

## Business Valuation

A valuation of Abingdon Manor was conducted by Inn Consulting Partners (experts in Inn and B&B valuations) in March of 2015 (copy available). The valuation at that time was \$1,350,000 using the Combined Asset and Business Value method. In developing the valuation they used data based on revenue for the years 2012, 2013 and 2014. The average annual revenue for the three years was \$307,346.

To update the revenue projections we took the 4 years 2017 – 2020 (copies available for review) plus a conservative projection for 2021 to arrive at average annualized gross revenue of \$316,832.

Significantly, during the period of March 17, 2019 through October 2021 the restaurant has remained closed to the general public and there have been no events at the Inn. All revenue has been generated by overnight guests. Year 2020 saw a 17% increase over 2019 and 2021 is currently 20% higher than 2020. The average for the past two years is \$352,787.

2017	2018	2019	2020	2021 (Projected)
311,130	285,921	281,537	329,574	376,000

All other costs and expenses have remained proportionally the same and during the same time significant improvements have been made to the property. Therefore it is felt that, the prior valuation would still be a valid reflection of the value of the property.

# *Inn Consulting Partners*

*Innovative Solutions for Current and Future Innkeepers*

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## *Valuation*

### *Abingdon Manor*

*307 Church Street  
Latta, South Carolina 29565*

*By:*

*Bill Oates*

*March 26, 2015*

*Valuation Summary: \$1,350,000.00*

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## Abingdon Manor Valuation

March, 2015

There are many approaches to Value for Bed and Breakfast and Dinner Service Inns. Some are simple and some are complex. Some are specific to Inns while some are used in the Valuation of larger hospitality properties. The significance of each approach will vary with size, location, style and financial performance. Larger Inns will find validity in industry wide approaches while smaller Bed and Breakfasts will find credibility in measures that are more specific.

The six approaches of value of use for Inns are as follows:

1. **Asset Value.** This can be replacement value (larger Inns) or alternate use value (smaller Inns). For many smaller Bed and Breakfast Inns, the real estate value may define the highest and best use of the property.
2. **Income multiples.** Different departments have different multiples. Most important are B&B multiples which normally range from 4 to 5.5, and food and beverage income; usually 1 times. Items with low Cost of Goods have higher multiples; up to 8 for net income items.
3. **Capitalization rate (CAP rate) of an income stream.** This usually does not work for smaller Inns. Because individual owners have divergent operating styles, this can be unreliable. Also, the CAP rate used will strongly affect Value. Again, the rate is arbitrary, but usually runs about 3 points above commercial lending rates. As they are around 6%, we will use a Cap rate of 9%. Establishing Income (or Cash Flow) can be tricky for many Inns, because owner operators tend to draw a fuzzy line between business and personal expenses.
4. **Asset Value as an Inn.** This is usually used in conjunction with the Cash Flow as projected for near future performance. Asset Value as an Inn is established by formula involving three components: Rooms, Contributing Assets and Non-Contributing Assets.

### A. Rooms

Rooms are valued at \$300.00 per square foot. Included in this measurement would be all room or suite space, bathroom, closet and entry. We add to this base room value an estimated replacement value for furnishings, and window, wall and floor treatments. Amenities such as fireplaces, spa or soaking tubs, wet bars, fine woodwork and decks add value. Other special features will also add value.

### B. Contributing Assets

Included in the core room value are reasonable support facilities. These include a common room, kitchen and dining facilities, office and storage and adequate grounds and landscaping. Extras, such as a pool, spring pond, acreage and many other assets are above the norm and add value. All the values in the "Contributing Assets" column are additional values, beyond the expected norm for those categories.

### C. Non-Contributing Assets

Often there are real assets that have tangible value, but do not contribute to the Income. Non-contributing assets could include excess land or separate owners' home, or any other assets that have significant value, but do not add to the income stream.

Once we have established the Asset Value, we look at the ability of the business to support that Value and either produce a negative or positive business value to combine with the Asset Value.

