Valuation of
50,000 Shares of Common Stock

as of December 31, 2024

Doubleday Sports, Inc.

Gibraltar Business Valuations
Better. Value.

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March 31, 2025

Mfr. Sandy Koufax, Trustee
DOUBLEDAY SPORTS, INC. EMPLOYEE STOCK OWNERSHIP TRUST
1234 Ball Diamond Lane
Cooperstown, New York

Re: Valuation of Doubleday Sports, Inc.

Dear Trustee:

Gibraltar Business Valuations has performed a valuation (appraisal) of fifty thousand (50,000) shares of voting common stock of Doubleday Sports, Inc. as of December 31, 2024. The following summary report is intended to provide our estimate (opinion) of the fair market value on a controlling, non-marketable basis.

This valuation was performed solely to comply with regulatory requirements as defined by the U.S. Department of Labor related to the annual valuation of shares held by Doubleday Sports, Inc. Employee Stock Ownership Trust for the Doubleday Sports, Inc. Employee Stock Ownership Plan. The resulting estimate of value should not be used for any other purpose or by any other party.

Based on our analysis, as described in the following summary valuation report, we have concluded that the fair market value of fifty thousand (50,000) shares of voting common stock as of December 31, 2024, on a controlling, non-marketable basis is:

Eighteen Million Eighty-Five Thousand Dollars — $18,085,000
which equates to
Three Hundred Sixty-One Dollars Seventy Cents per Share — $361.70/share

This estimate and opinion of value is subject to the Statement of Assumptions and Limited Conditions found in the appendices to the report. This letter, and the following report, are a single document and are not to be considered separately.

Respectfully,
GIBRALTAR BUSINESS VALUATIONS

Don M. Drysdale, CPA/ABV, ASA

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Introduction

Doubleday Sports, Inc. Employee Stock Onwership Trust engaged Gibraltar Business Valuations to value 50,000 shares of common stock in Doubleday Sports, Inc. as of December 31, 2024 in connection with ESOP purposes.

Organization of this Report

Value is a function of economic benefit (i.e., cash flow, net assets, etc.) and the risk associated with that economic benefit. More specifically, it is the future expected economic benefit to be received by an investor. Because the future is unknown, there is risk that actual results may not match expectations. When appraising the value of an investment, the risk is represented by the rate of return an investor would expect to receive. This rate of return is also referred to as the cost of capital. The greater the risk, the higher the expected rate of return. This report is organized as follows:

- provides background into the subject of this valuation and an investment therein;
- provides an analysis of the risks associated with an investment;
- develops an appropriate cost of capital based on those risks; and,
- applies the cost of capital to the associated measure of economic benefit.

What is Being Valued?

Subject Entity and Ownership

Subject Ownership. Doubleday Sports, Inc. Employee Stock Ownership Trust engaged Gibraltar Business Valuations (GBV) to appraise the value of 50,000 shares of voting common stock representing a 100 percent ownership interest of Doubleday Sports, Inc. (DSI or Company) as of December 31, 2024 (Valuation Date).

Subject Entity. DSI is a corporation organized under the laws of Subject State, and has elected S-corporation status with the Internal Revenue Service (IRS).

Background. Abner Doubleday started a 2,500 square foot sporting goods store in Sport City, Subject State in 1965. In 1970 he incorporated the business as a Subject State corporation under the name Doubleday Sports, Inc. Over time the business grew and in 1980, Abraham G. Mills became a shareholder. In 2000 DSI sponsored the Doubleday Sports, Inc. Employee Stock Ownership Plan (ESOP) and Mr. Doubleday sold his shares to the ESOT. This gave the ESOT an 85 percent ownership stake in DSI. In 2005 Mr. Mills sold his shares to the ESOT, making it the sole shareholder. Between 2000 and 2010, DSI expanded its operations to three additional locations, namely Surf City, Coast State, Ski City, Mountain State, and Boat City, Lake State. These locations along with the revenue generated at each is presented in the accompanying table (see Exhibit 1)

Products/Services. DSI sells a full spectrum of sporting goods and outdoor products, that includes, but is not limited to, the following:

- Ski and snowboard equipment and clothing;

- Hunting equipment, including, firearms, ammunition, reloading equipment and supplies, clothing and accessories;
- Fishing equipment, including, rods, reels, tackle, lures, float tubes, clothing and accessories;
- Camping and backpacking equipment, including, tents, sleeping bags, backpacks, outdoor cooking equipment, and other camping and backpacking supplies and accessories;
- Outdoor clothing for men, women and children;
- Footwear for men, women and children, including athletic shoes, work boots and other footwear; and,
- Sports equipment for golf, racquet sports, basketball, volleyball, baseball, softball, football, soccer, and other sports.

DSI also provides rentals and related services. It rents skis, snowboards, snowshoes, kayaks, canoes, paddleboards, wakeboards, mountain bikes, and paintball guns. These rentals and other services represent a small piece of the overall revenue generated.

Current Ownership. The ESOT holds 50,000 shares of the common stock of Doubleday Sports, Inc., representing 100 percent of the outstanding shares of stock (Subject Interest).

Historical Transactions. As previously described, the prior owners sold their shares of stock to the ESOT in 2000 and 2006. Since that time, there have not been any arms-length transactions involving equity interests in DSI.

Transfer Restrictions. Shares of DSI are restricted from transfer by Federal and State securities laws and regulations. DSI's organizational documents (i.e. bylaws) also place restrictions on the transferability of the Subject Interest. These restrictions have been presented in more detail later in this report.

EXHIBIT 1: Locations

Location	Revenue (millions)	% of Revenue
Sport City, Client State	$ 25.91	50.1%
Surf City, Coast State	5.65	10.9%
Ski City, Mountain State	11.94	23.1%
Boat City, Lake State	8.09	15.7%
Corporate and other	0.08	0.2%
Total	**$ 51.67**	**100.0%**

Why is it Being Valued?

This valuation engagement is to determine an estimate of value in order to comply with regulatory requirements defined by the U.S. Department of Labor related to the annual valuation of shares held by the Doubleday Sports, Inc. Employee Stock Ownership Trust for the Doubleday Sports, Inc. Employee Stock Ownership Plan. The report and analysis are restricted for this purpose only, and are not to be used for any other purpose or by any other party.

This report is not designed nor intended to be used for selling this business to outside individuals or other entities. It may not contain sufficient descriptive information to satisfy an uninformed prospective buyer of the Subject Interest. It is also not designed to adequately portray desirable qualities of the business, which may be informative to a potential buyer. Such information should be addressed in an offering document designed for that purpose.

When is the Subject Interest Being Valued?

This valuation was performed as of December 31, 2024 and this report was issued on March 31, 2025. We have neither obligation nor responsibility to update this report

for events, circumstances or information that comes to our attention subsequent to the date of this report.

How is the Subject Interest Being Valued?

Standard of Value

How is Value Defined? The standard of value is "fair market value." The U.S. Department of Labor Proposed Regulation 2510-.3-18(b)(2)(i) defines fair market value as:

> *the price at which an asset would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, and both parties are able, as well as willing, to trade and are well-informed about the asset and the market for that asset.*

Throughout this report we have used the proper noun, "Investor," to refer to a hypothetical, willing and able, buyer and seller.

What Affect do Income Taxes Have? S corporations do not pay income taxes directly to the IRS. This type of legal business organization is referred to as a "pass-through entity" (PTE). For tax purposes the earnings are attributed to the individual owners, who become individually responsible for paying income taxes on their *pro-rata* share of corporate earnings.

Owners of PTEs may receive cash "distributions" (as opposed to a C corporation's "dividend") from entity income. Because C corporation dividends are paid after the tax liability is satisfied, an Investor will recognize that only a PTE's "excess distributions" (i.e., those in excess of the entity's tax liability) are equivalent to C corporation dividends.

Well-managed S corporations pay distributions to shareholders in amounts at least sufficient to cover the income taxes that accrue to the shareholders. As such, there is a cash flow obligation on S corporations for such distributions.

In the case of ESOPs, one or more of the shareholders is the Trust, which does not pay income taxes. In this particular case, the Trust holds 100 percent of the outstanding shares and the actual amount of income taxes paid is zero.

The Valuation Advisory Committee of the ESOP Association recommends treating S Corporation that sponsor ESOPs as C corporations for valuation purposes, which includes tax affecting. The reasoning behind this is set forth in the following:

> *Since FMV [fair market value] does not assume a particular buyer, one cannot assume the hypothetical buyer described by the FMV definition... will be an S corporation. Therefore, the FMV of company shares would not include any future benefits accruing to an ESOP shareholder of an S corporation.*[1]

An Investor would follow the recommendation of the ESOP Association in this particular case, and interpret this statement that S corporations sponsoring ESOPs should be treated as a C corporation for valuation purposes.

Premise of Value

GBV has assumed that the Company will continue in its current form, operating its current lines of business. GBV has also assumed that there is no planned or contemplated discontinuance of any line of business nor any liquidation of the Company.

Basis of Value

The Subject Interest is a controlling interest. As discussed later in this report, a controlling interest has the ability to direct administration, management and operations of the Company. This may increase the value of the Subject Interest relative to an equivalent ownership interest that lacks control.

1. Valuation Advisory Committee of the ESOP Association, *Advanced Issue Brief*, "Valuation Issues for ESOPs in S Corporation, p. 2.

The Subject Interest lacks marketability. As discussed later in this report, marketability (also referred to as liquidity) is the ability to sell and liquidate an ownership interest within a short period of time. This lack of marketability may cause the Subject Interest to be less valuable than an equivalent ownership interest that is marketable.

Some valuation analysts argue that a 100 percent controlling ownership interest in a privately held entity is fully marketable and that adjustments for lack of marketability are not applicable to such interests. They hold that even though such interests cannot be sold quickly, the owner can still extract cash from the business while waiting for a liquidity event. While that may be true, a privately held entity is not as marketable as publicly traded stocks, and the value may change while the owner is waiting for a liquidity event. This is a risk that does not fully exist with a publicly traded stock.

What are the Applicable Professional Standards?

American Society of Appraisers

This engagement was conducted in accordance with the Business Valuation Standards (BVS) of the American Society of Appraisers (ASA) and is intended to be an appraisal, which is described by the BVS as follows:

> *An Appraisal is the act or process of determining the value of a business, business ownership interest, security or intangible asset.*
>
> *The objective of an appraisal is to express an unambiguous opinion as to the value of a business, business ownership interest, or security, which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation.*[2]

This report is intended to be a "summary report" as defined by the ASA.

American Institute of CPAs

This valuation engagement was conducted in accordance with the Statement on Standards for Valuation Services (SSVS) No. 1 of the American Institute of Certified Public Accountants (AICPA), which describes a valuation engagement as follows:

> *Valuation engagement—A valuation analyst performs a valuation engagement when (1) the engagement calls for the valuation analyst to estimate the value of a subject interest and (2) the valuation analyst estimates the value (as outlined in paragraphs 23-45) and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation as a conclusion of value; the conclusion may be either a single amount or a range.*[3]

This report is intended to be a summary report, estimating[4] a conclusion of value. SSVS describes a summary report as follows:

> *A summary report is structured to provide an abridged version of the information that would be provided in a detailed report, and therefore need not contain the same level of detail as a detailed report.*[5]

2. American Society of Appraisers, Business Valuation Standards, *BVS-I General Requirements for Developing a Business Valuation*, II(C)(1)(a), (b).
3. American Institute of Certified Public Accountants, SSVS No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, ¶ 21a.
4. The American Society of Appraisers uses the term "estimate" in connection with a Limited Appraisal, which is lower in scope than an "opinion." It uses the term, "opinion," in connection with an Appraisal, its highest scope of work. On the other hand, the AICPA uses the term, "estimate" in connection with its highest scope of work. For this report, the terms opinion and estimate are considered synonymous.
5. American Institute of Certified Public Accountants, SSVS No. 1, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset, ¶21a.

Uniform Standards of Professional Appraisal Practice

This appraisal was conducted in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP). Under USPAP, this report is considered a restricted appraisal report. The restrictions on this report have been presented throughout.

Differences exist in the terminology used by the different organizations that have established business valuation standards. We have generally used the terminology of the AICPA in this report.

Valuator Independence

GBV is an independent valuation firm. No owner, officer or employee of GBV has any existing or contemplated financial interest in the Company. GBV is not, nor has it acted as an advocate for the Company. The fee for this analysis was not based on the opinion of value provided.

Valuation Process

Procedures

In performing this analysis, we have viewed the Company from the standpoint of an independent, outside Investor. We have considered factors a reasonable and prudent outside Investor would consider, for the purpose of estimating a fair and reasonable rate of return such an Investor would expect to receive.

