
BIZCOMPS®

USER GUIDE

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BIZCOMPS[®] User Guide

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Author's Biography

Jack R. Sanders is the Managing Director of **Spectrum Corporate Resources, LLC**, a marketing firm specializing in middle-market mergers and acquisitions. He was promoted to President/Manager in 2001 and purchased the company in 2003. He is also President of Corporate M&A Advisors, Inc. and Mid Market Corporate Services, Inc. He has been an active full-time business intermediary since 1985. He has personally handled over 130 business transfers and has appraised over 1,450 businesses. His focus has been on manufacturing, wholesale/distribution, and business to business service businesses.

Mr. Sanders spent 15 years with Page Olson Commercial Brokerage in San Diego, California as a Broker Associate. He developed the capability of providing Certified Business Valuations for business owners and other authorities needing to place a value on the intangible assets of a business without an anticipated sale.

Mr. Sanders is also the author of the "BIZCOMPS[®]" studies, a leading authority on the market value of small and medium-sized businesses in the United States and Canada. The studies contain actual transaction information on over 15,500 transactions and are marketed in both print and electronic form. He frequently gives presentations at professional seminars and conferences and is an instructor in educational courses leading to the Certified Business Intermediary designation.

Mr. Sanders is a Certified Business Appraiser, a Certified Business Intermediary, and a member of the Association for Corporate Growth, the Institute of Business Appraisers, and the M&A Source. He is a past member of the Board of Directors of the International Business Brokers Association. He has both Bachelors and Masters degrees in Business Administration. His hobbies include skiing, tennis, and boating.

Introduction

*“It is tough to make predictions, especially about the future!”
– Yogi Berra*

The BIZCOMPS® studies of small business sales were initiated in 1990 to investigate and report financial information about small business transactions in the marketplace. Historically, market data on small business transfers has been virtually nonexistent, leaving the investor or advisor to speculate about the fair market value of the enterprise. The BIZCOMPS® studies remove the marketplace uncertainty and provide the reader with detailed, meaningful financial information about these "real world" transactions. Since its inception, BIZCOMPS® has accumulated and reported data on over 15,500 transactions in the United States.

Small business transaction information is not readily available because it is not required to be publicly reported. In the absence of reliable data, investors, appraisers, and brokers have attempted to develop universal valuation formulae or "rules of thumb" to set guidelines for appraising small businesses. These generalized "formula" approaches are chastised in most valuation literature and are a poor substitute for comparable sale data. A careful analysis of the BIZCOMPS® database provides market-based comparable sales information and eliminates the need to rely on rule-of-thumb formulas.

The BIZCOMPS® studies are an invaluable resource to the investor or advisor to small business transactions. The studies contain detailed information on over 15,500 transactions from 1999 through August 2010. The 11,606 business transactions had asking prices totaling \$4,515,737,000 and actually sold for a total of \$3,893,455,000, or an average of \$331,430 per business. These statistics also suggest that on an overall average, the 11,606 transactions were discounted 13.8% during the actual sale of those businesses.

The information is segmented in many more ways to make it more useful to the reader.

The Studies

*“Statistical figures referring to economic events are historical data.
They tell us what happened in a non-repeating historical case.”
–Ludwig Edgar von Mises*

The objective of BIZCOMPS® is to accumulate reliable comparable business sale information for entrepreneurs, investors, and advisors trying to estimate the fair market value of small businesses. The study is geographically limited to the Eastern and Western United States to provide reliable, comparative data that is regionally discriminated. Since business values are affected by external economic forces, it is important to compile sales data by region.

The BIZCOMPS® studies collect and report the most relevant financial information available on small business transactions in the United States. Because the information is not required to be publicly reported, BIZCOMPS® obtains its financial information from business brokers and transaction intermediaries. These financial consultants are considered to be reliable and disinterested, and their valuable input provides the basis of the BIZCOMPS® studies.

BIZCOMPS® reports all financial information available on each reported transaction without excluding any particular class or type of business. The reported data is not altered; however, the earnings multiple for 830, or 7.2% of the 11,606 businesses surveyed, has been excluded from the data averages. It is the author's opinion that these 660 businesses are outliers that have inordinately high earnings multiples or negative earnings that would have distorted the average statistics. The eliminated data appears to have been distorted because the businesses sold with substandard or unreported earnings, causing the interpolated earnings multiple to be skewed. It is interesting to note that few businesses were sold with substandard earnings.

Note that all included businesses were reported by business brokers and, of course, actually were sold. This fact may establish some financial parameters for "sale ability" by a business broker. Specifically, the ultimate sale price of a business sold should be from 30% to 100% of gross revenues and from 1.5 to 3.5 times Seller's Discretionary Earnings. This generalization would exclude service stations and travel agencies.

BIZCOMPS® philosophy is to present as much information as possible so that the user can selectively analyze the data based on individual need. For that reason, all sales are shown as asset transactions and do not include cash, accounts receivable, real estate, accounts payable, or any other liabilities. Inventory has also been excluded, but the actual amount of inventory at the time of sale is shown for each business sale.

Types of Financial Information Reported

*“Statistics are like a bikini.
What they reveal is suggestive, but what they conceal is vital.”
–Unknown*

For each business transaction surveyed, the BIZCOMPS® 2009 study reports a number of items of financial and other data. Specifically, the survey includes the type of business, the SIC code number, the date of sale, and the location of the business. The survey includes the asking price, the sale price, and the terms of sale. Financially, the surveyed information includes the annual gross revenue, the Seller's Discretionary Earnings (SDE), the amount of inventory, the amount of furniture, fixtures, and equipment, and the rent as a percent of sales. Of course, the sale price of the business is included and, from it, the sale price as a percent of gross revenue ("Gross Revenue Multiple"), and the sale price as a multiple of the Seller's Discretionary Earnings ("SDE Multiple") can be calculated.

In a survey of this type, all of this information is important to the user and must be presented in detail for the survey to be significant. The author believes that the user must have access to all of this data, in a fully published form, to be able to meaningfully analyze the information.

The transaction data is also analyzed by terms of sale, specifically businesses that sold for cash. In this study, 4,465 of the 11,606 total businesses were sold for cash. Of the 2010 transactions, 38% were all cash sales. It should be noted that BIZCOMPS® cannot determine which cash transactions were marketed as "cash only" sales, or were converted to a cash sale at some point during the transaction. In general, business brokers will do everything possible to avoid marketing a business as an all cash sale. Requiring an all cash transaction has a very negative effect on the buyer's perception of the business of the business.