5. **Business Income from Cash Flow generation.** Actual performance is compared to standard costs, and then, because the value of any business is the ability to produce a stream of income in the future, a near future projection is used to establish cash flow. Because this takes into account both the value of the physical assets, often defining future prospects for growth, and business cash flow generation, this is normally the most significant measurement of value for viable business Inns.
6. **Cash Flow coverage of debt service.** We back into value by establishing cash flow available for debt service. This should be 125% of the full debt service after a 20% down payment. While this is a measurement dear to the heart of bankers, it does not take into consideration differing styles of operation, generating divergent cash flow results from similar income streams.

For Abingdon Manor, the size, location and cash flow capability will be the most important components of value. However, we will look at all 6 approaches in our valuation. An analysis of the business will help us to understand the available financing for a business purchase.

**1. ASSET VALUE:** This can be replacement value (larger Inns) or alternate use value (smaller Inns). For many Bed and Breakfast Inns, the real estate value may define the highest and best use of the property. In another location, Abingdon Manor might have a higher value as a residence, but in its current location that is doubtful. There really is no viable alternate use and we will not consider this in our Valuation.

**2. INCOME MULTIPLES.** Our multiple ranges from 4 to 5.5 for room sales, depending on size and location. As the number of rooms (and volume of business) increases, the multiple typically decreases. Given the size we use a 5 times multiple of Bed and Breakfast sales. Due to the low profitability of the restaurant, we use a one times multiple of the food and beverage income:

B&B Income, Projected:	136,500.00 X 5	\$682,500.00
Food and Beverage	187,000.00 X 1	187,000.00
Gratuities	35,000.00 X 8	280,000.00
Site Fees	7,500.00 X 8	60,000.00
Gifts & Other	7,500.00 X 2	15,000.00
Income Multiple Indicated Value		<b>\$1,224,500.00</b>

**3. CAPITALIZATION RATE.** Capitalization rates of a stream of income are usually not very reliable for Inns. It is difficult to determine what cash flow one should use, and there is no clear standard for what the CAP rate should be. Here, we have chosen to deduct a reserve for replacement. The CAP rate of .09 is arbitrary, but based on three points over current commercial interest rates for Inns (Around 6%) it is viable

Future Cash Flow	\$138,379.00
Less reserve for replacement (3% of Future sales)	-11,205.00
Equals	<u>127,174.00</u>
/ Cap rate of .09 =	<b>\$1,413,044.00</b>

**4. ASSET VALUE AS AN INN.** See the next page. The Asset Value as an Inn is \$1,412,300.00. While this Inn Asset Value has some use independently, it is normally combined with the Business Analysis in 5 below to produce a combined Business Value.

**5. BUSINESS INCOME.** See Business Analysis, attached. In the Business Analysis actual performance for 2012, 2013 and 2014 is presented in Columns H, I and J. Column K uses actual income with standard cost expenses to compare actual performance with industry standards for well-run Inns. Column L blends the actual with the standard cost analysis. Column M projects a possible near future performance of the Inn, combining industry standard costs with the actual expenses of the Inn. Since the value of any business is the ability to produce a stream of income in the future, these projections are carefully developed, combining current performance with industry standards where appropriate. We believe they represent likely future performance for Abingdon Manor. Lines 2-6 are the vital statistics of Occupancy (Line 3) and Average Daily Rate (Line 4). Lines 7 through 18 summarize the detail of Income and expense on lines 19 through 140. Net Income before debt, owner compensation and depreciation is on line 17 of the summary.

Once we have established the Asset Value as an Inn and the projected future cash flow, we bring these together in the form, Combined Asset and Business value. The business cash flow must do three things. It must first support the Asset Value. That amount is set at 8% of the Asset Value. In this case that is \$112,984.00 (Line 3, Col. B). It must also provide some compensation for owner labor and it must generate income to replace assets that wear out. On Line 10, the indicated cash flow needed is \$154,189.00. However, our projected near future Cash Flow is \$138,379.00. This creates a negative cash flow of \$15,810.00, which is multiplied by 3.5 to represent the impact over time. The final result is an indicated value of \$1,356,966.00.

**6. CASH FLOW COVERAGE OF DEBT SERVICE.** The projected cash flow is \$138,379.00. From this, we deduct a management fee (30,000.00) and a reserve for replacement (11,205.00). The net is \$97,174.00. To provide 125% coverage of debt service, the minimum usually required by banks, the debt service would be no more than \$77,739.00/year. (To get this number, divide net cash flow by 1.25) At 5% interest on a 20 year payment schedule that would service a debt of \$981,619.00. Assuming a 20% down payment, (\$245,405.00; Divide debt by .8) the indicated value is \$1,227,024.00.