The value of a business enterprise, at its most basic level, is the function of the following:

- Expected cash flows to the owner;
- Expected future growth in those cash flows; and
- Perceived risks associated with the investment.

Each of these items is addressed in this report.

The procedures employed in valuing the Subject Interest included such steps as an Investor would consider necessary, including but not limited to the following:

- Discussions and interviews with Joseph DiMaggio, President and Jack Roosevelt Robinson, CFO regarding the past and future operations of the business;
- An analysis of the historical and estimated future financial condition of the Company;
- An analysis of the industry in which the Company operates;
- An analysis of the external risk conditions, including economic conditions, as of the valuation date;
- A comparative analysis where possible of guideline companies; and,
- An analysis of other pertinent facts and data resulting in the conclusion of value.

An Investor would consider the factors stated in IRS Revenue Ruling 59-60 in developing the risk profile of the Subject Interest. They include both internal and external influences that can impact the value of the Subject Interest. These factors are as follows:

- The nature of the business and the history of the enterprise from its inception.
- The economic outlook in general and the condition and outlook of the specific industry in particular.
- The book value of the equity ownership and financial condition of the business.
- The earnings capacity of the business.
- The dividend-paying capacity.
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of the equity ownership and size of the block of equity ownership to be valued.
- The market price of equity ownerships of corporations (and other forms of business ownership) engaged in the same or similar line of business, having their equity ownership actively traded in a free and open market, either on an exchange or over-the-counter.[6]

Investment Risks

Risk Assessments. One of the tenets of valuation is that investors are risk averse. This means that investors will either avoid risk or expect to earn a higher rate of return on investments that carry higher risk. One of the objectives of this analysis is to develop a risk profile, and use it to develop an appropriate expected rate of return on an investment in the Subject Interest.

To develop the risk profile, an Investor would consider risks that arise from:

- **External Risk Sources**—risk from factors outside the control of the Company.
- **Industry Risks Sources**—risk from industry risk factors.
- **Internal Risk Sources**—risk from factors within the Company.

Each of these categories is addressed in this report.

Financial Benchmarking. An Investor would benchmark various DSI financial measures and ratios to data from guideline public companies (GPCs) and privately held peers (Private Peers). The GPCs have been identified and analyzed later in this report. An investor would look to Private Peer data from sources like Bizminer *Industry Financial Reports* (Bizminer). The Bizminer peers represent 26 firms with revenues between $50 million and $100 million operating under NAICS code 459110, Sporting Goods Stores. The benchmarking of this data to DSI is presented in the *Internal Risks and Resources* chapter of this report.

Sources of Information

An Investor will read, study, consider, and rely on various information sources to assist in the analysis. These included both internal and external information sources. A detailed listing of information we relied upon is in the appendices to this report.

The approaches and methodologies used in this valuation did not comprise an examination in accordance with generally accepted auditing standards (GAAS). The objective of a GAAS examination is to express an opinion regarding the fair presentation of historical or prospective financial statements or other financial information in accordance with generally accepted accounting principles (GAAP). Because we did not perform an examination in accordance with GAAS, we express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We do assume that the financial and other information provided to us is accurate and complete, and we have relied upon it in performing this valuation.

Limiting Conditions

We include a *Statement of Assumptions and Limiting Conditions* as an appendix to this report. This *Statement of Assumptions and Limiting Conditions* describes important conditions, restrictions, and assumptions used in this analysis. We have further referenced additional assumptions and restrictions throughout this report. Users of this report should read and study the entire report in order to understand the conclusion of value.

6. Rev. Rul. 5-60, §4.01.

External Threats and Opportunities

An Investor would assess an increased risk to an investment in the industry due to a forecasted slowing of the economy, increasing inactivity rates, anticipated slowing of a key demographic, and the threat of tariffs on foreign goods. These are partially offset by industry growth expected to exceed that of the economy, and expectations of increased physical activity among those who are already active.

When making an investment decision, an Investor will consider threats and opportunities that arise from external factors that impact the business, as well as the conditions and outlook for the industry. External factors that can threaten or provide opportunities include the following;

- Economic conditions and outlook;
- Technological advances and innovations;
- Lifestyles and societal values;
- Demographic trends;
- Disaster potential; and,
- Regulatory environment and politics.

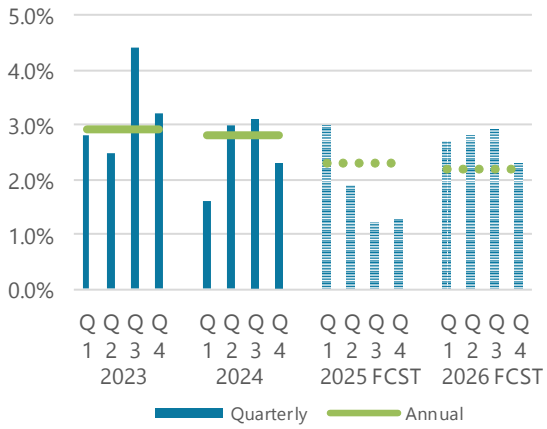
These factors are analyzed in light of the industry as a whole and not their specific impact on the Subject Interest. Further, and Investor will focus only on those factors that present the most threat, or afford the greatest opportunities.

Economy

Real GDP

One measure of overall economic strength is Gross Domestic Product (GDP). The accompanying chart shows the quarterly and annual percentage change in Real GDP since the beginning of 2023, plus the forecasted GDP for 2025 through 2026 (see Exhibit 1).

EXHIBIT 1: GDP



This chart shows that GDP is expected to slow from current levels into 2024 and 2025. A general commentary of the overall economy is as follows:

The U.S. economy has entered the new year with a strong head of steam. Data on real GDP growth in the fourth quarter of last year will not be available until later this month, but if our estimate of a 2.7% annualized growth rate in Q4-2024 is accurate, then real GDP grew 2.8% on an annual average basis in 2024. Considering that real output grew at an average rate of 2.4% per annum during the long

economic expansion of 2010-2019, the American economy appears to be in solid shape at present.

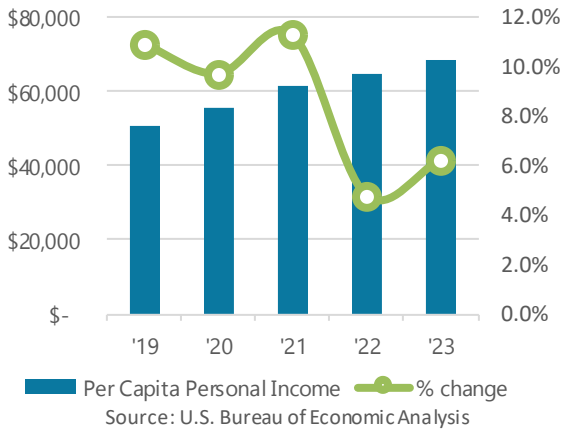
Employment growth, which is a good coincident indicator of the pace of economic activity, tells a similar story. Recently released data show that non-farm payrolls rose by 256K in December, which was considerably stronger than the consensus expectation. Taking a step back from the volatility that is inherent in monthly data, employment growth averaged 186K jobs per month in 2024, which was in line with payroll growth during the previous economic expansion. Solid employment growth is generating strong gains in real disposable income, which is helping to underpin growth in real consumer expenditures. Most businesses are in solid shape in terms of financial health at present. Although the pace of gross hiring has slowed somewhat in recent months, most businesses do not need or want to cut staff either. As long as consumers remain employed and earn income, they likely will continue to spend.[7]

Per Capita Disposable Income

Per Capita Disposable Income has been listed as a key economic driver to the industry and has been discussed this as follows:

Per capita disposable income influences sporting goods stores, as higher income levels boost consumers' purchasing power. When disposable income rises, people are more likely to spend on recreational activities, including sports equipment and apparel. Successful marketing efforts have convinced many consumers that the latest equipment will improve athletic performance. Conversely, lower disposable income can dampen sales. Performance closely mirrors economic conditions and spending levels.[8]

EXHIBIT 2: Per Capita Personal Income



Source: U.S. Bureau of Economic Analysis

Per capita disposable income for DSI's market area was not available. An Investor would use Personal Income Per Capita for comparison purposes, as shown in the accompanying chart (see Exhibit 2). This chart shows that growth in personal income in Athletic county has grown significantly in the recent past with a decline in that growth during 2022 and a slight rebound in 2023, (2024 was not yet available).

US Real Disposable Personal Income is at a current level of 17,635.4 billions of chained 2017 dollars (as of January, 2025), up from 17,605.8 in the previous month and up from 17,426.2 one year ago. This is a change of -0.02% from the previous month and 1.2% from one year ago.[9]

Sporting Goods Sales

A description of the expected industry growth follows:

The sporting goods industry faced a difficult environment in 2024. Softer growth prospects, persistent inflation, and cautious consumer spending all tested companies' resilience. Despite these hurdles, the industry managed to

7. Wells Fargo Securities, LLC, U.S. Economic Outlook: January 16, 2025., https://wellsfargo.bluematrix.com/links2/html/4ed660c2-5a4a-4c67-b135-81250fa294b9.
8. Valerie Le, "Team player: Rising health consciousness will likely spur demand for sporting goods", *Retail Trade 45111: Sporting Goods Stores in the US*, IBISWorld, (February 2025), p. 30.
9. "Real disposable personal income," https://fred.stlouisfed.org/series/DSPIC96.

sustain a growth rate of 7 percent a year from 2021 to 2024. The growth outlook for 2024 to 2029 is projected at a slightly more modest 6 percent a year, driven by a slowdown in the Asia–Pacific, Western Europe, and Latin America regions.[10]

Lifestyles and Values

Physical Activity

The World Health Organization (WHO) predicts that the number percentage of people world wide that do not get enough physical activity could climb to 35 percent in the next five years.[11] At the same time, those who do engage in physical activities appear to be increasingly doing so.

Our analysis reveals that already-active individuals are ramping up their efforts. Notably, 84 percent of active respondents are exercising as much as, or more than, they did 12 months ago, with one in three engaging in physical activity more frequently than a year ago. In addition, 59 percent of these active consumers work out at least three times per week, and one in four exercises nearly every day. More than a quarter of them adhere to a strict training schedule. This trend highlights that a rising number of consumers are "super active" individuals and underscores the significance of fitness in their daily lives.[12]

Participation in Sports

A key driver to the industry is the level of participation in sports.

As more people engage in sports, demand for gear, apparel and equipment surges, driving sales and market growth. This relationship fuels the industry, as active lifestyles and fitness trends stimulate consumer spending, leading to heightened revenue and expansion opportunities. Growth in participation in sports represents a potential opportunity for the industry.[13]

According to the Aspen Institute Project Play, Mountain State had the eleventh highest youth sports participation rate at 61 percent and Subject State had the thirteenth highest rate at 61 percent.[14] The percentage reporting daily participation in a youth team sport declined slightly from 2022 to 2023, but those reporting participation in a team sport on a "regular basis" increased by more than 6 percent over the same time frame.[15]

PFAS

Per- and polyfluoroalkyl substances (PFAS) are a large group of man-made chemicals that have been used since the 1940s to waterproof and stainproof products from clothing, make up and furniture to firefighting foam and semiconductors. They are also known as "forever chemicals" due to their strong molecular bonds that do not break down for a long time.

Evidence for their harmful effects on human health have also accumulated. The EPA has discussed this matter as follows:

Long term exposure to certain types of PFAS have been linked to serious illnesses, including cancer, liver damage and high cholesterol.

The EPA also noted PFAS exposure has been linked to immune and developmental damage to infants and children.[16] Some of DSI's suppliers have used PFAS in their products. Many manufacturers are facing out the use of this chemical. There is a risk that a small portion

10. McKinsey & Company. "Sporting Goods 2025—The new balancing act: Turning uncertainty into opportunity., March 4, 2025, https://www.mckinsey.com/industries/retail/our-insights/sporting-goods-industry-trends#/.
11. Tessa Strain et al., "National, regional, and global trends in insufficient physical activity among adults from 2000 to 2022: A pooled analysis of 507 population-based surveys with 5·7 million participants," Lancet Global Health, August 2024, Volume 12, Number 8, (as reported by McKinsey).
12. McKinsey Sporting Goods Report Consumer Survey, December 2024 (total n = 3,606; active consumers n = 1,842).
13. Id., IBISWorld, p. 30.
14. Aspen Institute, "Participation Trends", *State of Play 2024*. https://projectplay.org/state-of-play-2024-participation-trends.
15. Id.

of DSI's inventory containing PFAS' may become unsellable.