And last, the data is sorted by size. The transactions under \$100,000 definitely indicate that the owner's remuneration is the major factor in the sale of very small businesses. Transactions over \$500,000 definitely begin to indicate a size premium. These larger businesses tend to have more management and are less dependent on the individual effort of the owner. The BIZCOMPS® transaction data contains 1,771 out of 11,606 businesses that were sold in excess of \$500,000.

These ratios confirm what would be logically be suspected—larger businesses are more profitable, pay less rent, and sell for much more (by ratio) than small businesses. The purchase of a smaller business is more like buying a job with Seller's Discretionary Earnings ratios that rarely exceed 1.5 times SDE.

The Source of Data

*“Statistics are no substitute for judgment.”
–Henry Clay*

The transaction data contained in the BIZCOMPS® database is submitted on a voluntary basis almost exclusively by IBBA (International Business Brokers Association) Certified Business Intermediaries. This is the only group solicited by BIZCOMPS®. Others that indicate they would like to participate in the BIZCOMPS® program are considered on a case-by-case basis. If the transaction data is deemed reliable, it is accepted. However, over 90% of the BIZCOMPS® transaction data is still supplied by IBBA CBI's.

The BIZCOMPS® contributor's program is that the contributor is rewarded with one free hard copy study for every 10 usable transactions they submit. Unfortunately, it seldom works exactly that way. Business intermediaries, by the nature of their business, have wildly fluctuating transaction volumes. Sometimes they have just three or four transactions to report; sometimes they have 15 or 20. In any event, BIZCOMPS® will work with them. And of course, not every CBI can take or has the time to report the data. It is a frustrating process. Transactions reports can be submitted on line through the bizcomps.com website. This method is paperless and does not rely on the USPS. Several contributors have a policy of submitting throughout the year every time they close a deal. A folder is created for each submitter and the data is retained there until ready for entry.

BIZCOMPS® goal has never been to have the largest amount of transaction data—only the most current and reliable possible. To achieve this goal, the databases are currently updated and purged of 11-year-old data once every year.

As of August 2010, here is the current age of transaction data in BIZCOMPS®:

2010	132
2009	325
2008	1,230
2007	914
2006	1,453
2005	1,364
2004	967
2003	1,168
2002	1,046
2001	919
2000	852
1999	729

What Actually Sold

*“Capitalism is the only system in the world founded on credit & character.”
–Hubert Eaton*

Only two elements are contained in either the BIZCOMPS® Asking Price or the Sale Price. The items are Fixtures & Equipment (FF&E) and Goodwill—or the intangible value. Cash, accounts receivable, loans receivable, real estate, and other assets are not included, and all liabilities have been excluded. This is nothing magical—just simply the way these businesses are sold. They are all asset sales or have been converted to an asset sale.

The sellers of these businesses rarely are willing to part with the cash and accounts receivable and the buyers are rarely willing to pay for it. And the businesses are considered to be debt-free at close even if there are new loans coming on board from the seller or others. Sellers usually are responsible for paying off all debt at the close of sale.

Again, real estate used by the business is not included. Small businesses almost always lease the premises they occupy. Leasing is a far better use of capital, at least in the early stages of a business' life. Somewhere less than five percent of the transactions reported involve real estate. The value of the real estate is subtracted from the enterprise value.

Age of Data

*“Age is what makes furniture worth more and people worth less.”
–Unknown*

Much has been written about the need to have current, relevant transaction data. Ideally, there should be enough recent data available to meet these criteria. In fact, due to the difficulty involved in obtaining reliable data, particularly in the more unusual or unique business categories, this is often not the case. The analyst is left with a decision to go with limited data or to use older data that the bases contain. The BIZCOMPS® studies contain the last 10 years' transactions, and routinely purge older data by moving it to an additional database. This over 10-year-old data is available for special assignments such as divorces when one of the parties owned a business prior to marriage.

Recently, the author compared current study data with the data over 10 years old. First, the Gross Sales to Sales Price ratio was compared. In the current National Database, that ratio was available in 11,554 out of 11,606 transactions. The arithmetic mean of this ratio was .53, while the median was .43. A similar analysis of 3,801 transactions out of 3,887 transactions older than ten years was made. The arithmetic mean was .43 and the median was .36.

The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 2.0, while the median was 1.9. In the over 10-year-old data, the arithmetic mean was 1.9 and the median was 1.8.

This helps to confirm what many have already expressed—that over time, there is very little difference in the ratios, particularly, the more important Seller's Discretionary Earnings to Sale Price ratio. These ratios tend to stay consistent, while the earnings they are based upon change, thus causing an ultimate variation in sale price.

I should add that there seems to be a limit to how old the data can be. Even though the ratios appear to be reliable, the use of data significantly older than the date of analysis seems to lack credibility.

Searching the Database

*“Facts do not cease to exist because they are ignored.”
–Aldous Huxley*

There are several techniques that are useful when searching the BIZCOMPS® database. First, in the electronic formats, the analyst can make a five to ten level search for any field in a transaction record. There are 20 searchable fields of information in each record.

Most analysts start with either an SIC (Standard Industry Code) or a NAICS (National American Industry Classification System) search and then attempt to pare down the number of transactions. If little or no data appears with the first search, the author suggests a word search. Due to confusion with the numbering systems or possibly a business with several industry codes, it may be improperly classified.

It is best to make the word search as simple as possible to assure the greatest number of hits. If possible, use unique words or syllables. For broader categories, abbreviations help. The abbreviations used in BIZCOMPS® are:

Contr = Contractor
Deli = Delicatessen
Distr = Distributor
Mfg = Manufacturer
Restr = Restaurant
Whsle = Wholesale

Once you have located transactions, check the SIC code and make another search for the SIC to see if other transactions turn up. Once the analyst has exhausted search possibilities, the transactions can be hand selected or discarded.

The hard copy studies do not permit mechanical searches but the author has provided printouts of the major categories (Manufacturing, Wholesale/Distribution, Food Service, Retail, and Service Businesses) and has also provided printouts of any group of businesses with five or more in the same category.

These printouts have the percentage the business sold for as compared to the Asking Price, and the arithmetic mean and medians of both the important ratios.

