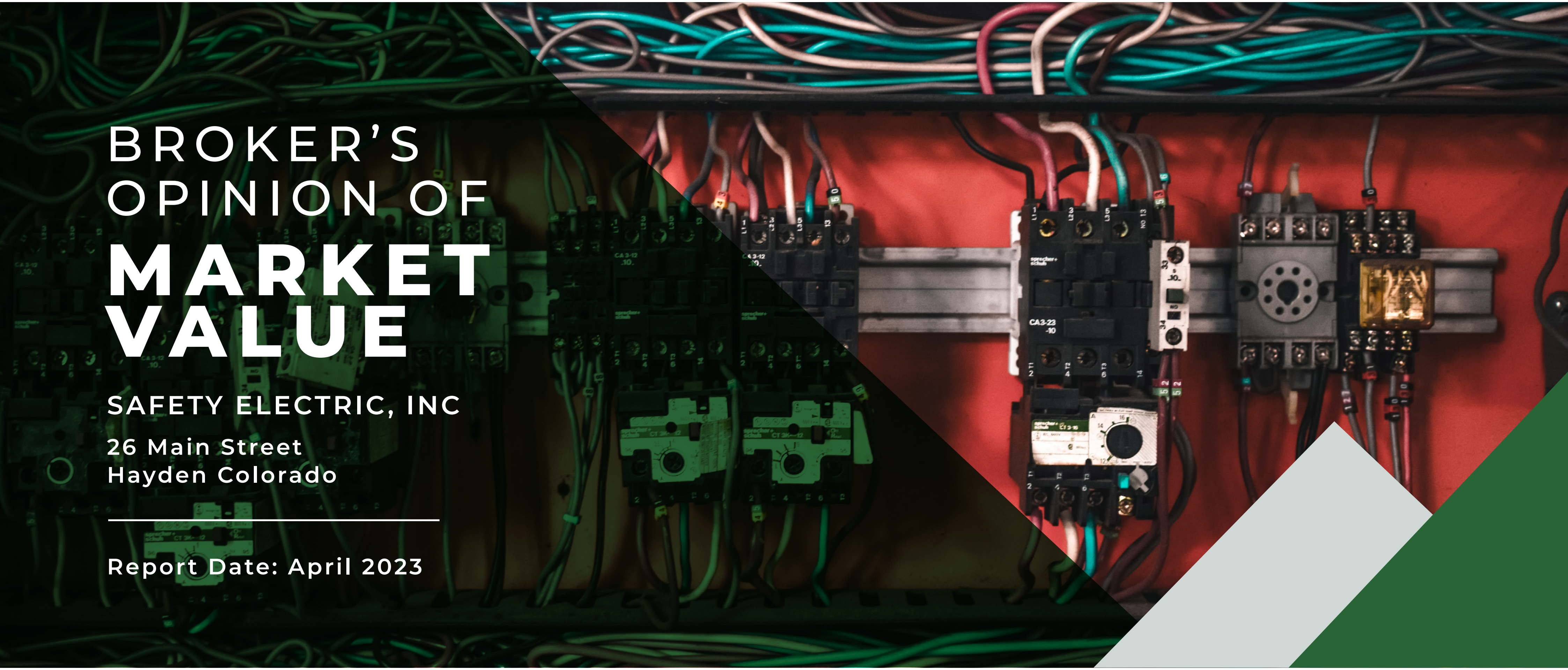
ROCKY MOUNTAIN BUSINESS ADVISORS



BROKER'S OPINION OF MARKET VALUE

SAFETY ELECTRIC, INC

26 Main Street
Hayden Colorado

Report Date: April 2023

BUSINESS BROKER: Gregg Kunz, CBI, M&AMI
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DATE RANGE OF HISTORICAL FINANCIAL ANALYSIS: CALENDAR YEARS 2020, 2021, & 2022

REPORT DATE: NOVEMBER 1, 2022

Rocky Mountain Business Advisors, Inc has prepared this report at the request of Mr. Sparky Voltz to determine the most probable Selling Price Range of Safety Electric, Inc based on the financial performance of the business over the past 3 years as reported in the business's Federal Business Tax Returns and Income Statements. The Most Probable Selling Price Range is established using the Financial Recasting Standards and process as recognized by the International Business Brokers Association (IBBA).

Distribution of this report are to be distributed only in their entirety and is intended for the owner of the business, other stakeholders, and their professional advisors. It is designed solely as a baseline determination of selling price range for the purposes of planning guidance for the future and is no way a guarantee of a final selling price or that a transaction can be completed today or at a future date. No other warranty, expressed or implied, is extended and the requestor of this report acknowledges such.