Demographics

Overall Population

The population of the U.S. is expected to increase at an annualized rate of 0.39 percent over the next ten years.[17] Over the same time-frame, the population of Athletic County is expected to increase at an annual rate of 1.23 percent.[18] This suggests that demand in the Athletic Valley should be greater than in the U.S. as a whole.

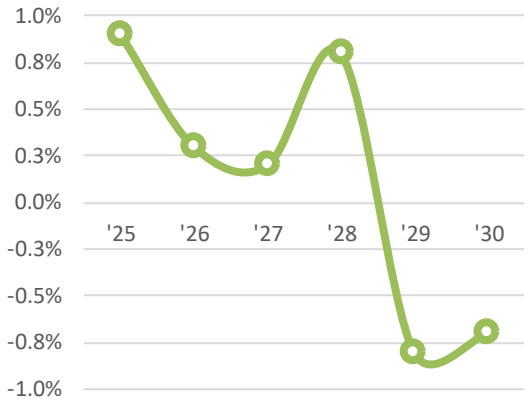
Adolescents Aged 10-19

A key demographic for the industry are adolescents aged 10 to 19.

> *The number of adolescents aged 10 to 19 contributes to sales figures for athletic gear and equipment. As this age group engages in sports and recreational activities, spending spikes, boosting sales and revenue for retailers. A vibrant youth demographic energizes the market, ensuring steady growth and increasing the industry's longterm viability. Declines in the number of adolescents aged 10 to 19 pose a potential threat to the industry.*[19]

According to the Subject State Department of Commerce, growth in the total population of the 10-19 year old demographic is expected to slow through 2027, and then the numerical population is projected to decline starting in 2029.

EXHIBIT 3: Projected Population Change - 10 to 19 years old



Regulations

The regulatory environment, as it relates to the sporting goods industry has been described as follows:

The tariffs announced by the Trump administration early in his second term have high implications for this industry, which is dependent on international trade. Specifically, the proposed 25.0% tariffs on Canadian and Mexican goods – which are paused for 30 days as of February 3, 2025 – and the imposed 10.0% tariff on Chinese imports create a climate of uncertainty for businesses engaged in cross-border trade.

The impact of these tariffs extends beyond direct importers to industries that rely on complex, integrated supply chains spanning North America and China. Many US manufacturers depend on components or raw materials from Canada, Mexico and China, and disruptions in these supply chains can lead to production delays, inventory management issues, and increased operational costs. Additionally, retaliatory tariffs from affected countries, such as China's 10% to 15% counter

16. Huang, Pien. 2024. "EPA puts limits on 'forever chemicals' in drinking water." NPR, April 10, 2024. https://www.npr.org/sections/health-shots/2024/04/10/1243775736/epa-pfas-forever-chemicals-drinking-water-limits.
17. Computed based on data from the US Census Bureau, https://www.census.gov/data/tables/2023/demo/popproj/2023-summary-tables.html
18. Computed based on data from the Subject State Department of Commerce, https://dataportal.mt.gov/t/DOC/views/CEIC_REMI_POPULATION_PROJECTION_COUNTY_AGE_RACE_SFE/Table?%3Aorigin=card_share_link&%3Aembed=y.
19. Id., IBISWorld, p. 30.

EXHIBIT 4: External Threats and Opportunities

Factor	Assessment	Description
Economy	**Mixed**	Economic growth is expected to slow, but sporting goods sales are expected to still increase at an annual rate of 6% through 2029 worldwide.
Lifestyles & values	**Mixed**	The rate of inactivity is expected to increase, while at the same time many who are physically active are expected to increase such activity.
Demographics	**Threat**	While the population of Athletic County, Subject State is expected to grow at a faster rate than the US as a whole, the population of adolescents in the same area is expected to begin to decline in 2028.
Regulations	**Threat**	Adjustments to tariffs could cause price increases and supply chain issues.

tariffs on select US goods, could harm US export-oriented industries, potentially leading to reduced market access and decreased demand for American products abroad.[20]

Summary

An overview of the most significant external threats and opportunities is presented in the accompanying table (see Exhibit 4).

20. Id., IBISWorld, p. 8.

Industry Threats and Opportunities

An Investor would assess an increased risk to an investment in the industry due to the ability of consumer to purchase sporting goods online, threats of increased tariffs on foreign sourced goods, a high level of competition, and the availability of substitutes. Offsetting factors include the inability of customers to negotiate price in a retail setting and barriers to entry.

When making an investment decision, an Investor will consider threats and opportunities that arise from external factors that impact the business, as well as the conditions and outlook for the industry. Industry factors that can threaten or provide opportunities include the following:

- Customers' demand and bargaining power;
- Supply chain conditions and bargaining power of suppliers;
- Competitors and the intensity of competition;
- Barriers to entry and the threat of new entrants;
- Substitute products and/or services; and,
- Complimentary products and/or services.

These factors are analyzed in light of the industry as a whole and not their specific impact on the Subject Interest. Further, and Investor will focus only on those factors that present the most threat, or afford the greatest opportunities.

Customers

Industry customers consist of the general public in the market area who participate in sports, or who wear sporting apparel. Industry demand and the influences thereon has been described as follows:

Demand from consumers under 44 has grown due to more health-conscious individuals and families.

- Fewer schools also require adolescents to participate in fitness, causing many families to prioritize physical activities with their children to promote healthy lifestyles. Examples of sporting activities undertaken by households with children include camping and fishing, suggesting that parents become more active as their children age.
- Fluctuations in disposable income levels also influence household participation in sports. For instance, high disposable income levels may incite more families to participate in high-cost activities, such as hockey and horseback riding.
- According to a survey from the CDC, 38.1% of consumers in this demographic were considered sufficiently active adults in 2016, meaning they met basic guidelines for aerobic activity. The activity rate was by far the highest percentage among surveyed demographics, and this group of consumers will remain as critical as ever to the future of this industry (latest data available).

Demand from consumers between 45 and 64 has increased due to rising disposable income.

- Parents may encourage their children to engage in recreational athletic activity, and adult consumers seek ways to maintain fitness as they age. By national standards, 25.5% of people in this demographic are sufficiently physically active.

Consumers over 65 represent the smallest customer group.

- Most of these consumers are no longer physically active and thus have little need for the products in the sporting goods industry.
- According to the CDC, in 2016, only 23.3% of people in the 65 and older demographic were sufficiently physically active concerning their aerobic fitness (latest data available).[21]

The ability of consumers to compare information across different retailers enhances the bargaining power of customers. This information not only includes pricing, but product reviews and shopping experiences shared on social media and other online platforms. While consumers have little power to negotiate pricing, they can purchasing items elsewhere, including the convenience of online purchasing.[22]

Suppliers

Suppliers include manufacturers of sporting goods, sports apparel, and their representatives. These suppliers range from large well-known brands, to small manufacturers, and many of these operate or have product made overseas.

The size and notoriety of some suppliers give them increased bargaining power. Further, manufacturers are working to establish and improve direct-to-consumer sales, cutting out retailers.[23]

As previously mentioned, the threat of new tariffs may impact the supply chain as follows:

> *The impact of these tariffs extends beyond direct importers to industries that rely on complex, integrated supply chains spanning North America and China. Many US manufacturers depend on components or raw materials from Canada, Mexico and China, and disruptions in these supply chains can lead to production delays, inventory management issues, and increased operational costs.*[24]

Independent sporting goods retailers have a number of buying groups that they can join, which offsets some of the bargaining power of large sporting goods suppliers.

Competitive Landscape

Competition in the industry is categorized as high and increasing.[25] It has been described in further detail as follows:

> *Intensifying competition from mass merchandisers and online retailers has partially constrained industry revenue growth due to strong price-based competition. While the former competitor benefit from purchasing power, the latter can lower their selling prices as they save on rent expenses.*
>
> *Despite a low level of market share concentration, the industry has become increasingly concentrated due to acquisition and consolidation activity. In response to increasing competition, many retailers have engaged in mergers and acquisitions (M&As) to boost revenue.*[26]

21. Id., IBISWorld, p. 14.
22. Id., p. 21.
23. Id.
24. Id., p. 8.
25. Id., p. 18.
26. Id.

New Entrants

The threat of new entrants into a business' market or industry relates closely to existing or perceived barriers to entry. These barriers take several forms, and can increase or decrease the risks related to an investment in an enterprise. Industry information categorizes barriers to entry as moderate and steady.[27] Some of the challenges that potential industry entrants face have been discussed as follows:

> ***Start-Up Costs.*** *The initial cost of establishing or purchasing a retail outlet and providing sufficient inventory to stock retail shelves may prohibit new entrants. Retailers require a line of credit to purchase store inventory, which can be extensive. Advertising and marketing are critical for generating a market presence and consumer interest. Not stocking the latest and greatest gear from [top brands] will put an entrant at a significant disadvantage.*
>
> ***Differentiation.*** *Well-connected, existing retailers may have exclusivity agreements with some wholesalers, straining new entrants' ability to secure exclusive apparel and equipment.*
>
> **Labor**. *Sporting goods stores are labor intensive, mainly in response to the human input required to operate and maintain retail outlets.*[28]

Substitutes

Substitutes are other products, usually using different technologies, which perform the same function as the product offered by the domain. Substitutes are also referred to as external competition. Substitutes to the Industry have been categorized as high and increasing.[29] Industry information presents two segments of substitutes which are described as follows:

> *Department stores, warehouse clubs, and supercenters*
>
> - Mass merchandisers offer shoppers various products, including athletic clothes, shoes, accessories, and perfumes, skincare. Mass merchandisers purchase products in bulk, allowing them to set competitive prices and pass on savings to customers.
> - Consumers can save time and effort by purchasing multiple items in one place, making these stores a viable alternative to sporting goods stores. Convenience has become a growing decision factor for many consumers.
>
> *Online Stores*
>
> - Online stores benefit from not having physical stores, allowing them to save on rent expenses and pass those savings to customers through lower prices. To capture more sales, physical stores have increasingly offered cashback programs, curbside pick-up and virtual try-ons.
> - With features like next-day delivery and easy return policies, online retailers provide unparalleled convenience for consumers. Access to many honest customer reviews helps buyers make informed decisions, enhancing the shopping experience.[30]

These trends present a threat to the traditional retail industry.

Summary

An overview of the most significant industry threats and opportunities is presented in the accompanying table (see Exhibit 5).

27. Id., p. 19.
28. Id.
29. Id.
30. Id., p. 19-20.

EXHIBIT 5: Industry Threats and Opportunities

Factor	Assessment	Description
Customers	Mixed	Customers have little ability to negotiate price in a retail setting, but they can opt for to buy items elsewhere.
Suppliers	Threat	Threats of increasing tariff introduce uncertainties in the supply chain.
Competitors	Threat	Competition in the industry is categorized as high and the trend is increasing.
Barriers to entry	Opportunity	Capital required to for inventory and the need to establish relations with suppliers provides a barrier to entry into the industry.
Substitutes	Threat	The growth of e-commerce presents a threat to the traditional retail industry.

Internal Strengths and Weaknesses

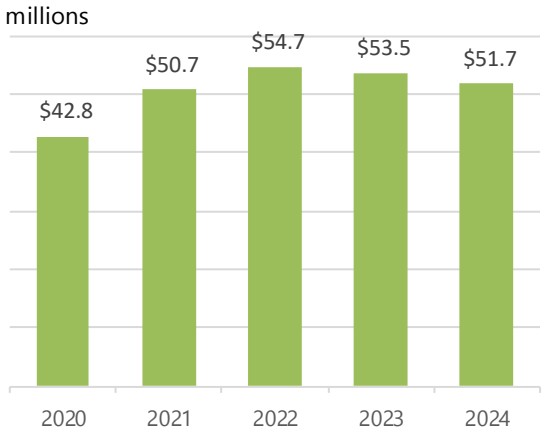
An Investor would recognize the existence of risk to an investment related to small size relative to public entities, and low revenue per employee, decreasing revenue and profitability. These are mitigated by an employee ownership culture, strong financial liquidity, and low levels of debt.

An Investor will consider the resources employed and internal risks associated with the Company in determining risks related to an investment in the Subject Interest.

Size

Investments in small companies are typically considered more risky and carry a greater expected rate of return. This has been demonstrated by several studies. DSI is a small entity relative to even micro-cap publicly traded companies. An investment in DSI is therefore considered a more risky alternative than investments in publicly traded corporations.

EXHIBIT 6: Revenue Trend



Strategy

Strategy is the bridge between external risks and internal risks and resources. A proper strategy will be aligned to harmonize with a business enterprise's domain structure. DSI's domain structure is a oligopoly, which is defined as a relatively small group of competitors within a market area. To determine DSI's strategy an Investor must first analyze its strategic emphasis and strategic scope.