Comparing the Data

*“Facts are stubborn, but statistics are more pliable.”
–Unknown*

The BIZCOMPS® transaction data provides an excellent opportunity to compare or discriminate between the transactions. There are currently five primary areas for comparison and five secondary areas. The primary areas are:

- ▶ By SIC or NAICS codes
- ▶ By Description of Business
- ▶ By Amount of Revenue
- ▶ By Profitability
- ▶ By Percent Rent Paid

The five secondary areas for comparison are:

- ▶ By Down Payment & Terms
- ▶ By Size of Inventory
- ▶ By Days on Market
- ▶ By Number of Employees
- ▶ By Location

Additionally, an estimate of the value of Fixtures and Equipment and franchise information is given. These fields of information may provide additional input about the transactions being analyzed.

Visual observation of these 12 factors can provide considerable insight into these transactions and their relationship to each other.

Basic Statistics

*“Statistics are like witnesses—they will testify for either side.”
–Unknown*

We live in a world of rapidly growing collections of data. Information is being amassed and communicated on an even wider range of human activities and interests. Even if supported by a computer database, a calculator, or a statistical package, it is hard for the "average person" to gain a clear sense of what this information might be telling them. A crucial human skill is to be selective about the data we choose to analyze and, where possible, to summarize the information as briefly and usefully as possible. In practice, the two most useful questions are, *what is a typical, or average value?* And, *how widely spread are the figures?*

While this is not an extensive, exhaustive discussion of statistics, we will attempt to discuss two items—the average and the spread. First, a sensible strategy is to find some typical or middle value which may be taken as being representative of the rest. This is the average or "arithmetic mean," and is simply the sum of the ratios divided by the number of ratios.

The second is the "median," which is the total of the two most central ratios divided by two. This is easily performed even with a large number of ratios by a computer simply by sorting and then finding the middle ratio.

The third method is to find the ratio that occurs the most, or the "mode."

It is important to compare the arithmetic mean with the median to get an idea of how normal the relationship is. If they are quite always apart, it suggests that outliers are skewing the data and the analysis requires closer examination. In the author's experience, the outliers are mostly on the higher side, meaning some transactions sold at much higher multiples. It rarely is the other way around.

Once we have developed the above methods, the next step is to determine how widespread the ratios are. Since people increasingly are performing statistics with the aid of calculator or suitable computer software such as Excel or others, our effort here will be to focus less on mind-numbing arithmetic and more on the principles on which they are based.

The most elementary measure of variation is "range." Range is defined as the difference between the largest and the smallest values. "Deviation" is defined as the distance of measurement away from the mean. "Variance" is defined as the sum of the squared deviations of n measurements from their mean divided by $(n-1)$.

Basic Statistics [cont.]

Standard deviation is defined as the positive square root of the variance. The practical significance of the standard deviation is that with mound-shaped (bell-shaped) distribution, the following rules apply:

1. The interval from one standard deviation below the mean to one standard deviation above the mean contains approximately 68% of the ratios.
2. The interval from two standard deviations below the mean to two standard deviations above the mean contains nearly 95% of the ratios.
3. The interval from three standard deviations below the mean to three standard deviations above the mean contains approximately all of the ratios.

These mound-shaped curves are usually called normal distributions or normal curves.

A shortcut method of calculating variance and standard deviation requires two quantities: sum of the values and sum of the squares of the measures.

Σx = sum of the values

Σx^2 = sum of the squares of measures

Guessing the standard deviation—to avoid tedious calculations—you can quickly obtain an estimate of the standard deviation by using the formula:

$$s = r/4$$

which reads "the standard deviation is approximately equal to the range (the difference between the lowest and highest values) divided by 4." This is a crude, simplistic calculation without great accuracy. It will still give an estimate of the standard deviation. A much more precise method is to calculate the standard deviation for a range of numbers with a calculator or computer and divide the standard deviation by the arithmetic mean. The result will give the Coefficient of Variation. A result of .30 or less indicates a tighter grouping of data that may be acceptable for comparable purposes.

Converting a BIZCOMPS® Asset Sale to Equity Value

*“A good example has twice the value of good advice”
–Unknown*

All transactions in the BIZCOMPS® database were either asset sales or were converted to an asset sale, meaning that the only assets that sold were Fixtures & Equipment and Goodwill.

To convert this value to an equity interest of an owner or seller of a business requires a couple of steps. First, add all short and long-term assets to the BIZCOMPS® value, less the value of the Fixtures & Equipment. The Fixtures and Equipment employed in the business have already been included in the various transactions in the BIZCOMPS® database.

The second step is to subtract all liabilities (the business is considered to be debt-free at the time of sale).

Note: The ValuSource® BIZCOMPS® on Disk has a free module included that performs this calculation automatically.

Using Discounts with the BIZCOMPS® Transaction Data

The question has come up about using Minority or Marketability Discounts with BIZCOMPS® transaction data. The Minority Discount is the easiest to discuss so we will start there. All the transactions in the BIZCOMPS® database were 100% sales operated by one working owner. If there were one or more partners in the business, the sale was converted to a 100% interest sale, with all discretionary compensation (SDE) going to one working owner. The practitioner can still apply a minority discount to the entire appraised enterprise value if his or her assignment warrants the discount.

The Marketability Discount is a little more complex. The average transaction in the BIZCOMPS® database took 204 days to sell, with a median of 270 days. Businesses that took over 1,000 days to sell are recorded as 999 days. No additional accounting of the days required to sell is made. More importantly, all transactions in the BIZCOMPS® database were reported by Business Brokers or Intermediaries. All those professionals were paid a commission, and the majority were paid a commission of Ten Percent (10%) of the sales price.

If the BIZCOMPS® Transaction Data were used in conjunction with the Market Approach, there are usually other methods of developing value, and the Market Approach is often used as more of a sanity check than a primary method. In some situations, no other methods are available due to unreliable records and other problems. In that case, the Market Approach may become a Primary Method. As above, if the assignment warrants, the practitioner can still apply a Marketability Discount to the overall enterprise value.

There are differing opinions in the business valuation community about applying a Marketability Discount in the case of small businesses. Some feel that the Ten Percent commission paid to the Broker/Intermediary is sufficient, and consider the time required to sell a small business is normal. Others still see the need for a Marketability Discount due to the fact that the enterprise value cannot be converted to cash in three working days, as in the case of other types of investments. The practitioner needs to make a decision as to what discounts to apply or not apply.