The Most Probable Selling Price Range is for a sale of the total assets of the business to a third party as an Asset Sale and not a Stock Sale. This means that all assets on the Balance Sheet will be included in the sale transaction as these are the assets which are utilized to produce the revenues and income of the business.

DATE RANGE OF HISTORICAL FINANCIAL ANALYSIS:
CALENDAR YEARS 2020, 2021, & 2022

The following should be understood by the requestor:

- An Asset Sale* pertains to the sale of assets of the business unencumbered by any debt with the Seller keeping all Cash, Accounts Receivables, and Cash Equivalents, and without debt. Past and future claims of liability of the business during the period prior to the transaction date remain with the Seller. The Seller maintains the TIN/EIN of the business.
- A Stock Sale* includes the sale of the stock and equity interests of the business and in which the Cash, Accounts Receivables, Cash Equivalents, and Accounts Payables transfer to the Buyer. The TIN/EIN is transferred to the Buyer.

**These are general guidelines which will be subject to the terms of the transaction agreement as agreed between the parties.*

Sincerely,

Gregg Kunz

GREGG KUNZ

CEO AND PRINCIPAL BUSINESS BROKER

Certified Mergers & Acquisition Master Intermediary - M&AMI
Certified Business Intermediary (CBI)

Rocky Mountain Business Advisors
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ASSUMPTIONS AND LIMITING CONDITIONS

The preparer of this report has relied solely on the source financial documents and input from the requestor. The value range suggested is highly dependent on variables and underlying attributes of the business of which the preparer has no knowledge and should be viewed only in this light. It is not an accounting report and should not be relied upon to disclose hidden assets or liabilities or to verify financial reporting. It is an opinion of the Most Probable Selling Price as of the date of the report and the date range evaluated (2019 to 2021).

- Rocky Mountain Business Advisors has accepted and used the tax returns and income statements of Safety Electric, Inc provided for 2019, 2020, and 2021.
- Rocky Mountain Business Advisors has relied on representations made by the owner of Safety Electric and assumes no responsibility for the accuracy of the information provided.
- This report is based upon the preparer's understanding of the current market and has not considered future or subsequent events which may impact the price or salability of the business.
- Our estimate of the Most Probable Selling Price Range should only be used for the purposes specified and may not be used out of the context presented herein.
- By acceptance of this report the client agrees to hold harmless now and forever the preparer and to release them from all claims and disputes in perpetuity.

METHODOLOGY & PROCESS

The subject business falls into the category of a Main Street Business. Main Street Businesses are categorized as generally having revenues between $250,000 and $5,000,000 and Seller Discretionary Earnings (SDE) from $50,000 to $500,000. Businesses with SDE values between $500,000 and $1,000,000 and above fall into the Premier Main Street segment. Businesses above this threshold are normally valued based on EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). SDE is the financial value or benefit to one owner operating the business.

It is important to understand that while we use both Tax Returns and Income Statements as the basis for the determination of SDE, these documents do not accurately reflect the True Financial Benefit of One Owner operating the business. This is where the experience and competence of the Business Intermediary comes into play. The process to determine SDE is called Recasting and is one of the most important, if not the most important value driver for arriving at the Most Likely Selling Price Range, which is the objective of this report. The recasting process begins with adding-back certain expenses as described below:

- **Expenses** which are a direct financial benefit to the owner such as wages, company-paid payroll taxes on those wages, health, and life insurance. It is important to understand that if there are 2 or more owners of the business we can <u>only add-back those expenses for a single owner</u>. If the remaining owners will remain with the business, then normally there will be no add-backs for them whatsoever. If those owners will depart the business post-sale then we may add-back portions of their financial benefits but only those which will exceed the Fair Market Value to replace their roles in the business. Practically speaking, if a business employs any family members who perform any role which will need to be replaced post-sale we must identify and quantify those roles and make an adjustment to replace them with a fair market value wage. However, if an owner has a child on the payroll and they do not perform any meaningful role then their financial benefit may be added back. (It is highly suggested that a business owner removes those types of family members from the payroll at least one year prior to bringing the business to market.).
- **Non-Cash Expenses** which will change post-sale and will be pertinent to the new owner. These include Amortization and Depreciation.
- **General Add-Backs** include Interest paid. This is because this interest amount is normally unique to the Seller and the Buyer will have their own interest post-transaction (think SBA Loan debt service.)
- **Non-Recurring Expenses** include those expenses which were incurred for a one-off event and are not likely to be needed within the next 5 years. An example could be a re-branding project or the build of a new website. Caution should be exercised in looking back to the prior 2 years of financial statements – an expense that did not appear to be incurred on an ongoing basis which then will return to the buyer in the next 2 years may not pass SBA lender scrutiny and therefore may be disqualified as an add-back.