Abingdon Manor  
Asset Value

	A	B	C	D	E	F	G	H	
1	Room Value								
2									
3	Green	364	109,200	13,000	11,600	12,000	-5,000	140,800	
4	Yellow	377	113,100	12,000	6,300	10,000	-2,500	138,900	
5	Blue	291	87,300	11,000	7,900	3,000	-2,500	106,700	
6	Red	373	111,900	11,000	9,300	8,000	1,500	141,700	
7	Hunter	326	97,800	11,000	8,250	2,000	2,500	121,550	
8	Savannah	319	95,700	11,000	6,750	4,000	1,500	118,950	
9	Master	490	147,000	11,000	8,200	8,500	5,000	179,700	
10			0					0	
11			0					0	
12			0					0	
13			0					0	
14	Maintenance		0					0	
15	<b>Total rooms</b>		762,000	80,000	58,300	47,500		948,300	
16									
17									
18									
19	Entry Hall		55,000	Includes Furnishings					
20	Men's Parlor		27,000	Fulfills Public Need; Fpl, Furn, Wdwk					
21	Ladies' Parlor		57,000	Space, Fpl, Furn, Wdwk					
22	Library		33,000	Space, Furn					
23	Honor Bar		15,000	Space					
24	Main Dining Rm		30,000	Fulfills need; Furn, Fpl.					
25	Atrium Dining		15,000						
26	Public Add ons		17,000	Chandeliers, Pckt Doors, 12' ceilings					
27	Kitchen/Prep		10,000	Space, Semi-Commercial					
28	Storage/Laundry		5,000						
29	Office		10,000						
30	Owners'		0	Meets Standard					
31	Porches and pillars		100,000						
32	Storage bldg		15,000						
33	Gardens and Landscaping		75,000						
34	Acreage		0	Meets standard					
35									
36	<b>Total Contributing Assets</b>							464,000	
37									
38	Total Assets Value								