Seller's Discretionary Earnings

*"I don't want to do business with those that don't make a profit,
because they can't give good advice."*

–Lee Bristol

The reasons we use Seller's Discretionary Earnings (SDE) (formerly Seller's Discretionary Cash Flow) are several. It is a level of earnings Certified Business Intermediaries are familiar with. For years they have used Adjusted Net Profit, then Seller's Discretionary Cash Flow, and now Seller's Discretionary Earnings. All have exactly the same definition. Seller's Discretionary Earnings allows the comparison of earnings from several different types of entities, i.e. Corporations, Partnerships, Sole Proprietors, Limited Liability Companies, Sub-Chapter "S" Corporations, etc.

SDE is calculated by adding to the most recent full year's Net Income Before Taxes (NIBT): Amortization, Depreciation, Interest, Owner's compensation, Owner's benefits, Non-business related expenses, and onetime-only expenses.

If there is more than one working owner, a hypothetical salary will be subtracted for the lowest paid working partner.

Business Appraisers, in their analysis, will normally subtract the value of the owner's services from SDE. They are trying to estimate the real enterprise return.

Inventories

The exclusion of inventory from the financial averages requires further discussion. In business sale transactions, inventory transfers at the date of closing based on the wholesale cost of "good" inventory existing at that date. Since the amount of inventory can vary so significantly from business to business, BIZCOMPS® believes that the financial ratios of the selling price of a small business should exclude this relatively volatile asset. Also, there may be external reasons to manipulate the amount of inventory at the time of closing that, if included, would distort the selling price of the business. If it could be assumed that the "optimal" level of inventory was included in every business sale transaction, or that the aggregate statistics would produce the optimal level of inventory, then inventory could be meaningfully included. The author does not believe this is a safe assumption, and therefore inventory is excluded from the statistical averages.

The best example of excessive inventory was a small manufacturing concern the author sold several years ago. The business was founded by a retired sheet metal contractor who saw a need for a commercial roof drain that would not rust when standing water accumulated on its surface. He manufactured his roof drains from copper sheet. In fact, to get the best prices, he would carefully follow the commodity price for copper and when the price was low enough, he would purchase an entire railroad carload of copper sheet. This quantity (\$200,000) was a little over two years' supply. He would store the copper in a warehouse near the railroad siding and draw from that supply as he needed to. He had just purchased a new carload when for health reasons, he decided to put his business on the market.

We were fortunate to find a buyer (a general contractor whose industry was down) and negotiate a quick sale. The buyer quickly realized the market value of the copper sheet and agreed to buy this business plus two years' worth of inventory. If you look at the sale price for this transaction in the BIZCOMPS® database, you will find it at \$245,000 plus \$200,000 worth of inventory. In a database that includes inventory, the sale price will be listed at \$445,000, each with the same Seller's Discretionary Earnings (SDE) of \$142,000.

The author of BIZCOMPS® believes the best policy is for the analyst to add his or her client's inventory value to the sale price, thus customizing the value for his or her client's particular situation.

It should be noted that BIZCOMPS® produces one bound hard copy study, the National Industrial Edition, which has sale prices, including inventory. This study is made up of Manufacturing, Wholesale/Distribution, and Business to Business Service Businesses whose sale prices average \$1,000,000, about four times larger than the general BIZCOMPS® transactions. In the case of the somewhat larger businesses, excessive

Inventories [cont.]

inventory tends to reduce the value of the actual business. There simply aren't enough funds to purchase both the business and then inventory and still get an adequate return on investment.

In all other studies and electronic formats, inventory is ***excluded***.

Fixtures, Furniture, and Equipment

The estimate of the value of the fixtures, furniture, and equipment (FF&E) is the least verifiable field of information in the BIZCOMPS[®] transaction data. They (the FF&E) are never separately sold and only rarely independently valued. They are simply a part of an assemblage of assets that are employed to generate income, hence, hopefully profit. That profit will eventually be a part of a basis for the sale price of a business. Given that qualification, the FF&E value is still helpful when determining the degree of Fixture and Equipment newness.

Keep in mind that the FF&E estimate may have been made by any one of a number of parties to the transaction. It may be the seller's estimate, new value, book value, replacement value or, hopefully, the estimate of an experienced intermediary familiar with this type of business. In any event, this estimate should be used with caution.

Percent Rent Paid

The last comparison is by rent paid as a percent of Gross Sales. This important indicator has a lot to do with the profitability, hence, the desirability of each individual business. For instance, liquor stores, because of their competitive nature, are particularly sensitive to rent. In general, only exceptional businesses can afford to pay rent that is more than 10% of Gross Sales. Liquor stores should pay rent equal to 5 or 6% of Gross Sales. If a mature business has a rent expense greater than 10% of gross sales, it is usually a less profitable business. For this study, contributors supplied rent information on 62% of the business sales reported. Hopefully, that ratio will continue to improve in upcoming studies.

Days on Market

This important statistic tells the analyst a great deal about the desirability of the business sold and the available pool of potential buyers.

The author analyzed 10,230 out of 11,606 transactions and discovered that the average number of days on market was 204 days, with a median of 270 days. Businesses that took over 1,000 days to sell are recorded at 999. No additional accounting of the additional days is made.

Once the analyst has selected a sample set of data, careful consideration should be given to the length of time required to sell each transaction. Transactions requiring longer than the average or median time to sell should be viewed with suspicion.

Franchises

BIZCOMPS® has been capturing data on the sale of franchised businesses for about four years. At this point only 536 out of 11,606 businesses reported have been described as franchises. Part of the reason for the low reported number is that business brokers generally do not add much premium for their sale.

Franchises are a major component of the America Dream. For an individual new to the business world, the franchise concept is alluring. You know that your franchisor's concept is already well accepted. You expect territorial protection, training, cooperative advertising, and ongoing support.

The question for the analyst is, *should a premium be placed on the sale of a franchised business?* i.e. the subject business is a non-franchise and the comparative transactions are all franchises—*should the franchise premium be deducted for more accurate comparison?* Or, as is more often the case, if the subject business is a franchise, *should a premium be added to the non-franchise transaction data?*

There clearly is a premium attached to a recognized franchise such as McDonald's or Stanley Steamer. However, that premium can swing the other way. A few years back, the Jack-in-the-Box hamburger chain had several incidences of meat contamination that led to several cases of severe illness and at least one death. The franchises were almost unsaleable at that time, as well as suffering from decreased sales.