METHODOLOGY & PROCESS

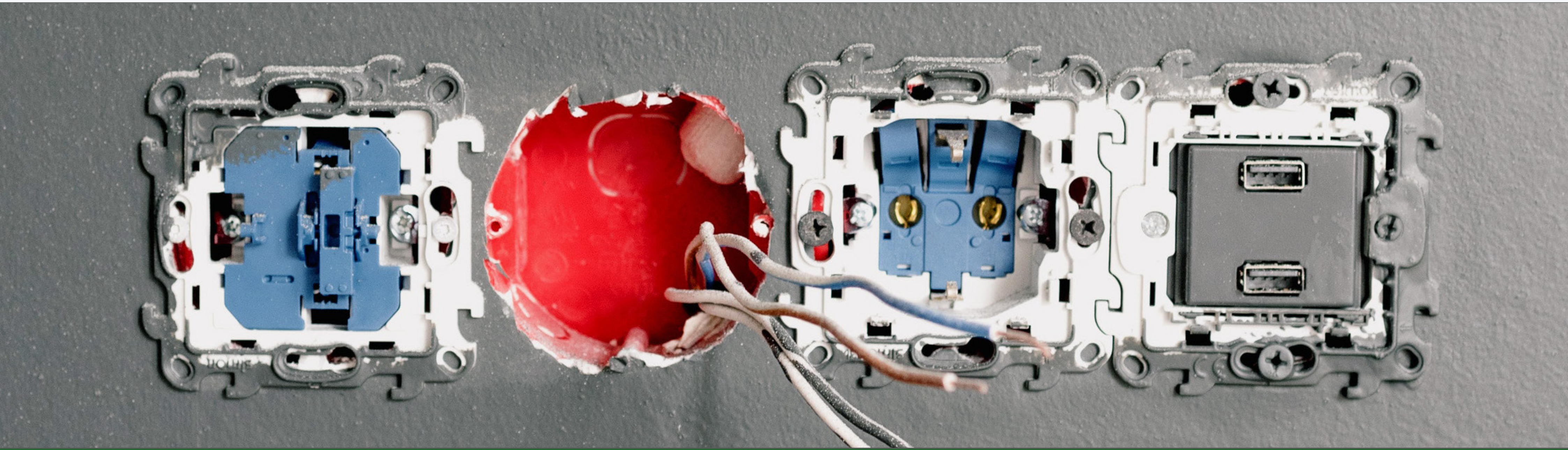
- **Discretionary Expenses** are those which are generally thought to be discretionary in nature. These may include Charitable Contributions, Staff Bonuses, Gifts, and Holiday Parties. Charitable expenses generally are acceptable but be careful if they have been designated as a Donation but provide some type of benefit to the business. A good example is a significant donation to support a local charity where the business will receive community recognition – what may be construed as a charitable discretionary contribution may in fact be a Sponsorship which might have better been categorized under Marketing & Advertising. Staff Bonuses and other monetary items provided to staff may be discretionary in the eyes of the owner but in the eyes of the staff they tend to become expected, and a savvy Buyer will understand that this is in fact an ongoing expense. Put yourself in the shoes of the Buyer who will incur the wrath of staff when those bonuses are not paid. After many years of managing teams in the corporate world as well as a business owner I believe these types of expenses are great for team building and a time to reflect and recognize performance of staff and the business. Discretionary in the broad sense but one that is critical to the business and better put in the Employee Relations or Employee Benefits category on the Income Statement.

- **Personal Expenses** are those which an owner (and their Business Broker) may deem as discretionary and can be added-back. This is an area where business owners believe that personal expenses run through the business will be added-back. These may include Auto & Truck and/or Meals & Entertainment expenses. Be very cautious when assuming that these will be acceptable Add-Backs. Documentation is absolutely critical and even then, the lender may simply discard these resulting in a lower valuation despite the Buyer accepting them. The best course of action in the year or two leading up to placing your business on the market is to stop putting these expenses through the business. This will make the true value of the business clear and remove an unexpected reduction on price. Remember that the SBA lender will be conducting their own valuation in the weeks leading up to the Closing and this is no time for an adverse surprise.

