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| Our Ref: MR/JC/STO4134/59834  13 March 2014  The Directors **Stoneworks (UK) Ltd**  42 Colville Road  South Acton Trading Estate  Acton  W3 8BL | |
| Dear Eddie and Richard | |
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| **Business Valuation - Stoneworks (UK) Limited**  In accordance with your recent instructions, I enclose indicative valuations of the company trading as Stoneworks (UK) Limited, for the business in its entirety.  The purpose of the valuations is to enable the value of the business to be ascertained for indicative valuation purposes only.  As I believe you are aware, there are 4 common methodologies of valuing shares in a Company.   * The Assets Basis * The Earnings Basis * The Dividend Basis * Discounted Cash flow   ***The Assets Basis***  The value of the net assets based upon the balance sheet of the management accounts at 30 June 2013 is as follows:-  **£**  Business 18,127    I wouldn’t anticipate that this would change significantly to the current date from discussions with you, although I haven’t seen any management information to confirm this.  No adjustments have been made to any of the assets or valuations carried out of the fixed assets or investments which may be different from the carrying amount contained within the financial statements. Presently the accounting policy is to include fixed assets at cost less depreciation/diminution in value.  ***The Earnings Basis***  The earnings based method involves valuing a business by capitalising its future maintainable profits. Maintainable profits are the level of profits the business could expect to generate after adjustment for non-recurring or exceptional items and including commercial charges where appropriate.  Following on from conversations with you both, you will see from the calculations the main adjustments relate to market rate salaries for you and an adjustment for estimated exceptional expenditure within the expenditure that wouldn’t necessarily be there if the company was run purely to maximise profitability. These are subjective adjustments  There is no set formula for determining maintainable profits. However, a weighted average is commonly used and this is what has been used in arriving at the valuation in this report. The weightings are applied to reflect the relevance of the results to the likely future position.  A deduction for Corporation Tax is then made at the full rate of 23% since the majority of companies included in the FTSE all share index will be paying tax at the full rate.  To arrive at a figure for capitalisation of profits, a multiple of profits needs to be used to establish how many times the annual profits the purchaser will be willing to pay for the business and assets producing that level of annual profit.  The multiple has been based on the Price Earnings Ratio (P/E) from the FTSE All Share Index as at 19 February 2014. We have adjusted this P/E multiple to reflect the lack of marketability of a privately owned company’s shares and the restrictions on freedom to market the shares. We have assumed a discount rate of 50% as in our opinion and due to the current economic conditions this is appropriate for companies of this size.  A summary of this is set out below:-   |  |  |  |  | | --- | --- | --- | --- | | **Weighted Average PBT £** | **Post Tax Profit**  **£** | **Discounted P/E** | **Enterprise Value**  **£** | | 25,303 | 19,483 | 7.265 | 141,544 |   In order to arrive at the equity value, an adjustment is required for any surplus cash or borrowings of the Company. From our discussions and review of the accounting records indicates that there is no surplus cash in the Company as set out in the following table:-   |  |  |  | | --- | --- | --- | | **Enterprise Value**  **£** | **Surplus Cash**  **£** | **Equity Value**  **£** | | 141,544 | - | 141,544 |   ***The Dividends Basis***  The dividends basis of valuation is generally adopted where the only practical benefits of owning the shareholding is in the rights to receive dividends from the annual profits of the Company. Therefore this is not considered an appropriate basis.  ***The Discounted Cash flow Basis***  The discounted cash flow (DCF) approach is used to find out the present value of the future cash flows arising from the use of the working assets.  DCF offers a system to estimate future cash flows where there is no satisfactory history or experience of earnings, or where the earnings will necessarily be the product of a long term project. DCF may be particularly appropriate in valuing new technology companies start-ups and unique operations or projects and preferably to those of a size that relate to large scale economies. Therefore this methodology is not considered appropriate.  ***Conclusion***  In line with the instructions that we received:   1. We consider that in view of the profitability of the business and as is the case for most small and medium sized trading companies the most appropriate basis of valuation is a capitalisation of the profits i.e. the earnings basis. The earnings basis gives a fair market value of the goodwill of the business in the region of £115,000 to £140,000.   **Important Notice**  This valuation has been drawn up from information and explanations provided by yourself either directly or via discussions. Work carried out on your behalf has been limited to compiling the valuation from the information provided and presented in the appropriate manner. You remain solely responsible for factual accuracy of information and assumptions provided for the valuation.  Whilst care has been taken to translate the information and explanation provided into a meaningful valuation, we cannot accept any responsibility for any loss occasioned to any person acting or refraining from actions as a result of any material or statements included in, or admitted from, the valuation.  You understand that our work does not constitute an audit of the figures and information in the valuation and we will not express any opinion thereon.  I will be pleased to discuss the content of this letter with you. If you are satisfied with our workings and method of valuations, I should be grateful if you would sign and return a copy of this letter to me for inclusion in our files. | |
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| Yours sincerely |
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| **Mark Rogers**  Director |

I confirm that I have read and understood the content of this letter.

Signed Date

E Giddings

Signed Date

R Giddings