Also, Robert L. Purvin, Jr., author of *Franchise Fraud*, contends that many of the benefits of a franchise are an illusion—particularly, a widespread claim by the industry that 95% of all franchisees are still in business after five years, compared to a reported 60% failure rate for non-franchised businesses. This claim is quite misleading, as the franchise industry only counts closed stores, not those returned or taken back by the franchisor and eventually resold to another party, a practice that is quite common in the franchise industry.

The author cites one franchise that was resold seven times before eventually closing, and never once reported as a failure to the Department of Commerce. The author also cites many other ways that the franchisor fails to follow through on franchise promises.

While a premium value in a McDonald's restaurant certainly does exist, the analyst should carefully look at any lesser known franchises with skepticism. As the BIZCOMPS® database records more franchise transactions, the opportunity to compare franchise and non-franchise transactions should appear.

While, it is obvious that the franchise trend is not a fad and will not soon disappear, it is equally obvious that not every franchise will become a McDonald's. And, even with heavy regulation, the new-to-business buyer is easy prey for a marginal franchise.

Number of Employees

The "Number of Employees" field of information in a transaction record can be very useful to the analyst, along with other fields in the record. It gives insight into the scope and size of the business, and also, an idea as to how the business is operated. For instance, a business with all part-time employees would indicate an owner who works himself or herself and only hires part-time help. A transaction with no part-time help could indicate the opposite.

Also, a business with a number of employees could indicate a riskier enterprise.

Note: At this writing, the "Number of Employees" field is not displayed in the hard copy studies. Effort is underway to display this important information soon.

Other Databases

There are three other small business databases available. Each has its own unique attributes. I will list them in alphabetical order:

1. **Done Deals**[®] database is now owned by Practitioners Publishing Company. Started in 1996. Now has approximately 8,773 transactions in the \$1,000,000 to \$250,000,000 sale price range, with 50% of the transactions over \$14.5 million and 50% under \$14.5 million.
Contact Practitioners Publishing at www.ppcnet.com.
2. The **Institute of Business Appraisers** database which is now over 22 years old, has 30,000 transactions in more than 725 SIC codes. The database contains fields such as annual sales, earnings, sale price, locations, and the date of sale.
Contact the Institute of Business Appraisers at 800.299.4130 or www.go-iba.org.
3. **Pratt's Stats**[™], at the BVMarketData website, started in 1997 and now has over 10,800 private and public transactions ranging from under \$1 million to \$1 billion in sale price. The transactions cover 720 SIC codes and contain 88 different fields of information, including a complete income statement and a balance sheet.
For more information contact 888-BUS-VALU or www.BVMarketData.com.