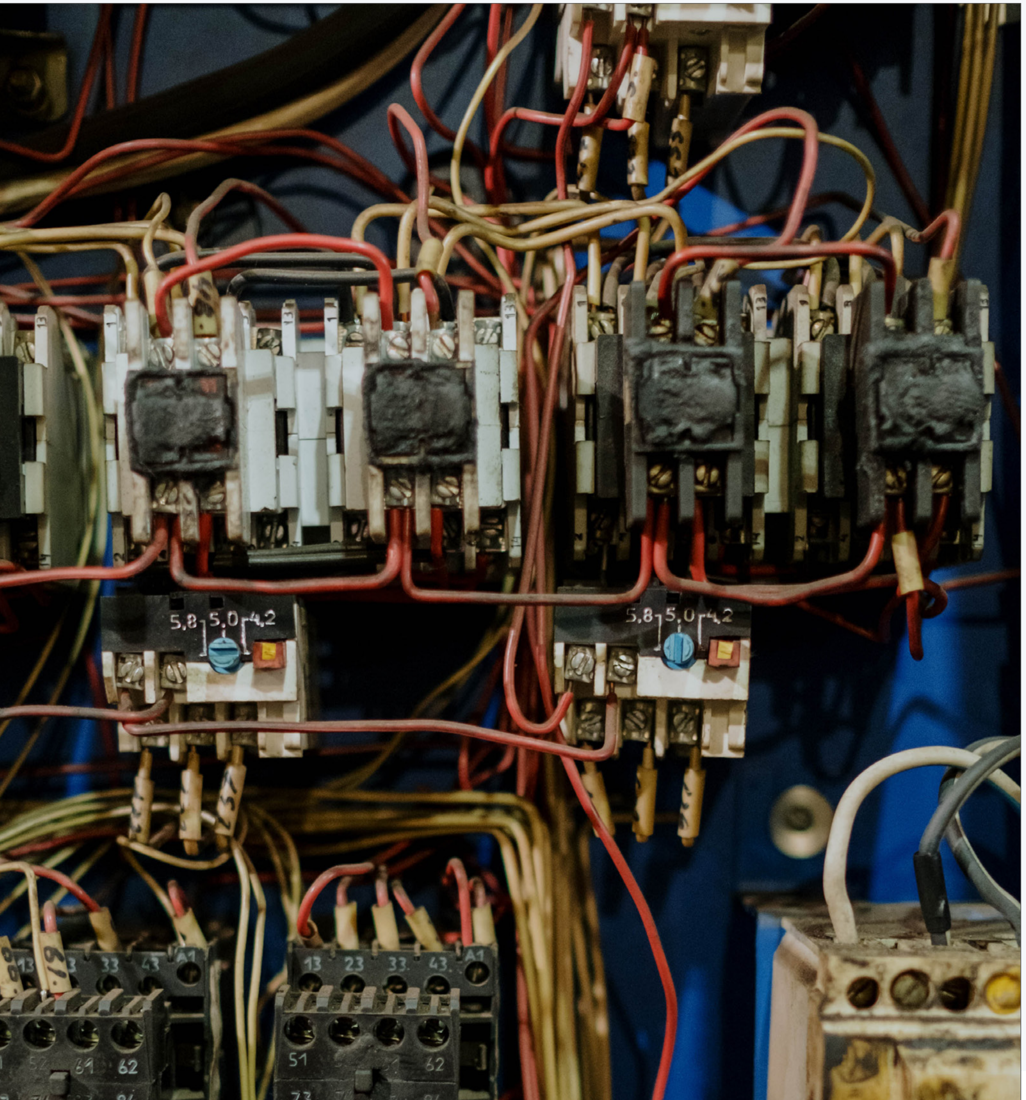
METHODOLOGY & PROCESS

The old adage of 'a little information can be dangerous' is appropriate for business owners who believe that they can determine the value range of their business. Whether it is something that they have read, heard from a neighbor, found on the internet, or simply believe, they are treading a slippery slope. A newish or less than professionally competent business broker may also lead an owner astray if they allow certain expenses as Add-Backs. Remember that even if you can convince a Buyer that an expense is discretionary or personal in nature, the lender is the ultimate decisionmaker and will normally disqualify certain expenses in keeping with the lender's internal credit guidelines.

In the two years leading up to an exit (meaning the two years before the business goes on the market) you must cease harvesting personal benefits which the tax code allows (as determined by your tax preparer) and begin to look at how three important parties will view the expenses which might be added-back: the Business Broker who is advising you, the Buyer you are working to convince to purchase the business, and the Bank which ultimately will fund the transaction. At times you can convince the Buyer that these are personal or discretionary expenses but in practice the Bank will not be convinced.



FINDINGS AND BROKER OPINION OF MARKET PRICE RANGE



REVENUE PERFORMANCE

For the period of January 1, 2019, to December 31, 2021, Safety Electric experienced an approximate decrease of 13% in revenue from $1,047,717 to $938,067.

COST OF GOODS SOLD (COGS)

COGS varied during the period and like similar businesses in the category, both product cost and supply-chain variations are normal and to be expected.

EXPENSES

Unadjusted (pre-Add-Backs) expenses peaked in 2020 to 51.32 % of revenues. In 2019 expenses made up 42.21 % and in 2021 were 43.44%. While a ten percent swing is somewhat significant, for a business of this size it is fairly normal.