Strategic Emphasis

Traditional management theory says that a business enterprise can either emphasize low cost or the uniqueness of its products and/or services. In this case, DSI emphasizes the merchandising and shopping experience that is usually associated with a large national chain, and the customer service and knowledgeable sales professionals found at smaller, local shops.

Strategic Scope

A business enterprise can use a broad target scope (usually industry wide) or a narrow target scope. (usually focused on a small segment of an industry).

DSI's scope is broadly defined, providing a wide range of products at all pricing points from entry level to high end. While offering products at all price points, DSI's management indicated that they try to focus on products

with higher profit margins, and high end products because such items are not as available with competitors.

An Investor would recognize the wisdom of DSI not attempting to be the low price leader, noting that a national presence with large sales volumes would be required.

Sales and Marketing

Revenues

Revenues are amounts that flow into a commercial enterprise from the sale of goods and services. DSI's revenue comes from the sale of sporting goods and apparel, and to a lesser extent, rental of certain sporting equipment,

DSI has experienced significant growth in revenue during 2020 to 2022. Since then there have been two straight years of revenue declines (see Exhibit 6).

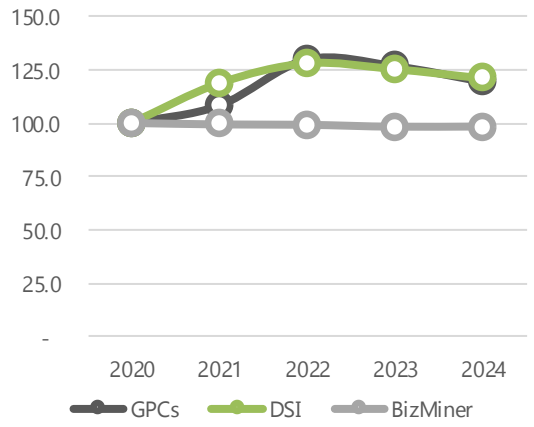
Revenues decreased by more than 3 percent in 2024. The five-year compounded annual growth rate was 7.7 percent. DSI's CEO, Abner Doubleday, III, and CFO, Jack Roosevelt Robinson, indicated that a number of factors contributed to the revenue decline. During the COVID-19 pandemic a revenue bubble formed in the retail sporting goods industry. The revenue decline relates to the deflating of this bubble. Further, customer traffic from Canada has been down.

It is difficult to compare actual sales amounts between companies and benchmark data. In order to compare revenues in a meaningful manner, an Investor would compute a revenue index (current period revenue divided by base period revenue multiplied by 100). This index shows that DSI's revenue has closely followed the GPCs' while the Private Peers' revenue growth has remained relatively flat (see Exhibit 7).

Sales Function

DSI uses departmental sales staff with a Lead Sales employee for each department. Each store has a Store Manager whose primary job is to grow sales and profitability through training and developing the sales

EXHIBIT 7: Revenue Index



teams to give superior customer service. Each store's management team is accountable for utilizing daily and weekly coaching to identify and communicate both positive and negative customer experiences. Semi-annual coaching forms are required for all sales employees and provide a communication tool between employees and managers.

Sales are recorded by cashiers at sales registers, that are part of DSI's point-of-sale (POS) system. This system also tracks inventory.

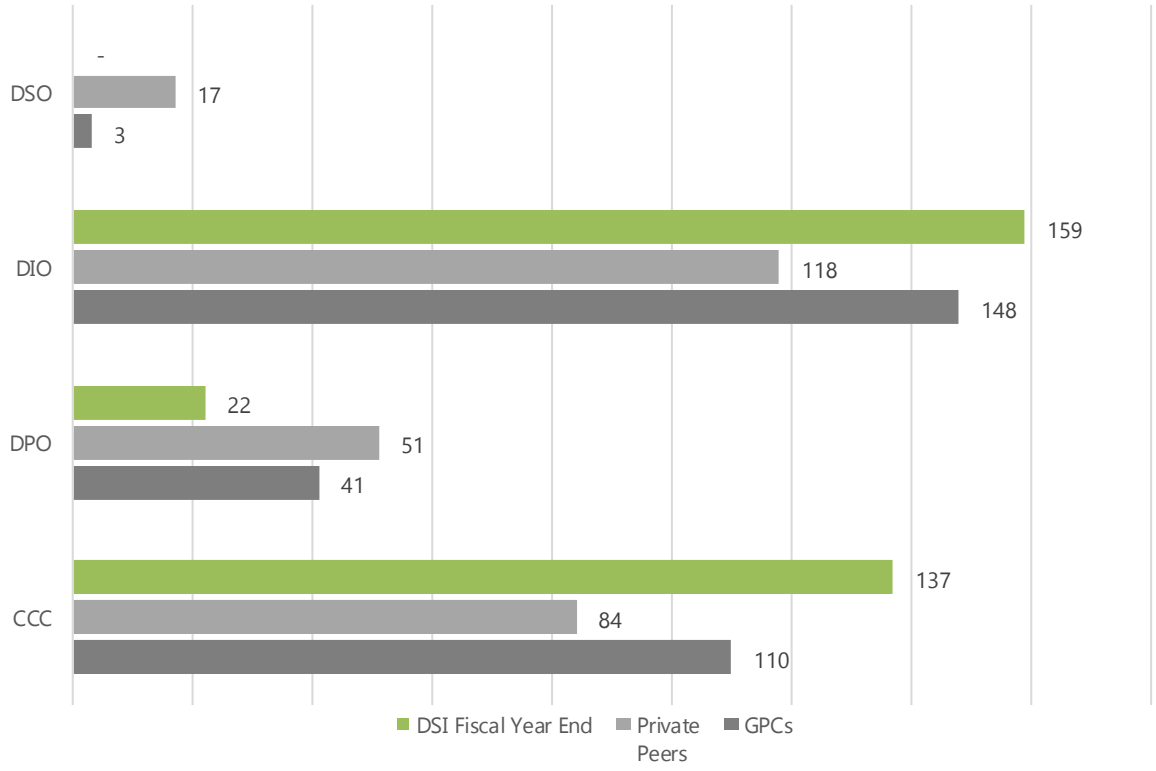
Marketing

DSI's marketing efforts are broad based, including newspaper, television, radio and billboard advertising. Social media promotions are also conducted. The advertising efforts emphasize that DSI is a local company. In addition to advertising, DSI sponsors various events, including fundraising events for community organizations.

Pricing

Manufacturers establish the pricing of their products and DSI generally uses this recommended pricing. Products will be marked down for promotions and special sales. When various products have not sold, or when new model years are being introduced, remaining products will be marked down for clearance.

EXHIBIT 8: Activity Ratios



Customer Care

Customer Service

Our interviews indicate that DSI is customer-centric. A store manager indicated that an employee will never get in trouble for making a customer happy. Management indicated that DSI will back up the products, even when the manufacturers will not.

Accounts Receivable

"Receivables turnover" and quality are factors in evaluating operating efficiency and management. One measure of receivables turnover, days sales outstanding (DSO), is calculated by dividing the average of the beginning and ending receivables by total annual sales revenue, with the result multiplied by 365 days. This measures the average number of days that accounts receivable are outstanding. A lower DSO is considered preferable.

As a retail business, DSI's receivables are immaterial. The receivables they occasionally do have are primarily with governmental agencies, such as the US Forest Service and state wildlife departments. DSI's days' sales outstanding, relative to the Private Peers and GPCs are presented in the accompanying chart (see Exhibit 8).

Purchasing

DSI maintains a team of buyers who arrange for the purchase of inventory, with a buyer for each department. The buyers start each buying season investigating what is available from each vendor, and establishing a monthly buying schedule by store. The buyers take into account how well items sell, how much they want to spend with particular suppliers, expected weather conditions and other factors. DSI belongs to a buyers group, which allows it to take advantage of volume purchasing discounts.

Inventories

DSI's inventory primarily consists of sporting goods and apparel. Its Surf City, Coast State store is also an ACE hardware franchise, and as such holds hardware and household goods inventory. DSI accounts for inventory using the average costing method. Jack Roosevelt Robinson, CFO, indicated that the POS system tracks the costing of inventory.

"Inventory turnover" is indicative of management's ability to efficiently use inventory in meeting the needs of customers. Generally, the faster an entity turns its inventory, the more efficient it is in utilizing its investment in inventory to create sales. Slower turnover can be indicative of less efficient inventory utilization or may be indicative of obsolete inventory. One measure of inventory turnover is days inventory outstanding (DIO). This measure is expressed in terms of days and is computed by dividing the average of the beginning and ending inventory by the annual cost of sales (goods sold) with the result multiplied by 365 days. A lower DIO is considered preferable.

DSI's DIO was 11 days longer than the GPCs' and 41 days longer than the Private Peers' (see Exhibit 8). This is an indication that DSI was less efficient at managing its inventory than the Private Peers and GPCs. Interviews with management indicated that larger sporting goods store chains have the ability to persuade suppliers to hold on to inventory for them until needed. As a smaller player in the industry, DSI does not have that option, and of a necessity must maintain higher inventory levels.

Accounts Payable

"Accounts payable turnover" is an indicator of managements efficiency and effectiveness at managing accounts payable. Generally, the slower an entity turns its payable, the better cash flows will be. However, this must be balanced with the need to maintain positive relations and credit standing with suppliers. A measure of accounts payable turnover is days payable outstanding (DPO). This measure is expressed in terms of days and is computed by dividing the average of the beginning and ending payables by total annual cost of sales with the result multiplied by 365 days. A higher DPO is generally considered preferable.

DSI's DPO was quicker than both the Private Peers' and GPCs' (see Exhibit 8). This is an indication that DSI paid its vendors quicker than the GPCs and Private Peers and could be considered a less efficient management of payables. Mr. Robinson indicated that they process payments to suppliers 10 days before the invoice is due. This is to ensure that the vendors receive payments on-time, helping maintain good relations with suppliers.

Information Technology

In addition to maintaining information technology systems for office purposes, DSI also maintains a POS system to track inventory and sales. The POS system is maintained by a server at each store, which is backed-up daily on-site, with a mirrored off-site backups at Liquid Web in Lansing, Michigan as will as Celerant Technology, the POS provider.

Credit card and debit card data is encrypted and also protected by a hardware switch. In addition DSI is PCI compliant and does not maintain credit or debit card information. Finally, DSI maintains data breach insurance.

Human Resources

At the Valuation Date, DSI employed approximately 250 individuals during 2024. Employees are hired under a 90 day probationary period. DSI's Director of Human Resources indicated that employee turnover was very low. Several employees have been with DSI for more than 20 years. Due to the nature of the business, they hire seasonal employees, and many of them return year-after-year. Management attributes employee longevity to a pleasant, family-like working environment.

Employee benefits include medical, dental, and vision plans, with DSI paying about 90 percent of the cost for the employee. The ESOP allows employees to become owners and provides for retirement. No other retirement plans are offered. DSI will also provide educational assistance for educational courses relevant to an employee's position.

Cashiers, sales associates, and sales leads are paid an hourly wage. Store managers, administrative employees, and executives are paid salaries.

A comprehensive employee manual is maintained and provided to each employee. Sales associates are trained under the sales program, as described previously.

DSI generated less revenue per employee than the peers (see Exhibit 9), suggesting that it was less efficient at utilizing its employees. DSI's desire to provide superior customer service requires more sales associates than other sporting goods stores, lowering the per employee revenue and increasing employee expense. More specifically, they have product department specialists, such as golf, firearms, ski, bike, boot fitter, etc., available for customers a frequently as possible, which increases the number of employees needed.

EXHIBIT 9: Revenue Per Employee

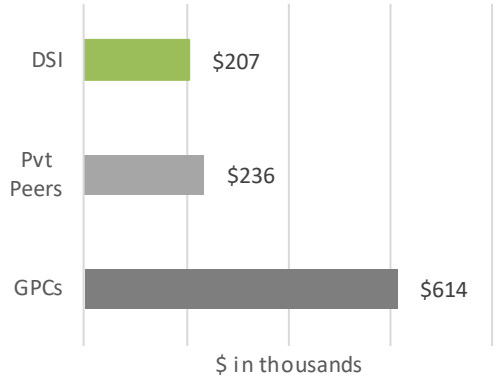
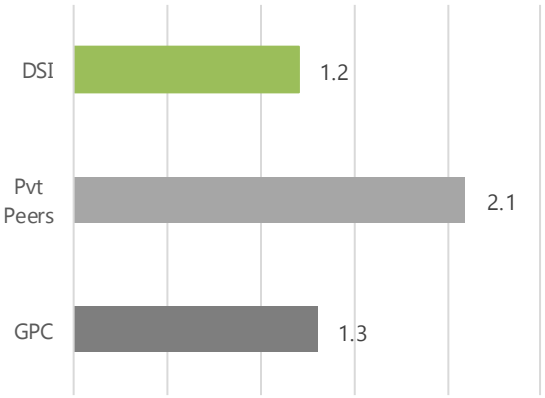


EXHIBIT 10: Revenue-to-Assets



Operations

Organizational Structure

According to DSI's organizational chart each store has a store manager with an assistant manager and sales staff. The store managers, receiving managers, and the security officer report to the vice-president. The CFO, Director of IT, Buyers, and Advertising Managers report to the President. As such, the organizational structure appears relatively flat.