Abingdon Manor  
Business Analysis

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	<b>Abingdon Manor</b>						<b>Standard Cost</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Proforma</b>	<b>Blend</b>	<b>Future</b>
2	Number of Rooms							7	7	7	7	7	7
3	Occupancy Rate						Rms Sold/Rms X 365	22%	24%	22%	22%	22%	27%
4	Average Price/Room						Rm Rev/Rooms Sold	\$200	\$192	\$189	\$189	\$189	\$195
5	Annual # of Rooms							568	625	553	553	553	700
6	Number of Guests/Year						1.9 X Rooms	1079	1188	1051	1051	1051	1330
7	<b>SUMMARY</b>												
8	Sales						Line 33	\$286,683	\$322,323	\$313,033	\$313,033	\$313,033	\$373,500
9	Cost of Goods						Line 39	\$58,007	\$62,702	\$61,858	\$67,436	\$67,436	\$69,785
10	Gross Profit						L 8-9	\$228,676	\$259,621	\$251,176	\$245,597	\$245,597	\$303,715
11	<b>Expenses</b>												
12	Labor Related						L 59	\$63,428	\$69,262	\$61,944	\$11,680	\$61,999	\$73,410
13	Operating Expenses						L 101	\$66,175	\$64,031	\$62,842	\$41,975	\$41,451	\$44,854
14	Marketing						L116	\$8,877	\$19,904	\$17,878	\$13,956	\$17,794	\$20,073
15	Occupancy Expenses						L 136	\$38,036	\$28,388	\$32,237	\$28,394	\$25,212	\$27,000
16	Total Expenses						Sum Ls. 12-15	\$176,516	\$181,584	\$174,901	\$96,006	\$146,456	\$165,336
17	Cash Flow pre Debt, Owner, Deprec.						L 10-L16	\$52,160	\$78,037	\$76,274	\$149,591	\$99,140	\$138,379
18	Ratio Cash Flow to Sales						Cash Fl/Sales	18%	24%	24%	48%	32%	37%
19	<b>Income</b>												
20	Room Revenue												
21	Room Revenue						ADR X Rms Sold	113,857	120,143	104,454	104,454	104,454	136,500
22	Room Revenue Other												
23	<b>Total Room Revenue</b>							<b>113,857</b>	<b>120,143</b>	<b>104,454</b>	<b>104,454</b>	<b>104,454</b>	<b>136,500</b>
24	Other Income												
25	Food						Vary; 40% (sm)-80%Lge of Rm Sales	106,915	124,051	132,574	132,574	132,574	145,000
26	Beverage						30% Food Revenue	30,221	32,544	32,451	32,451	32,451	42,000
27	Spa Services						0.6% Room						
28	Gratuity							28,108	32,733	33,730	33,730	33,730	35,000
29	Site Fees						1.7% Room	3,585	6,923	2,773	2,773	2,773	7,500
30	Gifts and Products						1.4% Room	4,098	5,929	4,753	4,753	4,753	5,000
31	Discounts and Refunds							-101					
32	Other Package						1.8% Room			2,299	2,299	2,299	2,500
33	<b>Total Other Income</b>							<b>172,826</b>	<b>202,180</b>	<b>208,579</b>	<b>208,579</b>	<b>208,579</b>	<b>237,000</b>
34	<b>Total Income</b>							<b>286,683</b>	<b>322,323</b>	<b>313,033</b>	<b>313,033</b>	<b>313,033</b>	<b>373,500</b>
35	<b>Cost of Goods Sold</b>												
36	Food						\$4.50XGuest+.35XFood	35,742	38,853	38,756	51,129	51,129	49,485
37	Beverage						40% Beverage Sales	21,355	22,233	22,642	12,980	12,980	16,800
38	Function								464	86			
39	Gifts and Products						70% Gift sales	910	1,152	374	3,327	3,327	3,500
40	Spa Services						50% Spa sales				0		0
41	<b>Total Cost of Goods Sold</b>							<b>58,007</b>	<b>62,702</b>	<b>61,858</b>	<b>67,436</b>	<b>67,436</b>	<b>69,785</b>
42	<b>Expenses</b>												
43	<b>Labor Expense</b>												
44	<b>Wages</b>												
45	Uncategorized Wages						10% Room Sales	36,100	32,037	35,242	10,445	5,000	5,000
46	Front Desk/Innkeeping											10,000	12,000
47	Housekeeping											10,445	13,650
48	Accounting/Bookkeeper												
49	Food Service						Ownr/Chef Sm; Pro Lgr					30,000	35,000
50	Less Owner Compensation												
51	Maintenance/Grounds												
52	<b>Total Wages</b>							<b>36,100</b>	<b>32,037</b>	<b>35,242</b>	<b>10,445</b>	<b>55,445</b>	<b>65,650</b>
53	<b>Other Labor Costs</b>												
54	Casual Labor							24,201	34,484	23,862			
55	Payroll Taxes						9% Labor Cost				940	4,990	5,909
56	Workers Comp						2% Labor Cost				209	1,109	1,313
57	Benefits						0.7% Labor Cost				73	388	460
58	Recruitment/Training						0.12% Labor Cost				13	67	79
59	Payroll Service							3,128	2,740	2,840			
60	<b>Total Other Labor</b>							<b>27,328</b>	<b>37,225</b>	<b>26,702</b>	<b>1,235</b>	<b>6,554</b>	<b>7,760</b>
61	<b>Total Labor</b>							<b>63,428</b>	<b>69,262</b>	<b>61,944</b>	<b>11,680</b>	<b>61,999</b>	<b>73,410</b>