GROSS PROFIT

Gross Profit declined between 2019 ($728,549) and 2021 ($619,115). This amount is consistent with a business with declining revenues in an inflationary period or one in which local economic factors create cost increases. It can also be due to competitive factors as well as engaging in projects which have a lower margin but where the gross profit is high enough to accept the project even though it will erode gross profit margins.

ADD-BACKS

For the period of the valuation, Add-Backs are very conservative with few Discretionary and Personal expenses being run through the business. The most significant add-back was Owner Wages (and the associated payroll taxes) which decreased during the period in line with the decline in revenues.

FINDINGS AND BROKER OPINION OF MARKET PRICE RANGE

SELLER DISCRETIONARY EARNINGS (SDE)

After the Recasting process, for the overall period, the business's SDE declined from $369,505 to $296,318 approximately 19% or by $73,187.

MARKET RANGE VALUE - PERFORMANCE

Commensurate with the decreases in revenue, gross profit, and SDE, the market value of Safety Electric dropped during the period. The range of the decrease cannot be fully determined without additional subjective (qualitative) analysis of the business. Subjective or qualitative analysis is used to determine where in the Market Multiple Range the business falls.

MARKET MULTIPLE RANGE

Based on a review of businesses within the Electrical Contracting Industry (NAICS 238210) which have both similar revenues and SDE to Safety Electric, which have sold in the past 20 years the market multiple range is from 1.7x to 2.7x. Businesses' qualitative and subjective attributes will generally determine where in market multiple range the subject business will fall. For the sake of this analysis and as a guide for value improvement we used a market multiple in the middle of the range: 2.2x.

MARKET RANGE VALUE – PRICE

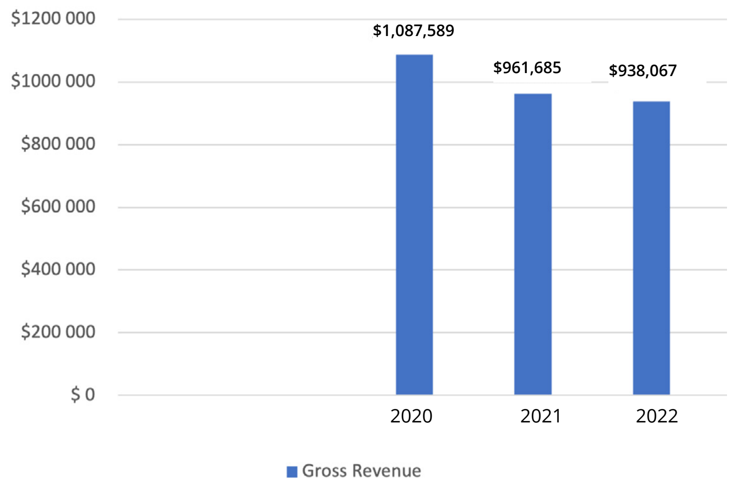
The market normally places the highest weight on the most recent financial performance of the business. Using the most recent SDE amount with a multiple range of 1.7x to 2.7x the price range is $503,740 to $800,058. Using the multiple of 2.2x and 2021's SDE of $296,318 the most likely total selling price is $651,900.

SUGGESTED LISTING PRICE

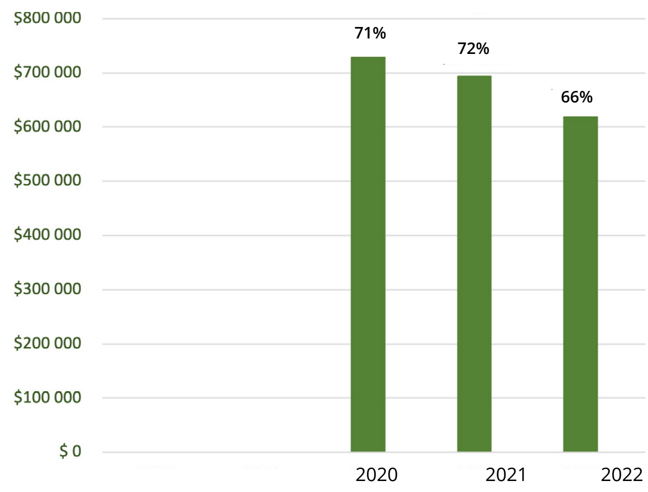
Over the last decade the average discount to list price is 10.7%, If the subject business was listed today, we would recommend a listing price of $700,000 and strongly suggest that any offers over $600,000 be strongly considered.