Revenue-to-Assets

The revenue-to-total-assets ratio is a measure of how effective assets are being utilized. It is computed by dividing annual revenue by the average of the beginning and ending asset balance. A higher revenue-to-total-asset ratio is generally considered preferred. This ratio can be skewed downward by the presence of non-operating assets.

DSI's unadjusted revenue-to-total-assets was weaker (lower) than the Private Peers, but matched the GPCs (see Exhibit 10). If adjusted for non-operating real estate, this ratio would increase.

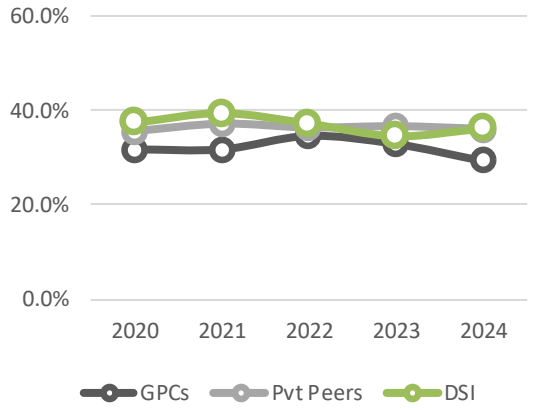
Gross Profit Margin

Gross profit is the result of subtracting the cost of sales from sales (revenues minus cost of those revenues). A gross profit margin is the ratio of the gross profits to the revenues. The gross profit margin is computed by dividing gross profit by net sales, with the result expressed as a percentage. A high gross profit margin is preferable.

Historically DSI's gross profit margins have ranged from about 33 percent to 35 percent and have been in-line

with the Private Peers, but slightly higher than the GPC's over the last five years (see Exhibit 11).

EXHIBIT 11: Gross Profit Margins



Management

ESOP Trustees and Board of Directors

Trustees of the ESOT consist of the Board of Directors, which include Abner Doubleday, III, Heinrich Ludwig Gehrig, and Jack Roosevelt Robinson.

Key Members of Management

DSI's key members of management / officers are as follows:

Abner Doubleday, III. President. Prior to joining DSI, Mr. Doubleday worked as a store manager for National Retailer. He was originally hired as a sporting goods manager at DSI's Sport City location in 2002. In 2010 he was promoted to store manager in Mountain City, and in 2015 was named the Local Sports Store divisional manager. In 2020 he became vice-president and was promoted to president in 2022.

Heinrich Ludwig Gehrig, Vice-President. Prior to joining DSI, Mr. Gehrig worked in both District and Store Management roles for 15 years at National Hardware. Prior to that he worked for American Footwear for 10 years as a Store Manager. He joined DSI in 2010 as the Camping/Athletics Buyer. In 2020 he was promoted to Vice President upon the promotion of Abner Doubleday, III to President.

Jack Roosevelt Robinson, CFO, Treasurer and Secretary. Prior to joining DSI, Mr. Robinson worked for 15 years as the controller for ABC Company. She joined DSI in 2005 and serves as the CFO, treasurer and corporate secretary.

Mr. Robinson, Director of IT. Mr. Robinson worked as the Vice-President of Technology for Healthcare Company prior to relocating to the Athletic Valley. He joined DSI in 2015 as its Director of IT.

Micky Charles Mantle, Head of Advertising. Mr. Mantle was originally hired by Local Sports Store in 1985 and was serving as the head of advertising when DSI acquired Local Sports Store. He currently serves in that same position.

Henry Louis Aaron, Action Sports Buyer. Mr. Aaron joined DSI in 1995 as a sales associate in our Mountain City store location. Later he transitioned to buying and worked as our Footwear and Athletics Hardgoods buyer in 1995, then as our Sporting Goods Buyer in 2000 and then became the Action Sports Buyer in 2005.

Stanley Frank Musial, Sport City Store Manager. Mr. Musial began his career in the outdoor retail business in 2000 at Outdoor Retailers in Oak City, River State. Before joining DSI he managed an outdoor retailer and worked a season as a retail consultant for Regional Sports. He joined DSI in 2015 in DSI's Mountain City store location as a retail sales associate. In 2020 he was promoted to the Mountain City Store Manager and in 2024 he transferred to manage the Sport City store.

Culture

Culture is a system of shared values (what is important) and beliefs (how things work) that combined to produce behavioral norms.

Employee Ownership. The employees, through the ESOP, own 100 percent of DSI. Management believes this gives the employees a sense of ownership and helps foster greater personal responsibility among employees.

Several of the employees expressed that sense of ownership, and the team/family like environment of working for DSI.

Profitability

Operating Expenses. The operating expense margin is the total of operating expenses divided by revenues, with the result expressed as a percentage. Control over operating expenses can mean the difference between profitability and losses. Management's ability to control expenses can be assessed by comparing the operating expense margin to those of industry peers. A low operating expense margin is preferable.

DSI's operating expenses, as a percentage of sales, have hovered between the Private Peers' and GPCs'. Since 2021, this percentage has steadily increased (see Exhibit 12). The increase corresponds to inflationary pressures, especially with wages, which they are conscientiously increasing to attract and maintain employees. Further, they have increased advertising spending, which was not needed as much during COVID as now.

Pretax Earnings. Pretax profits are the result of revenues less expenses (not including taxes). The pretax profit margin is computed by dividing pretax profits by revenues with the result expressed as a percentage. An entity must generate profits in order to grow, succeed and survive over the long-term. A high pretax earnings percentage is preferable.

DSI's profitability, as measured by the pretax profit margins, exceeded the Private Peers' and GPCs' previously, but has fallen in concert with the GPCs since 2022. In the most recent period, 2024, the decline in DSI's pre-tax earnings margin slowed significantly, while the GPCs' continued to decline to approximately zero. At the same time the Private Peers' pre-tax earnings margin has been more stable (see Exhibit 13).

Utilization of Assets and Capital

Cash Conversion Cycle. The cash conversion cycle measures the average length of time from purchase of a product for sale, to conversion of that product to cash. It is computed by adding the DSO to the DIO and subtracting DPO. A low cash conversion cycle is considered preferable.

EXHIBIT 12: Operating Expenses

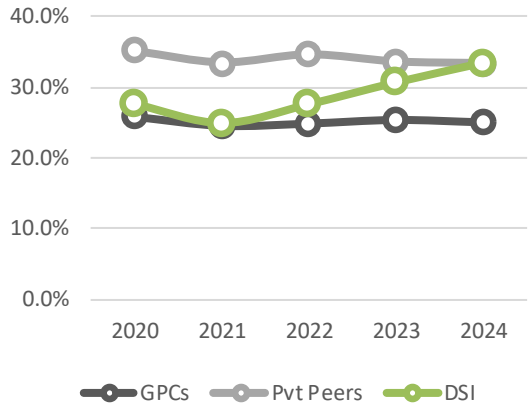
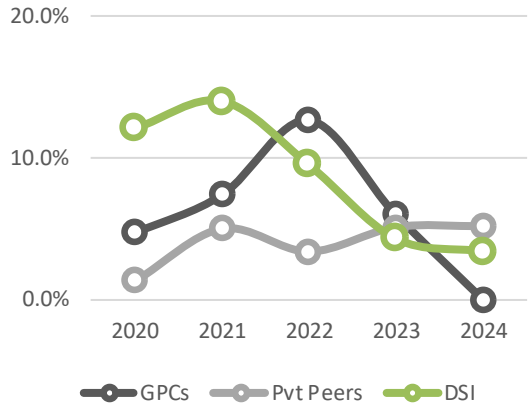


EXHIBIT 13: Pretax Earnings



DSI's cash conversion cycle was longer than the Private Peers' and GPCs' (see Exhibit 8). This was from its longer DIO and quicker DPO, indicating that DSI was less efficient at generating cash from its operations than the Private Peers, and GPCs.

Pretax Return on Assets. Asset utilization can be measured by "pretax return on assets" (Pretax ROA). This ratio is an indicator of a company's effectiveness in using its asset base to generate profits. Pretax ROA is

EXHIBIT 14: Pretax Returns

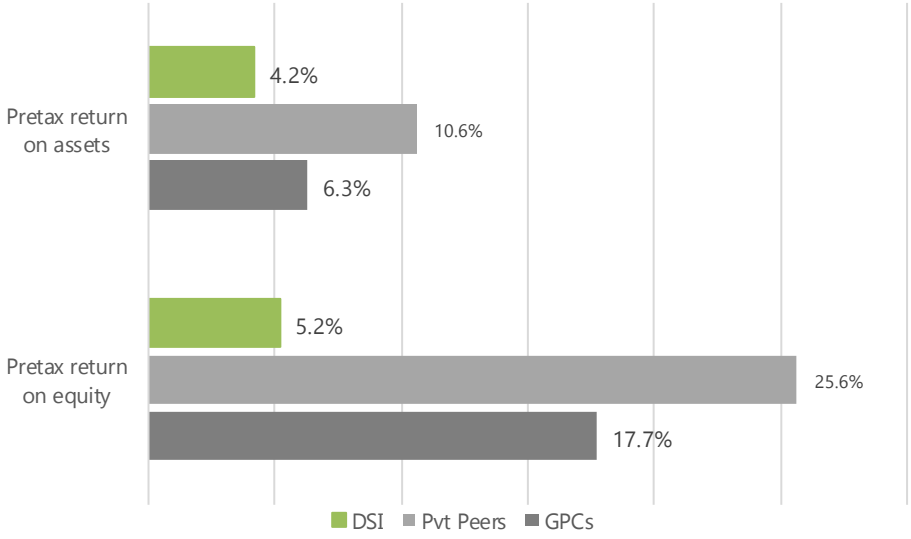


EXHIBIT 15: DuPont Analysis

Year	Pretax Profit Margin	Multiplied by: Revenue-to-Assets Ratio	Equals: Pretax Return-on-Assets	Multiplied by: Assets-to-Equity Ratio	Equals: Pretax Return-on-Equity
12/31/24	3.4%	1.2	4.1%	1.2	4.9%
12/31/23	4.3%	1.3	5.6%	1.2	6.7%
12/31/22	9.5%	1.4	13.3%	1.3	17.3%
12/31/21	14.0%	1.4	19.6%	1.4	27.4%
12/31/20	12.1%	1.4	16.9%	1.7	28.7%

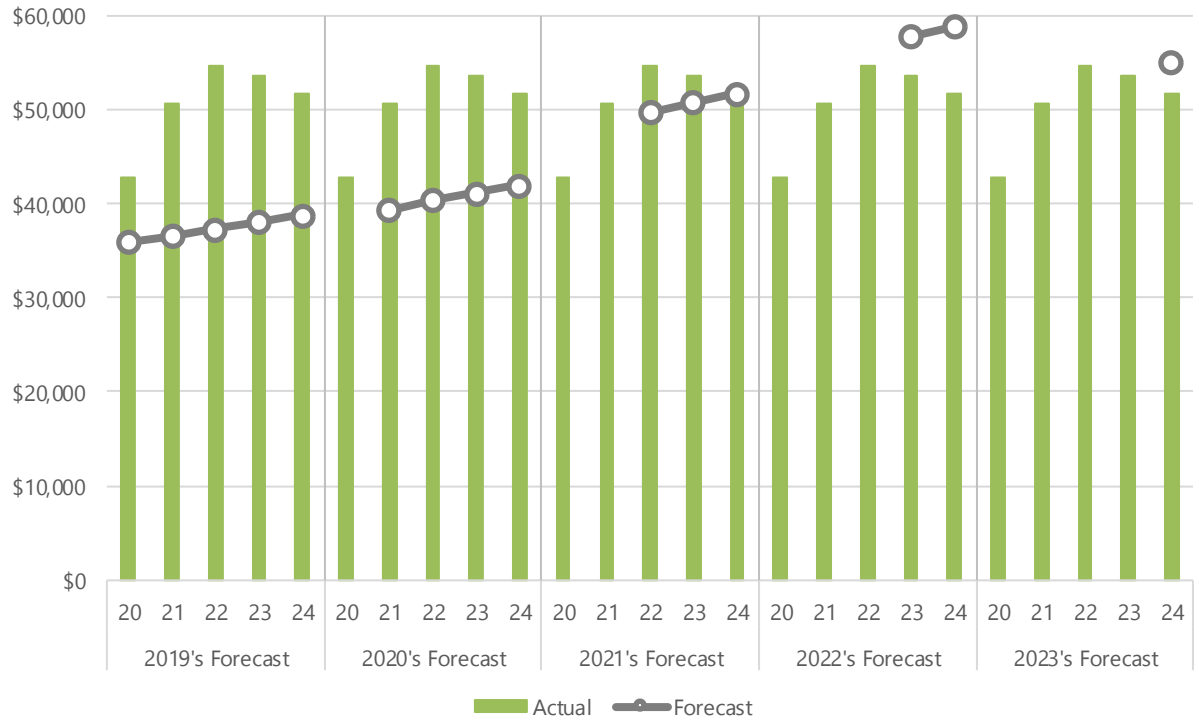
Note: The pretax returns computed here will differ from Exhibit 14 due to the computation in that exhibit using average account balance while this computation used year-end account balances.

calculated by dividing pretax earnings by the average of the beginning and ending assets. A higher Pretax ROA is considered preferable.