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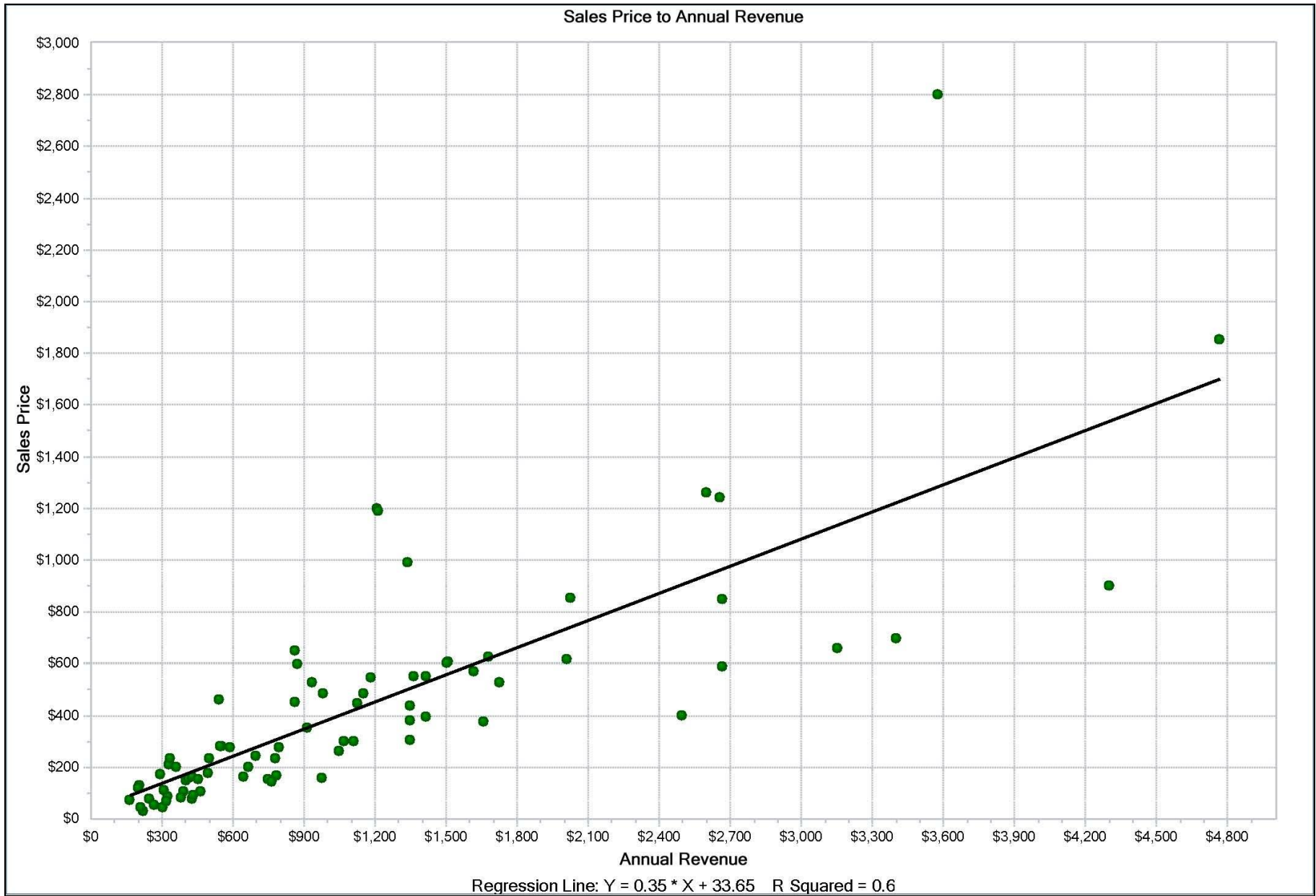
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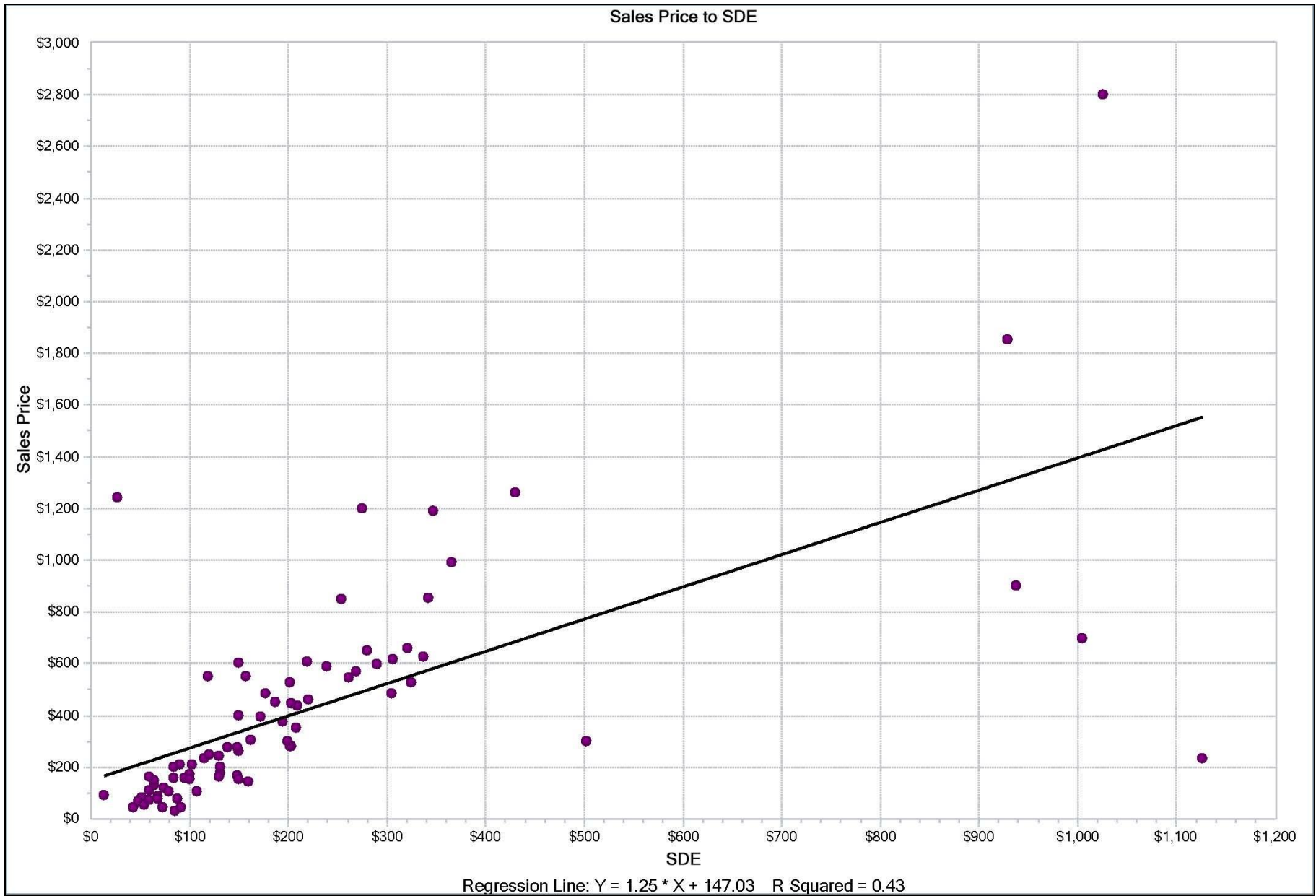
Sample Report

Title	Low	High	Mean	Median	Standard Deviation	Records Used
ASKING PRICE	59	2,800	479	340	461	81
ANN. REV	166	4,767	1,131	863	969	78
SDE	14	1,127	220	150	229	79
SALE PRICE	30	2,800	420	280	433	81
% DOWN	1.0%	100.0%	51.628%	43.0%	30.76%	71
SP/REV	0.135	0.993	0.386	0.353	0.191	78
SDE/REV	0.01	3.354	0.255	0.202	0.372	76
SP/SDE	0.204	45.926	2.504	1.87	5.046	79
INVENTORY	1	166	34	20	38	63
FF&E	4	910	111	58	150	75