FINANCIAL SNAPSHOT

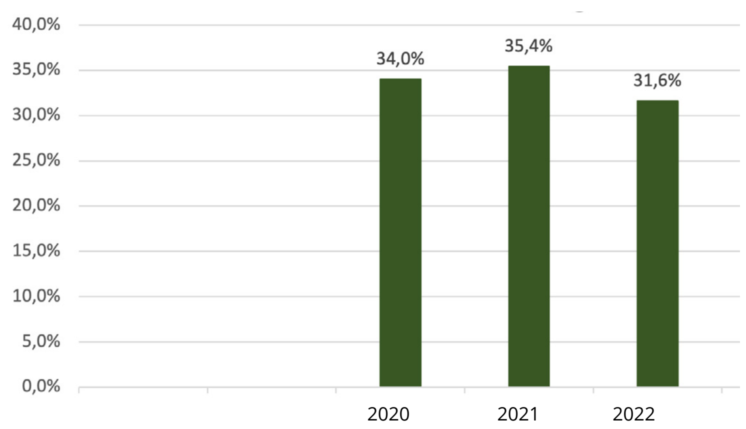
Subject Revenue



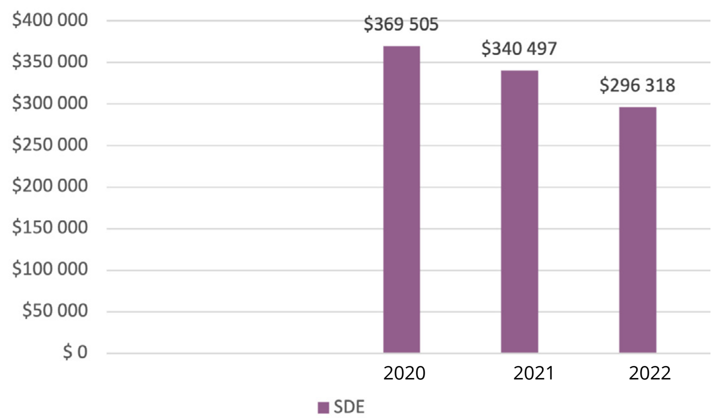
Gross Profit Margin



Net Profit Margin



Seller's Discretionary Earnings



SALES PRICE DETERMINATION

BUSINESS DETAILS	
Business Name:	Safety Electric, Inc.
Business Address:	26 Main Street, Hayden, Colorado
Cash Basis/Accrual Basis	Cash
Source of Financials	Tax Return

SDE WEIGHTING			
	2020	**2021**	**2022**
Weight	0%	0%	100%
Gross Revenue	$1,087,589	$961,685	$938,067
Cost of Goods Sold	$318,952	$267,354	$318,952
Gross Profit	$728,549	$694,331	$619,115
Adjusted Expenses	$358,916	$353,834	$322,797
SDE	$369,633	$340,497	$296,318
Weighted SDE	-	-	$296,318
Final Weighted SDE	**$296,318**		
Gross Profit Margin	71%	72%	66%
Adj Net Income Margin	34%	35%	32%

INDUSTRY SDE MULTIPLE RANGES				
		Low	**High**	**Selected**
SDE Multiple Range		1.70	2.70	2.20
Calculated Sales Price Ranges Based on Weighted Averages				
		Low	**High**	**Selected**
SDE	**$296,318**	$503,741	$800,059	$651,900
			$651 900	$651 ,900

TANGIBLE ASSETS	
Inventory (at cost)	$12,217
Furniture/Fixtures/Equipment	-
Supplies (eg office and store)	-
Leasehold Improvements	-
Accounts Receivable (if included)	-
Vehicles	$265,636
Real Estate	-
Other	-
Other	-
Total Value of Tangible Assets	**$277,853**

KEY ACTIONS TO INCREASE SALE PRICE AND LIKELIHOOD OF THE SALE

The following recommendations, if implemented will help to increase the sale price and as important, increase the probability of selling the business. It must be understood that there are key attributes of the business which may drive the price down significantly or result in the business being a tough sale or in the worst case, unsaleable. Quite simply: the financial performance drives the Most Likely Selling Price, but other attributes determine if the business can be sold at a price within the range or sold at all.

FINANCIALS

The financials provided for this project were well-organized, complete, and timely. You should continue on this path and maintain an electronic file of all Federal Tax Returns and Monthly and Full-Year Income Statements (Profit & Loss and Balance Sheets) for the 5 years leading up to the beginning of the sale process. Ideally you will want the Income Statements in Excel format. If they are not being provided in Excel, you should begin **now**.