Abingdon Manor  
Business Analysis

	A	B	C	D	E	F	G	H	I	J	K	L	M	
1:	<b>Abingdon Manor</b>						<b>Standard Cost</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Proforma</b>	<b>Blend</b>	<b>Future</b>	
62	<b>Operating Expenses</b>													
63	<b>Supplies</b>													
64	Inn and Guest						2.9% Inn Sales	5,957	3,849	5,739	9,078	6,000	3,959	
65	Restaurant						1.5% Fd and Bev Sales	1,850	1,639	1,618	2,475	2,475	2,805	
66	Office						0.3% Inn Sales + \$200	2,414	2,433	2,721	939	939	1,121	
67	Other													
68	<b>Total Supplies</b>							<b>10,221</b>	<b>7,921</b>	<b>10,077</b>	<b>12,492</b>	<b>9,414</b>	<b>7,884</b>	
69	<b>Bank Fees</b>													
70	Credit Card Discounts						2.4% Total Sales	9,123	9,474	11,236	7,513	7,513	8,964	
71	Other Charges							24	55	55				
72	<b>Total Bank Fees</b>							<b>9,147</b>	<b>9,529</b>	<b>11,291</b>	<b>7,513</b>	<b>7,513</b>	<b>8,964</b>	
73	<b>Laundry</b>													
74	Service and Supplies						.50 X Total guests+.5% F&B				1,350	1,350	1,600	
75	Purchases						0.3% Sales				939	939	1,121	
76	<b>Total Laundry</b>							<b>0</b>	<b>0</b>	<b>0</b>	<b>2,290</b>	<b>2,290</b>	<b>2,721</b>	
77	<b>Communications</b>													
78	Telephone						.7% Sales + \$1000	4,035	3,660	3,656	3,191	3,656	3,615	
79	Internet Connection													
80	Other Communication													
81	<b>Total Communications</b>							<b>4,035</b>	<b>3,660</b>	<b>3,656</b>	<b>3,191</b>	<b>3,656</b>	<b>3,615</b>	
82	<b>Professional</b>													
83	Consulting									1,314				
84	Legal													
85	Accounting						0.2% Sales+ 1400	1,050	1,100	1,300	2,026	2,026	2,147	
86	Other													
87	<b>Total Professional</b>							<b>1,050</b>	<b>1,100</b>	<b>2,614</b>	<b>2,026</b>	<b>2,026</b>	<b>2,147</b>	
88	<b>Vehicle</b>						1.4% Rm Sales to 1%				1,462	1,462	1,911	
89	Operating							5,192	6,718	5,098				
90	Insurance						1,000	1,271	1,377	1,427	1,000	1,000	1,000	
91	Lease													
92	<b>Total Vehicle</b>							<b>6,463</b>	<b>8,095</b>	<b>6,525</b>	<b>2,462</b>	<b>2,462</b>	<b>2,911</b>	
93	<b>Maintenance</b>													
94	Inn and Rooms						3% Rm Sales + \$2,500	17,152	11,102	14,280	5,634	7,723	9,325	
95	Restaurant						2% Rest Sales				3,300	3,300	3,740	
96	Grounds						0.8% Rm Sales+500	8,568	8,184	6,621	1,336	1,336	1,592	
97	Other							892	892	927				
98	<b>Total Maintenance</b>							<b>26,612</b>	<b>20,177</b>	<b>21,828</b>	<b>10,270</b>	<b>12,359</b>	<b>14,657</b>	
99	<b>Other Operating</b>													
100	Travel and Education						0.2% Room Sales+ 1000	8,683	13,559	7,828	1,209	1,209	1,273	
101	Commission						0.3% Room Sales	98	49	134	313	313	410	
102	Miscellaneous						0.2% Room Sales	-135	-59	-1,111	209	209	273	
103	<b>Total Other Operating</b>							<b>8,646</b>	<b>13,549</b>	<b>6,851</b>	<b>1,731</b>	<b>1,731</b>	<b>1,956</b>	
104	<b>Total Operating</b>							<b>66,175</b>	<b>64,031</b>	<b>62,842</b>	<b>41,975</b>	<b>41,451</b>	<b>44,854</b>	