DSI's pretax ROA was inferior to both the Private Peers' and GPCs' (see Exhibit 14). After adjustment for real estate as a non-operating item, this ratio would improve.

Pretax Return on Equity. Pretax income divided by total shareholders' equity, or "return on equity" (Pretax

EXHIBIT 16: Revenue Forecasts Compared to Actual Results



ROE) is a measure of an entity's investment performance. It is computed by dividing the pretax earnings by the average of the beginning and ending book equity. A high return is often associated with effective management, although such a return could be the result of under capitalization. Therefore, return on equity must be viewed in conjunction with an entity's leverage and its balance sheet. DSI's pretax ROE was inferior to both the Private Peers' and GPCs' (see Exhibit 14). If adjusted for non-operating real estate, the pretax ROE would improve.

DuPont Analysis. The return on assets and return on equity can be further analyzed using the DuPont analysis. This analysis looks at the separate components that make up the return on assets and return on equity to gain additional insight.

Based on the DuPont analysis, DSI's revenue-to-assets and assets-to-equity ratios have remained relatively constant (see Exhibit 15). This means that changes in DSI's pretax ROA and pretax ROE have been driven by profitability.

Management's Financial Forecasts

Because forecasted cash flows will be used later in this analysis to develop and estimate of value, an Investor will assess management's financial forecasts by comparing forecasts of revenues, cost of goods sold and earnings before interest, taxes, depreciation and amortization (EBITDA) to actual results.

Revenues. Exhibit 16 compares management's past forecasts of revenues to actual amounts. As shown, management's revenue forecasts have understated actual revenues until 2022, when revenue projections produced in that year, and during 2023, overstated actual results.

EXHIBIT 17: Gross Profit Forecasts Compared to Actual Results

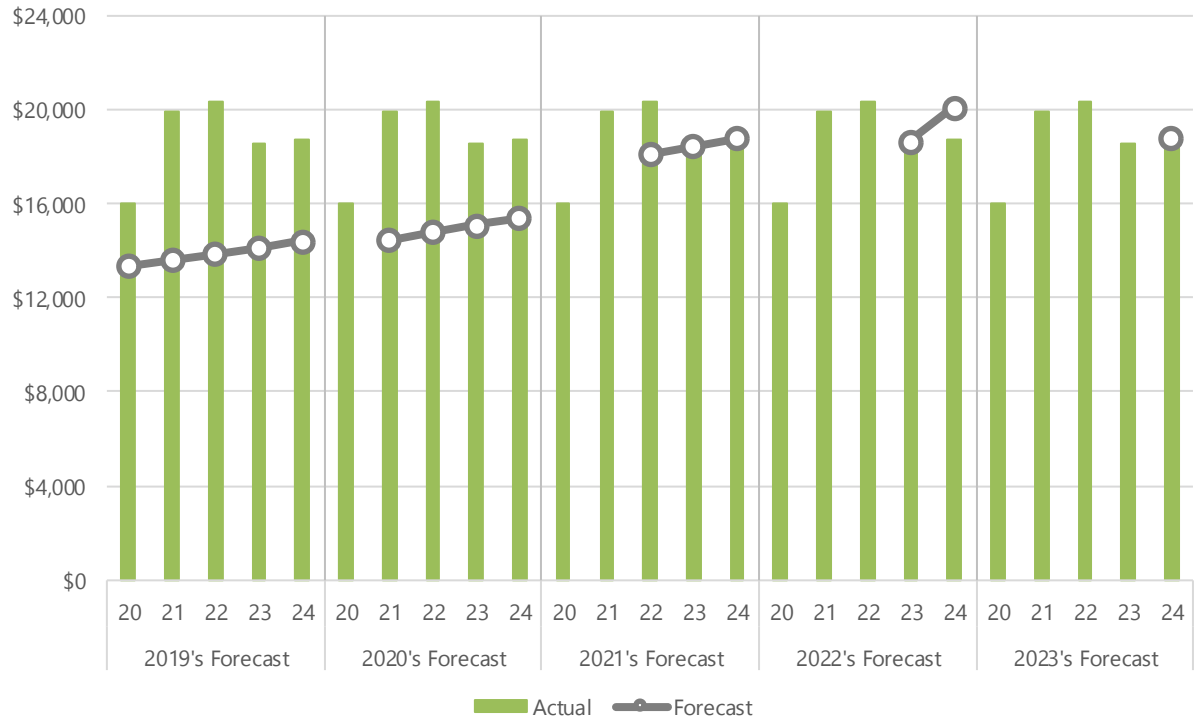
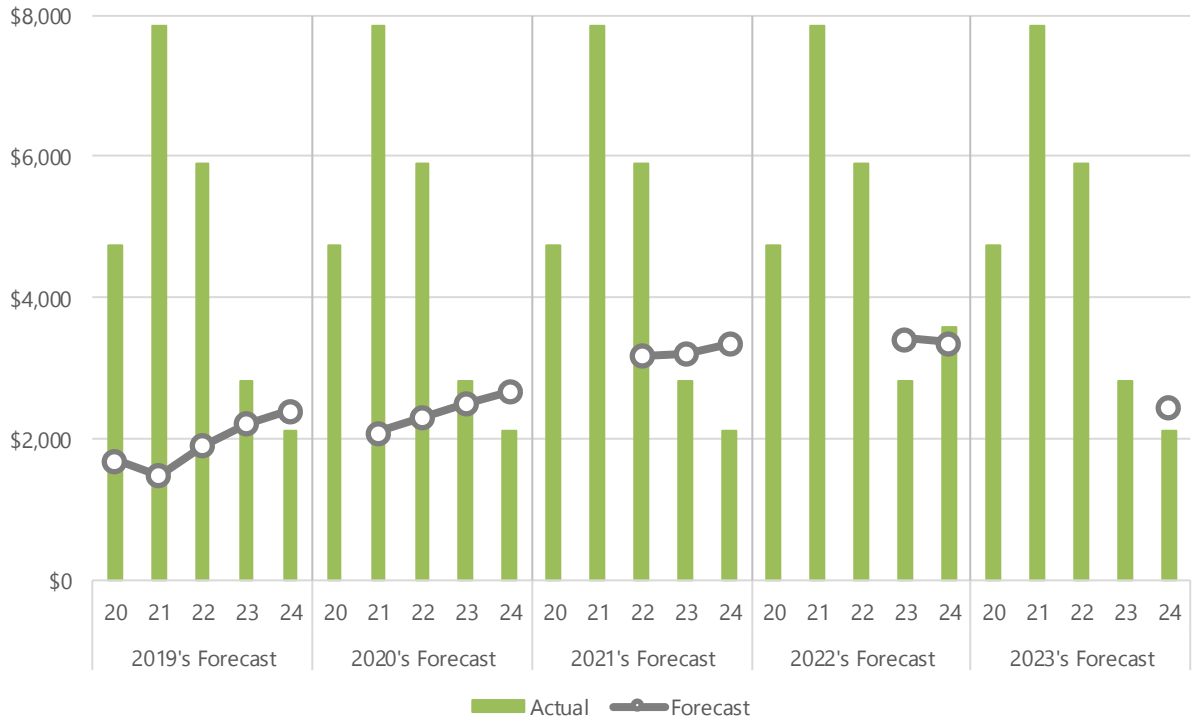
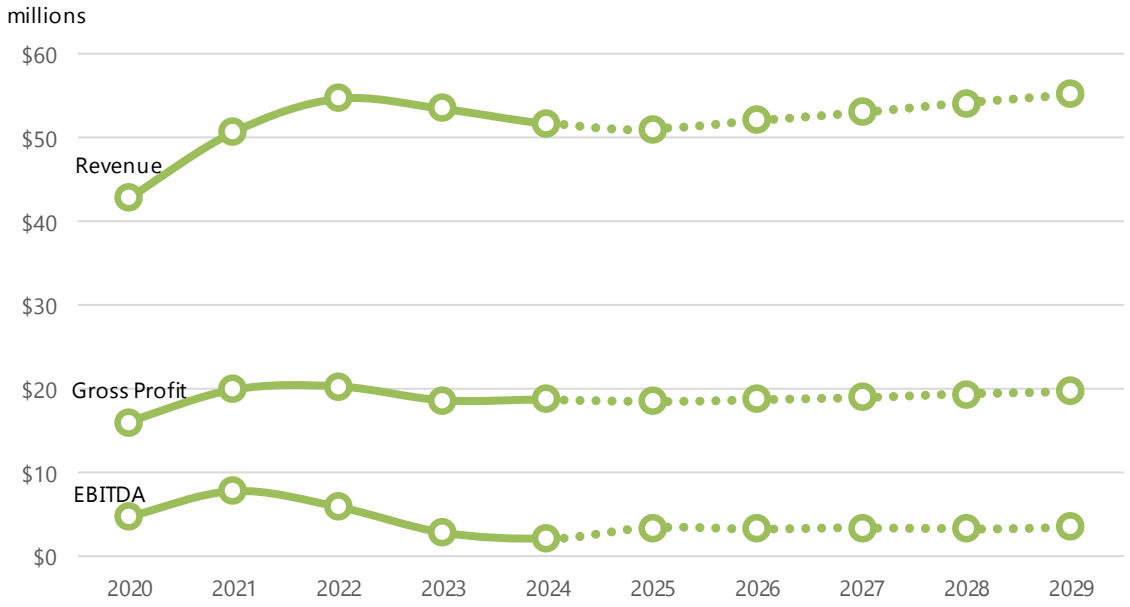


EXHIBIT 18: EBITDA Forecasts Compared to Actual Results



SAMPLE REPORT: Names and Amounts have been Fictionalized

EXHIBIT 19: Forecast Trendline



Gross Profits. Exhibit 17 compares management's past forecasts of gross profits to actual amounts. As with revenues, DSI's gross profit forecasts have historically understated actual results, with the exception of the most recent year.

The projection produced during 2022 overstated the forecasted gross profits, but the forecast produced in 2023 was very similar to actual results.

EBITDA. Exhibit 18 compares management's past forecasts of EBITDA to actual amounts. The EBITDA forecast, is in many ways, more important than the revenue and gross profit forecasts, because EBITDA is closer to cash flows. Management's last three EBITDA forecasts for 2024 have exceeded the actual results.

Forecast Trendline. Exhibit 19 compares historical revenues, cost of sales and EBITDA to management's current forecast.

As shown in the accompanying chart the forecasts shows flat gross profits percentages for the nest two forecasted periods, with slow growth thereafter. The EBITDA forecast shows a jump in 2025, followed by a decline in 2026 and slow growth thereafter.