Selected Records View – Contrs Heating Air Conditioning

BUSINESS TYPE	ASKING PRICE	ANN. REV	SDE	SALES DATE	SALE PRICE	% DOWN	TERMS	SP/REV	SDE/REV	SP/SDE	INV	FF&E	RENT %	LOCATION	AREA
Contr-Heating & AC	1,200	1,209	275	8/29/2003	1,200	0.0%		0.993	0.227	4.364	50	130	0.0%	Minnesota	MW
Contr-Heating & AC	465	1,727	325	11/19/2003	525	66.0%	10 Yrs @ 6.5%	0.304	0.188	1.615	30	517	0.0%	Georgia	S
Contr-Heating & AC	960	2,668	254	7/21/2003	850	23.0%	5 Yrs @ 9%	0.319	0.095	3.346	25	225	0.0%	Florida	S
Contr-Heating & AC	550	934	202	12/30/2004	525	16.0%	10 Yrs @ 7%	0.562	0.216	2.599	75	6	1.0%	Florida	S
Contr-Heating & AC	210	330	90	7/13/2004	210	0.0%		0.636	0.273	2.333	20	60	0.0%	Minnesota	MW
Contr-Heating & AC	270	296	101	9/22/2003	170	50.0%	10 Yrs @ 6%	0.574	0.341	1.683	30	30	3.2%	Florida	S
Contr-Heating & AC	60	307	73	11/30/2003	42	100.0%		0.137	0.238	0.575	5	12	0.0%	Southern Florida	S
Contr-HVAC/Plumbing	250	787	149	12/31/2003	165	85.0%		0.21	0.189	1.107	0	0	0.0%	Colorado	SW
Contr-Heating & AC	725	1,682	337	12/23/2003	625	53.0%	15 Yrs @ 7.3%	0.372	0.2	1.855	25	246	0.0%	Florida	S
Contr-Heating & AC	115	208	65	6/30/2003	130	33.0%		0.625	0.313	2.0	0	115	0.0%	Phoenix, AZ	SW
HVAC Svc	1,060	2,012	306	9/30/2004	615	49.0%	10 Yrs @ 8%	0.306	0.152	2.01	15	120	1.5%	Central Florida	S
Contr-Heating & AC	79	431	88	2/28/2003	75	60.0%		0.174	0.204	0.852	0	15	1.4%	Florida	S
Contr-Heating & AC	1,440	2,657	27	8/31/2004	1,240	0.0%		0.467	0.01	45.926	60	0	0.0%	Minnesota	MW
Contr-Heating & AC	340	1,048	150	3/26/2003	260	23.0%	10 Yrs @ 7%	0.248	0.143	1.733	15	80	0.7%	Florida	S
Contr-Heating & AC	267	436	14	6/30/2003	90	20.0%		0.206	0.032	6.429	8	100	0.0%	Glendale, AZ	SW
Contr-Heating & AC	149	405	64	7/8/2005	149	100.0%		0.368	0.158	2.328	3	12	0.0%	Florida	S
Contr-Heating & AC	617	1,617	269	9/18/2006	567	61.0%	4 Yrs @ 8%	0.351	0.166	2.108	8	195	1.5%	Florida	S
Contr-Heating & AC	140	394	108	6/30/2005	105	26.0%		0.266	0.274	0.972	1	39	0.0%	Phoenix, AZ	SW
Contr-Heating & AC	295	591	139	7/31/2006	273	68.0%	4 Yrs @ 8.8%	0.462	0.235	1.964	2	27	1.2%	Florida	S
Contr-Heating & AC	1,045	3,400	1,005	7/14/2006	695	100.0%		0.204	0.296	0.692	105	70	1.6%	Florida	S
Contr-Heating & AC	230	336	1,127	5/30/2005	230	60.0%	3 Yrs @ 8%	0.685	3.354	0.204	20	45	7.5%	Florida	S
Contr-Heating & AC	640	2,666	240	4/7/2006	590	0.0%		0.221	0.09	2.458	0	13	0.0%	Florida	S
Contr-Heating & AC	1,490	1,217	347	3/17/2006	1,190	100.0%		0.978	0.285	3.429	10	75	2.5%	Georgia	S
Contr-Heating & AC	150	414	84	3/31/2006	155	100.0%		0.374	0.203	1.845	0	0	7.0%	Oregon	NW
Contr-Heating & AC	74	223	86	2/28/2006	30	33.0%	2 Yrs @ 8%	0.135	0.386	0.349	5	6	0.0%	Central Florida	S
Contr-Heating & AC	149	328	68	2/16/2006	85	0.0%		0.259	0.207	1.25	10	50	2.0%	Florida	S
Contr-Heating & AC	627	1,184	262	6/8/2006	547	23.0%	10 Yrs @ 7%	0.462	0.221	2.088	23	166	0.0%	Georgia	S
Contr-Heating & AC	280	552	203	2/14/2006	280	24.0%	10 Yrs @ 8.8%	0.507	0.368	1.379	5	4	0.9%	Florida	S
Contr-Heating & AC	280	550	202	2/14/2006	280	100.0%		0.509	0.367	1.386	5	4	7.0%	Southeast Florida	S
Contr-Heating & AC	62	211	92	9/30/2005	43	100.0%		0.204	0.436	0.467	7	35	3.0%	Southern Florida	S
Contr-Heating & AC	250	503	116	6/26/2006	230	17.0%	10 Yrs @ 7%	0.457	0.231	1.983	0	0	0.0%	Florida	S
Contr-Heating & AC	696	874	291	12/30/2005	596	6.6%	10 Yrs @ 9%	0.682	0.333	2.048	4	29	1.2%	Florida	S
Contr-Heating & AC	225	361	85	7/28/2006	198	50.0%	5 Yrs @ 7%	0.548	0.235	2.329	0	13	0.0%	Georgia	S
Contr-Heating & AC	210	0	103	6/30/2006	210	48.0%		0.0	0.0	2.039	30	120	0.0%	Tucson, AZ	SW
Contr-Heating & AC	240	647	60	6/30/2006	160	38.0%		0.247	0.093	2.667	0	50	0.0%	Phoenix, AZ	SW
Contr-Heating & AC	391	1,418	173	10/23/2006	391	20.0%	SBA 10 Yrs @ Pr+2	0.276	0.122	2.26	84	115	2.0%	Boise, ID	NW
Contr-Heating & AC	119	202	74	10/9/2006	119	21.0%	3 Yrs @ 7%	0.589	0.366	1.608	0	25	4.8%	Florida	S
Contr-Plumbing	2,155	4,767	930	9/7/2007	1,855	18.0%	SBA	0.389	0.195	1.995	45	225	0.0%	Los Angeles, CA	SW
Contr-Heating & AC	2,800	3,577	1,026	2/5/2007	2,800	0.0%		0.783	0.287	2.729	100	480	0.6%	Florida	S
Contr-Heating & AC	500	916	209	9/30/2008	350	100.0%		0.382	0.228	1.675	0	100	0.0%	Florida	S
Contr-HVAC/Plumbing	684	3,153	322	9/29/2006	659	85.0%	1 Yr @ 6.5%	0.209	0.102	2.047	166	442	4.0%	Iowa	MW
Contr-Heating & AC	135	308	59	11/1/2007	110	64.0%		0.357	0.192	1.864	10	65	0.0%	Phoenix, AZ	SW
Contr-Heating & AC	1,015	1,340	366	3/30/2007	990	1.0%	5 Yrs @ 7%	0.739	0.273	2.705	10	155	3.6%	Missouri	MW
Contr-HVAC	59	0	43	5/3/2007	43	0.0%		0.0	0.0	1.0	0	30	0.0%	Florida	S
Contr-Heating & AC	507	863	187	10/20/2006	452	88.0%		0.524	0.217	2.417	38	58	0.7%	Florida	S
Contr-HVAC/Plumbing	550	1,419	119	10/10/2007	550	0.0%		0.388	0.084	4.622	100	100	0.0%	Jordan, MN	MW
Contr-Heating & AC	500	542	221	10/23/2006	460	35.0%	5 Yrs @ 8%	0.849	0.408	2.081	0	150	6.6%	Florida	S
Contr-HVAC	295	780	0	9/28/2007	230	0.0%		0.295	0.0	0.0	40	0	0.0%	Minneapolis, MN	MW