TAX PREPARATION

Most business owners are accustomed to operating their business for the long term and if they use a knowledgeable CPA for tax preparation there is a focus on reducing the tax liability to the owner every year. This is where personal expenses and discretionary expenses tend to be expensed to minimize the tax liability. It is also somewhat common for small businesses in the fourth quarter to pull expenses from the next year into the present year and when possible, to defer revenue to the following year. This is done to minimize tax liability. Whether this is permissible or not is between the business owner and their tax preparer. But, it must be understood that the business owner is simply ‘kicking the can down the street’ and at some point (usually in the period leading up to the sale) they will have to face the music and pay the tax. There will just not be another year into which they can kick the can. With the exception of owner wages, payroll tax on those wages, amortization, depreciation, and interest, the owner should cease putting personal expenses through the business and minimize discretionary expenses. Will this create a higher tax liability? Yes, for the final period before the sale. However, more critical is that every dollar which drops to the adjusted (and accepted by the lender) bottom line (SDE) that dollar will move the sale price by the multiple. For the case of this business that means that the additional dollar in SDE is actually worth $2.20. We recommend ceasing potentially questionable Add-Backs two years before the sale process begins.

KEY ACTIONS TO INCREASE SALE PRICE AND LIKELIHOOD OF THE SALE

OWNER DEPENDENCY

Businesses in which the owner is the face of the business and where the business activity and revenues are dependent on the owner can be the most critical factor in whether the business is saleable. For example, if the business is a Landscape Contractor that specializes in tree care and technical tree take-downs and the owner is the only person who can perform this activity then the business is dependent on the owner. The only suitable buyer will be one who already possesses this skill. This means that the probable Buyer Pool is extremely small and locating this buyer is very problematic.

ORGANIZATIONAL STRUCTURE

If all staff reports to the owner and there are no supervisors/team or department leaders it is reasonable to expect that the new buyer must understand the business intimately. Most buyers will not and as above, the Buyer Pool shrinks. The more specialized the business the smaller the Buyer Pool. We cannot emphasize enough that the business owner must build organizational hierarchy in the year(s) leading up to the sale process. In the most ideal situation, the owner will have a right-hand person or general manager who, in the absence of the owner can manage the day-to-day operations of the business and who understands the business. Remember that most buyers do not want to buy a job. They want to buy a business where the pieces are in place, and they can work 'on the business' rather than 'in the business'. While buyers (like all owners) have confidence in their abilities they will shy away from businesses they do not have intimate knowledge of as they fear harming the business. Having a right-hand person who can operate the business on a day-to-day basis while the new owner learns the business will expand the buyer pool significantly. A business owner should ask themselves if they can take at least two weeks away from the business. If they cannot take this time away without damaging the business, then they do not have a right-hand person in place.

KEY ACTIONS TO INCREASE SALE PRICE AND LIKELIHOOD OF THE SALE

PROCESS & PROCEDURES

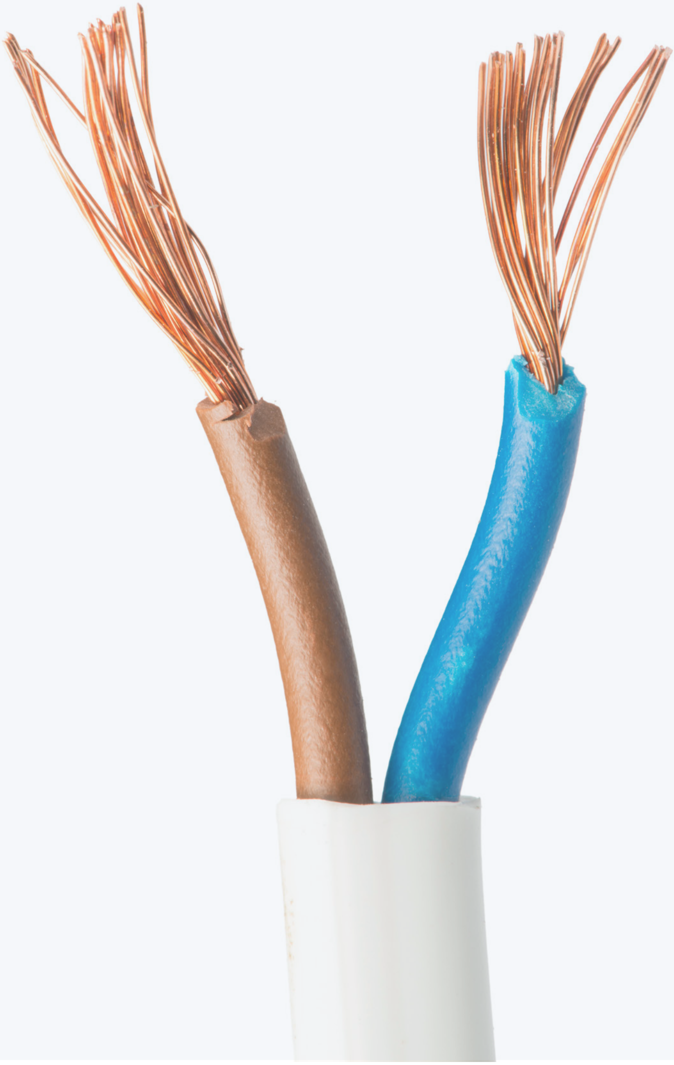
Every process and procedure associated with the business should be fully documented and updated periodically. If it is not, or you believe that the business is so simple that documentation and procedures are unnecessary you will be setting yourself up for failure. Buyers want a 'Playbook' which details what the business does and how it is done. The greater the number of processes and procedures which are documented the better. This includes job descriptions as well.