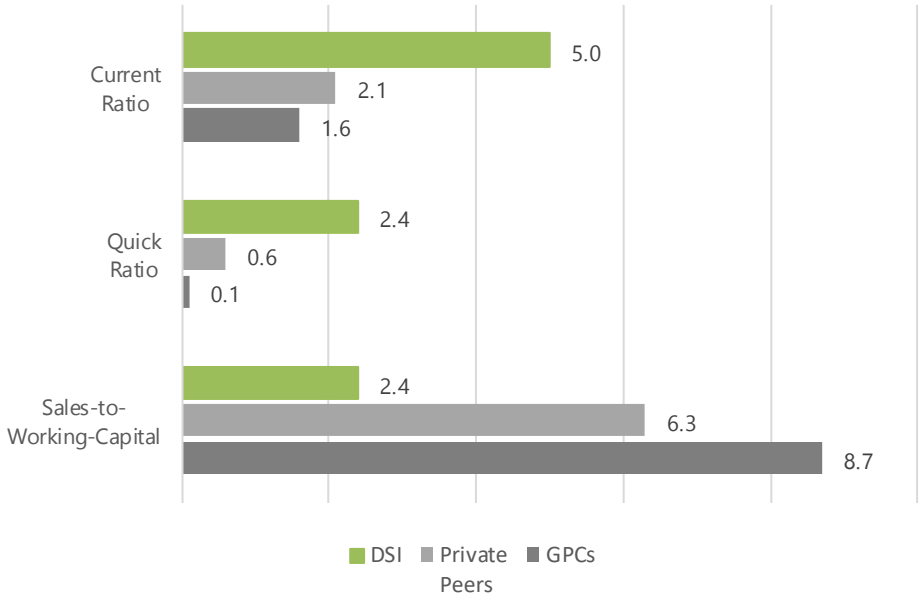
Finance

Financial Liquidity

An entity's financial liquidity measures its ability to meet obligations at a specific point in time. The two primary financial liquidity ratios are the current ratio and the quick ratio.

Current Ratio. The current ratio is computed by dividing total current assets by total current liabilities. It is one measure of an entity's ability to meet short-term obligations using its current assets. It is also a measure of an entity's working capital (current assets less current liabilities). A current ratio above one (1) indicates that an entity has more current assets than current liabilities. A current ratio below one (1) indicates that an entity has more current liabilities than current assets. For example, a current ratio of 1.5 would indicate that a company has

EXHIBIT 20: Liquidity Ratios



$1.50 of current assets for every $1.00 of current liabilities. A higher current ratio is considered preferable.

DSI's current ratio was superior to the GPCs and Private Peers (see Exhibit 20). Overall, this suggests that DSI's ability to meet its current obligations, was better than the peers.

Quick Ratio. Another measure of liquidity is the quick ratio. This ratio is computed by dividing the sum of cash, near cash and trade accounts receivable by total current liabilities. This ratio excludes less liquid assets such as inventory, in order to measure how much of the current liabilities could be quickly eliminated by liquidating current assets. Again, a higher quick ratio is preferable.

DSI's liquidity, as measured by the quick ratio was superior to the median of the GPCs and Private Peers (see Exhibit 20). This further suggests that DSI's ability to meet its current obligations was superior to the peers.

Sales-to-Working Capital Ratio. Sales-to-Working Capital Ratio can measure how efficiently an entity employs its working capital. It is computed by dividing annual revenue by working capital. This ratio must be analyzed in conjunction with other liquidity ratios to uncover its true meaning. If working capital is average relative to peers, then the sales-to-working capital ratio can indicate the efficiency of generating revenue from working capital. A high ratio may indicate an efficient use of working capital. If working capital is low relative to peers, then sales-to-working capital ratio will tend to be higher than the peers. If working capital is high, the sales-to-working capital ratio will tend to be lower than the peers.

Recalling that DSI's current ratio exceeded the peers, an Investor would expect DSI's sales-to-working capital ratio to fall below the peers, and that is what is observed (see Exhibit 20).

Excess Working Capital. DSI's liquidity ratios, relative to the peers, would cause an investor to consider if the working capital is in excess of needs. Interviews with Mr. Doubleday and Mr. Robinson indicated that the high level of working capital is needed to help provide funding

for the repurchase obligation and diversification requirements as several employees with large ESOP account balances are approaching retirement age. In addition, there are several employees who have retired over the years, but have not yet cashed out of the ESOP. The Trustees are planning on buying out these former employees, which would also require cash resources. Based on this, an Investor would determine that the working capital is not in excess of needs.

Financial Leverage

Debt-to-Equity. Leverage, as measured by total liabilities divided by total net worth (shareholders' equity), is a measure of the extent to which an entity is dependent on external borrowing (debt capital) relative to equity capital. A business with a high "debt to worth" is generally considered less able to cope with unexpected cash flow problems, sudden economic changes and similar factors. Generally a lower ratio is preferable.

DSI's unadjusted debt-to-equity ratio was lower (superior) to the Private Peers' and GPCs' (see Exhibit 21). This suggests that DSI had a superior ability to take on additional debt or endure unexpected financial hardship as the industry peers.

Interest Coverage. An entity's ability to support its financial leverage with cash flows and earnings must also be evaluated. One way to do this is analyzing its "times interest earned" ratio. This ratio is computed by dividing earnings before interest and taxes (EBIT) by interest expense.

A ratio of 6, for example, indicates that a company has $6.00 in earnings to cover every $1.00 in interest charges—the greater the ratio, the greater the buffer. DSI's coverage of interest expense was superior to the Private Peers' and similar to the GPCs' (see Exhibit 22).

Capital Structure

Book Value. Book value is a company's total assets less its total liabilities (as recorded in its accounting system). DSI's book value approached $34.7 million. With non-operating real estate and associated mortgage debt removed, the book value related to operations is lower (see Exhibit 23). Net income and additional equity investments are the primary reasons for increases in a

EXHIBIT 21: Debt-to-Equity

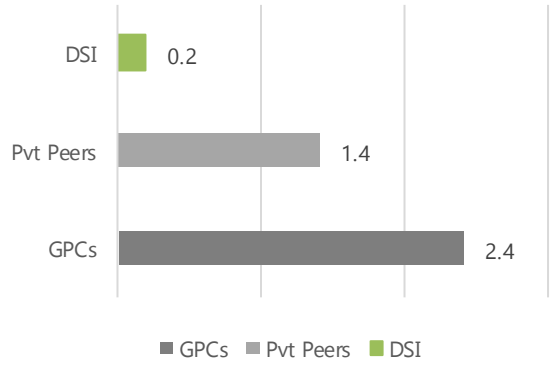


EXHIBIT 22: Interest Coverage

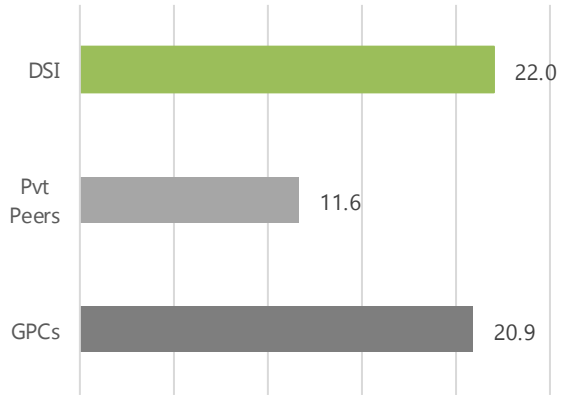


EXHIBIT 23: Book Value

		Unadjusted		Adjusted
Total assets	[a]	$ 41,438,535	[b]	$ 30,720,531
Total liabilities	[a]	(6,764,131)	[b]	(4,692,285)
Book value		**$34,674,404**		**$26,028,246**
Divided by number of shares		50,000		50,000
Book value / share		**$ 693.49**		**$ 520.56**

[a] From Appendix B
[b] From Exhibits 37 and 38, respectively.

SAMPLE REPORT: Names and Amounts have been Fictionalized

company's book value. Conversely, net losses and equity withdrawals are the primary reasons for decreases in book value. DSI's book value at December 31, 2024 represents an increase from the previous year end as a result of earnings.

Equity Classes. At December 31, 2024 DSI had a single class of voting common stock with 770,000 shares issued and outstanding.

The Company has elected S corporation status with the IRS. As an S corporation, taxable income of the Company "passes-through," or is attributed to the owner. In this case the sole owner is the ESOT, which is not taxed. As a result, the Company, nor its owner, is required to pay Federal income taxes. However, individual plan participants will be taxed on plan distributions upon retirement or other termination of employment.

Debt Structure. DSI's long-term debt consists of a mortgage note payable on DSI's Sport City store.

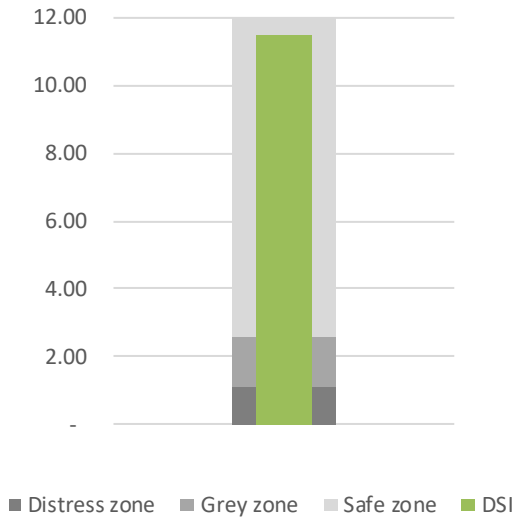
Repurchase Obligation. As an ESOP sponsor, DSI has an unrecorded liability related to the repurchase of shares from plan participants who retire or otherwise separate from service. DSI has not had a formal repurchase obligation study performed, but analyzes it internally. Mr. Robinson indicated that annual contributions made by DSI to the ESOP in amounts sufficient to cover expected repurchase obligations. She has indicated her belief that resources available are sufficient to cover repurchase obligations. Management has forecasted annual ESOP contributions at $1,6 million for 2025, $1.9 million in 2026, and $1.8 million thereafter, to cover such obligations.

Ownership Rights and Restrictions. Based on the Articles of Incorporation and Bylaws, an Investor would identify the most salient rights and restrictions of ownership. Shareholders have the right to cumulate votes when electing the Board of Directors.[31] The shares of stock are also subject to a right of first refusal.[32] However, since there is one shareholder the cumulation of votes and the right of first refusal have little to no impact. Further, the Board of Directors have the ability to alter, amend or repeal the By-Laws.[33]

DSI's shares of stock are not registered with the Securities and Exchange Commission (SEC) under the Federal Securities Act of 1933. This act generally limits the ability to offer shares of stock for sale to the public. The details of the rules surrounding unregistered shares are beyond the scope of this report. The salient issue is that shares of DSI's stock can only be sold and purchased through private transactions that qualify for a registration exemption under the Securities Act of 1933 and all applicable state securities laws and rules.

ESOP Participants. DSI employees become eligible to participate in the ESOP after a year of employment.[34] Vesting occurs at 20 percent per year over six years.[35] Upon retirement, the Participant may elect to receive all or a portion of his/her vested ESOP balance.[36] The

EXHIBIT 24: Altman Z Score



31. By-Laws of Doubleday Sports, Inc. Article II, Section 10.
32. Id., Article V, Section 3.
33. Id., Article XI.
34. Doubleday Sports, Inc. Employee Stock Ownership Plan 3.1.
35. Id., 7.4(c)(1)
36. Id., 7.10(a)(1).

Trustees have the ability to pay the benefit out over a five-year period in equal installments.[37] Interviews with the Trustees indicate that it is their intention to pay participants over this five-year period.

Financial Health

Altman Z-Score. The Altman Z-Score is a mathematical model that combines different financial ratios to predict the likelihood of bankruptcy. Real world application of the Altman Z-Score successfully predicted more than 70 percent of corporate bankruptcies two year prior. Scores above 2.6 indicate a business is unlikely to enter bankruptcy in the near term. Scores below 1.1 indicate that the chance of bankruptcy is likely.

An Investor would compute DSI's Altman Z-Score with the result illustrated in the accompanying chart (see Exhibit 24). This computation is presented in *Appendix B*.

Dividend Paying Capacity. The dividend paying capacity of an entity is measured by its ability to distribute cash to the owners without having a negative impact on its ability to operate profitably in the future. Dividends are accounted for as a direct reduction of equity (book value) and are not charged against earnings. As a result, an entity's earnings incorporates its dividend paying capacity. However, an entity's cash flows must also be considered.

The Board of Directors have discretion to declare dividends. In this case, DSI has not paid dividends (nor S-corporation distributions) in the recent past. Management indicated that there are no plans to do so for the foreseeable future.

Asset Holdings

Facilities. DSI operates three stores from leased locations and one store from an owned location. Each of the leased locations are leased from unrelated third parties. The real estate for DSI's flagship store, in Sport City, Subject State is owned. This real estate is located at 123 Main Street in Sport City and consists of 2.0 acres of land with a building having approximately 73,000 square feet.

This real estate was appraised as of December 31, 2024 at $13.5 million.

Location. Generally, DSI's stores are located in areas that offer outdoor recreational opportunities. DSI's flagship store in Sport City is particularly well situated for a retail business. It is located in the primary retail shopping area of the city. A National Retail store is directly across the street in front of the store. A Big Box Store is directly across the street to the side of the store, with Large Sports Store next to the Big Box Store. Behind the store is a Big Carton Store, and National Hardware, with many other smaller shops and restaurants. Another complimentary feature is the nearby City maintained sports fields and baseball diamonds.