Definitions

SIC =	Small Business Industry Classification Number (Standard Industrial Classification)
NAICS =	North American Industry Classification System
BUS TYPE =	Best Description of Subject Business
ASK PRICE =	Asking Price (000's) <i>Does not include inventory</i>
ANN GROSS =	Annual Gross Sales (Normally Net of State Sales Tax).
SDE =	Seller's Discretionary Earnings (Net Profit Before Taxes and any compensation to owner plus Amortization, Depreciation, Interest, Other Non-Cash Expense and Non-Business Related Expense) <i>SDE Assumes One Working Owner</i>
SDE/GROSS SALES =	Seller's Discretionary Earnings Divided by Gross Sales
SALE DATE =	Actual Date of Sale
SALE PRICE =	Actual Sale Price (in 000's) <i>Inventory has been deducted if it was in Sale Price</i>
% DOWN =	Down Payment as a Percent of Sale Price
TERMS =	Terms of New or Assumed Encumbrance
SALE/GROSS =	Sale Price Divided by Gross Sales
SALE/SDE =	Sale Price Divided by Seller's Discretionary Earnings
INV =	Inventory at the Time of Sale (in 000's) <i>Inventory is not included in Sale Price</i>
FF&E =	Estimate of Value of Furniture, Fixtures & Equipment
RENT/SALES =	Rent as a Percent of Sales
DAYS ON MKT =	Actual Number of Days Business Was on Market
FRANCHISE ROYALTY =	Actual Royalty Less Advertising Percentage
AREA =	Region or Geographical Location of Business

Transaction Data Submission Forms

CERTIFICATION FORM

To: Jack R. Sanders
BIZCOMPS®
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As you suggested, I am enclosing business sale information on _____ businesses I have direct knowledge of. To the best of my knowledge, I believe this information to be correct. I understand that I am to receive BIZCOMPS® 2010, your 20th Annual Study of Small Business Sales, in one of the following formats:

The 2010 BIZCOMPS® Western **OR** Eastern States Reward CD at no cost.
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BE SURE TO CHECK THE ONE YOU WANT BELOW.

Signed _____

Name _____

Business Name _____

Address _____

City & State _____

Phone No _____

Date _____

Send 14th Annual National Industrial Edition? _____

OR the 2010 BIZCOMPS® Eastern States Reward CD? _____

OR the 2010 BIZCOMPS® Western States Reward CD? _____

Additional Comments _____

BIZCOMPS® SALE DATA SUBMISSION FORM

SIC # (If Available)	_____	_____	_____
Type of Business	_____	_____	_____
Product/Service	_____	_____	_____
Business Name	_____	_____	_____
Asking Price	_____	_____	_____
Annual Gross Sales	_____	_____	_____
Net Inc. Before Taxes	_____	_____	_____
Seller's Disc. Earnings	_____	_____	_____
Date of Sale	_____	_____	_____
Sale Price	_____	_____	_____
Asset or Stock Sale?	_____	_____	_____
% Down Payment	_____	_____	_____
Terms (Interest Rate & Note Length)	_____	_____	_____
Inventory Amount	_____	_____	_____
Inv. in Sale Price?	_____	_____	_____
Fixture & Equip. Value	_____	_____	_____
Value of Real Estate?	_____	_____	_____
Rent as a % of Sales?	_____	_____	_____
Days on Market?	_____	_____	_____
Franchise Royalty %	_____	_____	_____
# of Employees	_____	_____	_____
Geographical Area?	_____	_____	_____
Comments	_____ _____		

SUBMISSION REPORT KEY

SIC =	Small Business Industry Classification Number (Standard Industrial Classification)
NAICS =	North American Industry Classification System
TYPE OF BUSINESS =	Best Description of Subject Business
PRODUCT/SERVICE =	Best Description of Product or Service
BUSINESS NAME =	Actual Name or Identification Code for Business
ASKING PRICE =	Asking Price (000's) (Does not include inventory)
ANNUAL GROSS SALES =	Annual Gross Sales (Normally Net of Sales Tax).
NIBT =	Net Income Before Taxes
SDE =	Seller's Discretionary Earnings (Net Profit Before Taxes <u>AND ANY COMPENSATION TO OWNER</u> Plus Amortization, Depreciation, Interest, Other Non-Cash Expense and Non-Business Related Expense) (Normally To One Working Owner).
DATE OF SALE =	Actual Date of Sale
SALE PRICE =	Actual Sale Price (in 000's)
ASSET OR STOCK SALE =	If Stock Sale Show Asset Value
% DOWN PAYMENT =	Down Payment as a Percent of Sale Price
TERMS =	Interest Rate and Terms of New or Assumed Encumbrance
INVENTORY AMOUNT =	Inventory at the Time of Sale (in 000's)
INV IN SALE PRICE =	Was Inventory Included in Sale Price?
FIXTURE & EQUIP VALUE =	Best Estimate of Value of Furniture, Fixtures & Equip.
VALUE OF REAL ESTATE =	Value of Real Estate Included in Sale
RENT AS A % of SALES =	Annual Rent Paid as a Percent of Gross Sales
DAYS ON MARKET =	Actual Number of Days on Market
FRANCHISE ROYALTY % =	Actual Royalty Less Advertising Percentage
# OF EMPLOYEES =	Full Time or Part Time
GEOGRAPHICAL AREA =	Region or Geographical Location of Business

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- Sales price to gross sales (Also graphed and with medians)
- Sales price to seller's discretionary earnings (Also graphed and with medians)
- Actual down payment versus all cash
- Rent as a percent of gross sales
- The value of furniture, fixtures and equipment
- The value of inventory at time of sale
- Automatic updates from the internet
- Profit as a percent of gross sales
- Number of days to sell business
- Franchise information

Several interesting businesses are included in this year's study, such as: heating and air conditioning contractors, manufacturers, distributors, silk screen printing, sign manufacturers, printers, taxicab fleets, accounting services, convenience stores, travel agencies, day care centers, check cashing, donut shops, coin laundries, dry cleaners, one-hour photo labs, trucking companies, janitorial services, video rental services, etc.

This study is useful to business brokers, business appraisers, attorneys, accountants, lenders, business sellers and buyers. It has increased 15% from the previous year and is an invaluable source of comparison.

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