DOCUMENTATION

The Due Diligence period in the sale process begins after the Letter of Intent is executed by the parties. Fully half of all deals fail in the Due Diligence process. One of the most significant reasons is because claims of the business owner cannot be substantiated with records. The lender will also request documentation during their underwriting and Closing process. The best course of action is to document everything and maintain documents in a highly organized manner for the prior 5 years leading up to beginning the sales process.

PERFORMANCE

Consistent financial performance, both Revenue and SDE, in the 3 years leading up to the sale process is the most critical in the eyes of buyer and lender. The ideal is a business which has experienced year-on-year growth during each period. Second to that is flat performance. A downward trend, a rollercoaster of performance, or a dip in the latest 2 full year financial periods is always a concern for a buyer and may cause a lender to simply not participate in a transaction. Even a plausible or a valid reason can diminish exit value in the best case and in the worst case, eliminate a lender from the transaction. The Covid pandemic told us a few things: businesses are resilient, and while lenders stated that they would view pandemic-induced financial performance deterioration as an aberration only, in practice they simply chose not to participate in transactions until the business had recovered – usually after two years.



KEY ACTIONS TO INCREASE SALE PRICE AND LIKELIHOOD OF THE SALE

LOCAL & REGIONAL FACTORS

Business owners must understand the dynamics of the geographic area in which they operate and how this may impact an exit. This is especially true for businesses located in remote areas, resort areas, small communities, and other areas where population mass is smaller than in other areas. It can be difficult to attract a buyer to a remote community to acquire a business – even if it is a perfect business for them, the community may not be. This is a difficult situation to address except via the listing price and time on market – which could be years. Even in areas of the country in which people would love to live problems can exist. This is especially and painfully true in the most popular resort areas of the country. Quite simply, a new owner must be able to afford to live in the area in which the business is based. For example, a business with an SDE of $300,000 could be an attractive business in the greater Denver area. With the SDE the new owner can pay themselves a $120,000 salary, pay the debt on the business acquisition, and harvest an attractive net profit from the business. In both Rocket and Eagle counties (Colorado) a salary of $120,000 is not enough to afford a home. The Buyer Pool becomes so narrow that the business might ultimately be unsaleable – even with an extremely low price. It is highly likely that the only way to remove this risk is to grow the business to a level of SDE that an out-of-area buyer will be able to afford to live in the area, or prepare for a lower priced exit turn one might have expected.

CLOSING COMMENTS

The process of selling a business is complex with far more variables than almost any other transaction that the business owner will face.

- The value of a business is much more than its capacity to produce cashflow, SDE, or profit.
- Every facet of a business must be taken into consideration when determining the most probably selling price as these non-financial aspects affect overall value.
- Regional and economic factors can significantly impact exit value as well as if the business can be sold at all.
- Unlike a home there is not a buyer for every business.
- The sale process begins a year in advance of the final exit date. It is never a quick process.
- Preparation for a sale should begin at least a year before the sale process begins to unlock the greatest possible value in an exit.
- The failure to seek competent advice from a professional who is actively and directly involved in the business sale marketplace usually results in an inaccurate determination of value and ignorance of both the preparation and sale processes. For example, many business owners seek the advice of their accountant to determine the 'value' of their business. While accountants are professionally competent in financial and tax matters they have little to no experience in selling businesses on a regular (daily, weekly or monthly) basis.
- Anecdotal information from the internet, friends, other business owners, spouses, and professionals not wholly involved in the business sale marketplace can mislead business owners to such a large degree that exit hopes and dreams can be dashed at the worst possible time – when there is no time or inclination to address the gap between what the owner expected at exit and what they will actually received when they exit.
- It is never too early to establish a relationship with a professional who can guide you in the preparation process and ultimately in the sale process.

BROKER PROFILE

Gregg Kunz has over 20 years of success in the corporate world, across a broad range of senior management roles with global responsibility. After a successful corporate career, he founded multiple start-ups and sold his last business in order to relocate to Denver. He brings his extensive M&A experience and passion to Rocky Mountain Business Advisors to help business stakeholders unlock the highest value of their privately-held companies. Gregg understands that relationships are built and earned through hard work, integrity, and strategic vision.

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