payments on 10% debt	136,596	118,694	99,703	79,513	58,005	
Tax Shields on interest	46,443	40,356	33,899	27,034	19,722	0
Discount factor @ 10%	0.9535	0.8668	0.7880	0.7164	0.6512	0.6512
	44,281	34,980	26,712	19,366	12,843	-
PV of Interest tax shields	138,183					
Interest Payments on 6% seller debt	150,000	120,000	90,000	60,000	30,000	
Tax Shields on interest	51,000	40,800	30,600	20,400	10,200	0
Discount factor @ 6%	0.9713	0.9163	0.8644	0.8155	0.7693	0.7693
	49,536	37,385	26,452	16,636	7,847	-
PV of Interest tax shields	137,857					
Non-compete Payments	100,000	100,000	100,000	100,000	100,000	
Tax Shields on non-compete	34,000	34,000	34,000	34,000	34,000	
Discount factor @ 10%	0.9535	0.8668	0.7880	0.7164	0.6512	
	32,418	29,471	26,792	24,356	22,142	
PV of Non-compete tax shields	135,178					
	\$ 8,409,162					
Less LOM Discount	30%					
	\$ 5,886,413					

**mid-yr convention used except for exit price at end of year 5