Abingdon Manor  
Business Analysis

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1	<b>Abingdon Manor</b>						<b>Standard Cost</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Proforma</b>	<b>Blend</b>	<b>Future</b>	
105	<b>Marketing Expenses</b>													
106	<b>Internet</b>						2.0% Sales+1000	925	2,156	1,403	7,261	7,261	8,470	
107	Management													
108	Listings													
109	Pay Per Click													
110	Website													
111	<b>Total Internet</b>							<b>925</b>	<b>2,156</b>	<b>1,403</b>	<b>7,261</b>	<b>7,261</b>	<b>8,470</b>	
112	<b>Advertising</b>						1.5% Sales+2000	1,899	3,834	11,669	6,695	6,695	7,603	
113	Publications													
114	Brochures and Print							642	631	349				
115	Organization Dues							4,677	10,406	3,838		3,838	4,000	
116	Public Relations							735	2,877	619				
117	Direct Mail													
118	<b>Total Advertising</b>							<b>7,952</b>	<b>17,748</b>	<b>16,475</b>	<b>6,695</b>	<b>10,533</b>	<b>11,603</b>	
119	<b>Total Marketing</b>							<b>8,877</b>	<b>19,904</b>	<b>17,878</b>	<b>13,956</b>	<b>17,794</b>	<b>20,073</b>	
120	<b>Occupancy Expenses</b>													
121	<b>Utilities</b>													
122	Misc. Utilities						3.5% Sales+ 5000				15,956			
123	Gas							2,857	3,711	3,698		3,698	3,800	
124	Heating Oil													
125	Electric							6,284	6,423	6,504		6,504	7,000	
126	Water/Sewer							1,124	1,208	1,070		1,070	1,200	
127	Cable/Sat.							832	866	920		920	1,000	
128	<b>Total Utilities</b>							<b>11,096</b>	<b>12,208</b>	<b>12,193</b>	<b>15,956</b>	<b>12,193</b>	<b>13,000</b>	
129	<b>Other Occupancy</b>													
130	Waste Removal						0.3% Sales+500				1,439			
131	Equipment Rental						0.2% Rooms				209			
132	Contract Services						0.3% Sales +1000				1,939			
133	Insurance- Prop. Liability						2% Rooms + 1% F&B	19,214	5,973	12,205	3,739	4,500	5,000	
134	Real Estate Taxes						2.5% Rooms + \$1,500	7,480	9,909	7,519	4,111	7,519	8,000	
135	Other Taxes							246	298	320				
136	Licenses						1,000				1,000	1,000	1,000	
137	Miscellaneous													
138	<b>Total Other Occupancy</b>							<b>26,939</b>	<b>16,180</b>	<b>20,044</b>	<b>12,438</b>	<b>13,019</b>	<b>14,000</b>	
139	<b>Total Occupancy</b>							<b>38,036</b>	<b>28,388</b>	<b>32,237</b>	<b>28,394</b>	<b>25,212</b>	<b>27,000</b>	
140	<b>Total Expenses</b>							<b>176,516</b>	<b>181,584</b>	<b>174,901</b>	<b>96,006</b>	<b>146,456</b>	<b>165,336</b>	
141	<b>Total Net Business Cash Flow</b>							<b>\$52,160</b>	<b>\$78,037</b>	<b>\$76,274</b>	<b>\$149,591</b>	<b>\$99,140</b>	<b>\$138,379</b>	

Abingdon Manor  
Combined Business and Asset Value

	A	B	C
1	Asset Value		1,412,300
2			
3	Cash Flow needed to fund Asset Value @ 8%	112,984	
4			
5	Owner Compensation Equivalent	30,000	
6			
7	Replacement @ 3% of projected sales	11,205	
8			
9			
10	Cash flow needed		154,189
11			
12	Projected Cash flow		138,379
13			
14	Surplus (Negative) Cash flow		-15,810
15			
16	Surplus multiple	3.5	
17			
18	Surplus (Negative) Value		-55,334
19			
20			

## ABINGDON MANOR VALUATION SUMMARY

Asset Value	NA
Business Value by Multiple of Income	\$1,224,500.00
Business Value by Income Capitalization	\$1,413,044.00
Asset Value as an Inn	\$1,412,300.00
Combined Asset and Business Value	\$1,356,966.00
Cash Flow Coverage of Debt	\$1,227,024.00

Normally, the most accurate measurement of value comes from the Combined Asset and Business Value. Usually, the least reliable measurement of value is Income Capitalization. A small difference in the Cap rate used makes a large difference in the value. Also there are many non-economic decisions that drive the way Innkeeper/owners operate their Inns.

For Abingdon Manor, the physical assets are very strong and the cash flow, even as projected, does not support the value of the assets. The Combined Asset and Business Value is then produced by the relative weakness of the cash flow capability.

We believe the Combined Asset and Business Value gives the correct weight to the balance between facility and business strength. Therefore the near future Value is

**\$1,350,000.00**