The Mountain City store is located in Mountain City, Subject State which also is the location of the Mountain City ski resort. This store is located in a shopping center anchored with a grocery store.

The Surf City, Coast State store is the only remaining location that is still branded as Local Sports Store. It is located across the street from the University of Lake State.

The Boat City, Lake State store recently was moved to a much needed larger location. The new location is approximate 40,000 square foot location that will allow for expanded revenues. This expansion was financed with cash. As part of the move, this store was re-branded as Doubleday Sports.

Fixed Assets. DSI's fixed assets appear typical for its size and type of operation and include product display racks, cases, fixtures, computers, office furniture and equipment.

Goodwill and Other Intangible Assets

Intangible assets are defined as:

> *non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts (as distinguished from physical assets) that*

37. Id., 7.5(b).

EXHIBIT 25: Internal Strengths and Weaknesses

Factor	Assessment	Description
Size	Weakness	Small entities, relative to publicly traded firms, are generally considered a more risky investment.
Personnel	Mixed	While management appears effective, revenue per employee is low.
Culture	Strength	The internal culture is enhanced by DSI being employee owned.
Financial	Mixed	Revenues have declined over the past two years, and profitability has declined over the past three years, causing returns on assets and returns on equity to suffer. The cash conversion cycle is inferior to the peers. Offsetting factors include strong liquidity ratios, low debt levels, and a strong Altman Z-score.

> *grant rights and privileges, and have value for the owner.*[38]

Goodwill. By the above definition, goodwill is a subset of intangible assets. Goodwill is defined as:

> *that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.*[39]

According to GAAP, goodwill is not recorded on an entity's books unless it is purchased in an acquisition of another entity. The fact that goodwill is not recorded does not mean it does not exist. This is also true of other types of intangible assets that may not be recorded on the books. DSI recorded a small amount of goodwill from its acquisition of Local Sports Store.

Internal Strengths and Weaknesses Summary

An Investor would recognize the internal strengths and weaknesses associated with the Subject Interest. These were summarized and presented in the accompanying table (see Exhibit 25).

38. International Glossary of Business Valuation Terms.
39. Id.

Cost of Capital

The cost of capital is the price charged by investors for bearing the risk that the company's future cash flows may differ from what they anticipated when they made the investment.[40]

Recalling the discussion in the *Introduction* chapter, value is a function of expected future economic benefits and the risk associated with those benefits. The cost of capital represents the quantification of those risks.

Risk Profile

Types of Risk

Whenever money is invested, an investor risks losing his or her money. As the risk of loss increases, an investor is willing to pay less for the investment. When the price an investor is willing to pay decreases, the potential return on the investment increases. Thus, the value of an investment relates inversely to the risks associated with it. Financial theory identifies three broad categories of risk: maturity risk, systematic risk, and unsystematic risk.

Maturity risk. Maturity risk is the risk that the value of an investment will change over time as a result of overall changes in interest rates. This risk increases as the expected holding period of an investment increases.

Systematic Risk. Systematic risk is the risk inherent to an entire market or market segment. It is also called market risk or un-diversifiable risk and includes such things as recessions, wars, political instability and other factors that affect a broad range of investments. Systematic risk cannot be mitigated by diversification.

Unsystematic Risk. Unsystematic risk is the risk inherent in and unique to a specific entity, and is also known as "company specific risk." Investors can mitigate this risk by investing in a diversified portfolio of investments. When valuing a privately held entity, the company specific risk cannot be diversified away. There are three primary sources of unsystematic risk, which have been discussed in previous chapters of this report:

- external risks;
- industry risks, and
- company specific risks, including the size of the subject entity.

These factors have been addressed later in this chapter.

Identified Risk of the Subject Entity

The maturity risk and systematic risk associated with an investment in DSI are inherent in the data used to develop an appropriate cost of capital (discount rate and/or valuation multiple), as described later in this chapter. The impact of company specific risk is summarized in the accompanying table (see Exhibit 26). These risks are summarized as follows:

40. Tim Koller, Marc Goedhart, and David Wessels, *Valuation: Measuring the Managing the Value of Companies*, 5th ed. (Hoboken, NJ; John Wiley & Sons, 2010), 33.

External Risks

An Investor would identify increased threats associated with demographic trends and tariff concerns.

Industry Risks

An Investor would identify increased threats associated with supply chain concerns, the competitive environment, and the availability of substitutes. These threats would be partially offset by barriers to entry.

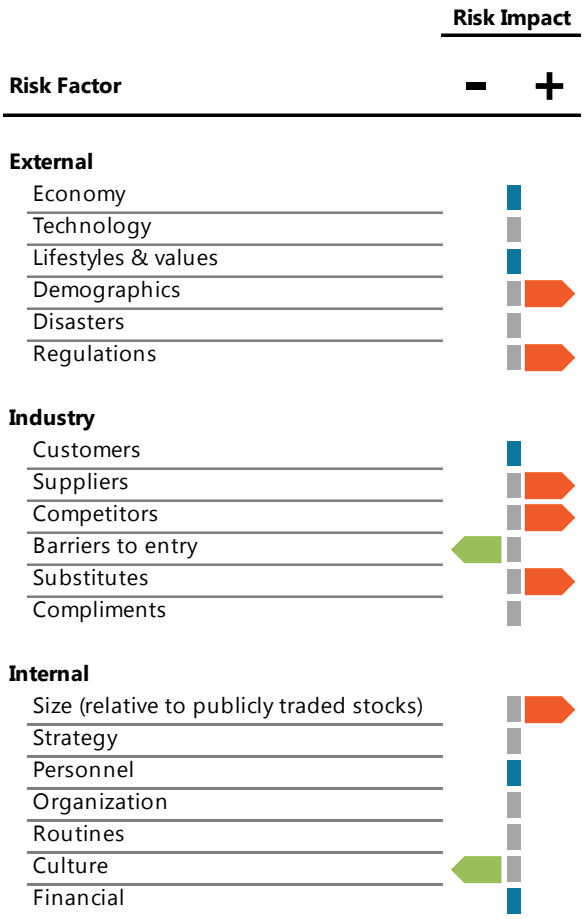
Company Specific Risk

An Investor would identify additional weaknesses related to its size and low level of revenue per employee. These are offset by experienced management, a culture of employee ownership.

Summary of Identified Risks

The impact of these risks have been summarized in the accompanying table (see Exhibit 26).

EXHIBIT 26: Unsystematic Risk



Quantification of Risk

The risk associated with an investment can be expressed as a percentage (e.g., a rate of return) or as a valuation multiple. An important consideration is the cost of capital must match the measure of economic benefit it is applied to. For example, an equity discount rate is used with cash flow to equity, while a weighted average cost of capital (WACC) is used with cash flows to invested capital.

As presented later in the *Income Approach* chapter, an Investor would measure the expected economic benefits based on forecasted future cash flows to invested capital. As such, the cost of capital would be quantified as a weighted average cost of capital.

As presented later in the *Market Approach* chapter, an Investor would measure the expected economic benefits based on various measures of earnings reported by GPCs. As such, the cost of capital would be quantified as a valuation multiple from GPCs.

Cost of Capital Development

An Investor will develop an applicable cost of capital by looking to data provided by the Kroll *Cost of Capital Navigator* (the *Navigator*). It provides data from several studies that are useful for estimating the cost of capital. These include:

- the CRSP Decile Size Study;
- the Risk Premium Report Study; and,
- the High-financial-risk Study.

The data provided by the Navigator can accommodate the capital asset pricing model (CAPM) and the build-up method of developing a cost of capital. In this case an Investor would use the build-up method, which is the most common method of developing a cost of capital for privately held businesses.

Discount Rate

The first step in developing a cost of capital is to estimate a discount rate representing an investor's expected rate of return on the Subject Interest. A discount rate is applied to projected cash flows over discrete future periods. The formula for developing a discount rate using the build-up method is presented in Exhibit 27.

EXHIBIT 27: Build-up Method Formula

$$k_e = R_f + RP_m + RP_s + RP_u$$

Where:

ke = Cost of equity capital
Rf = Risk-free rate
RPm = Equity risk premium
RPs = Risk premium for smaller size
RPu = Risk premium attributable to industry and entity specific items (also referred to as unsystematic risk or entity specific risk)

Discount Rate Variables

Risk-free Rate. Rates for U.S. Treasury bills, notes, and bonds are often considered free of risk of default. According to the Federal Reserve the yield on actively traded long-term (20-year) U.S. Government Treasury Securities on December 31, 2024 was 4.86 percent.

Equity Risk Premium (ERP). The *Navigator* uses the CRSP Decile Size Study to measure the ERP. This study provides investment return data beginning in 1926 on publicly traded companies ranked by size and includes those companies that appear in the Center for Research in Security Prices database. The long-term historical ERP (1926 - 2024) as estimated by the *Navigator* was presented in the accompanying table (see Exhibit 29).

Size Premium. The *Navigator* also uses the CRSP Deciles Size Study to measure the additional risk associated with an entity's size. This study stratifies marketable securities listed on the New York Stock Exchange, the NYSE MKT exchange, and the NASDAQ into deciles based on market capitalization.

EXHIBIT 28: Size Adjusted Equity Risk Premium

Measure of Size	DSI	Logarithm [a]	Slope	Constant	Indicated Premium [b]
Market value of equity	na	na	(0.026670)	0.193550	na
Book value of equity	$ 34,674,404	1.540009	(0.022130)	0.167980	13.39%
5-year average net income	$ 4,302,999	0.633771	(0.022260)	0.148190	13.41%
Market value of invested capital	na	na	(0.026300)	0.195830	na
Total assets	$ 41,438,535	1.617404	(0.025020)	0.188120	14.77%
5-year average EBITDA	$ 4,681,889	0.670421	(0.023530)	0.161320	14.55%
Sales	$ 51,666,592	1.713210	(0.020360)	0.171160	13.63%
Employees	250	2.397940	(0.022250)	0.185600	13.22%

[a] The Company's amounts were expressed in whole dollars, the computation of the logarithm requires the amounts to be in millions (1,000,000 = 1.00), with the exception of the number of employees. This was done in order to be consistent with the formulae provided in the Kroll Cost of Capital Navigator.

[b] Computed by multiplying the logarithm by the slope and adding the result from the constant. The result is an indicated premium over the risk free rate.

SAMPLE REPORT: Names and Amounts have been Fictionalized

EXHIBIT 29: Discount Rate

CRSP Deciles Size Study

Market value of Common Equity

Risk-free rate		ERP		Size premium		Entity specific risk		Cost of equity
4.86%	+	6.26%	+	7.83%	+	4.00%	=	22.95%

Risk Premium Report Study

Book Value of Equity

Risk-free rate		Size Adj. ERP		ERP adjustment		Entity specific risk		Cost of equity
4.86%	+	13.39%	+	0.19%	+	4.00%	=	22.44%

5-year Average Net Income

Risk-free rate		Size Adj. ERP		ERP adjustment		Entity specific risk		Cost of equity
4.86%	+	13.41%	+	0.19%	+	4.00%	=	22.46%

Total Assets

Risk-free rate		Size Adj. ERP		ERP adjustment		Entity specific risk		Cost of equity
4.86%	+	14.77%	+	0.19%	+	4.00%	=	23.82%

5-year Average EBITDA

Risk-free rate		Size Adj. ERP		ERP adjustment		Entity specific risk		Cost of equity
4.86%	+	14.55%	+	0.19%	+	4.00%	=	23.60%

Sales

Risk-free rate		Size Adj. ERP		ERP adjustment		Entity specific risk		Cost of equity
4.86%	+	13.63%	+	0.19%	+	4.00%	=	22.68%

Number of Employees

Risk-free rate		Size Adj. ERP		ERP adjustment		Entity specific risk		Cost of equity
4.86%	+	13.22%	+	0.19%	+	4.00%	=	22.27%

Average	**22.89%**
Median	**22.68%**
Selected Equity Discount Rate	**22.70%**
Estimated Long-Term Growth	-3.50%
Equity Capitalization Rate	**19.20%**

The highest decile (known as decile 1) represents the largest publicly traded companies, and lowest (decile 10) represents the smallest. The 10th decile has also been broken out into sub-deciles. Based on DSI's size, an Investor would look to the 10-b sub-decile to estimate the size premium.

Size Adjusted Equity Risk Premium. The Risk Premium Report Study combines the ERP and size

premium into a single amount called the Risk Premia Over the Risk-free Rate. We will refer to this as the "Size Adjusted ERP."

This study provides investment return data beginning in 1963 on publicly traded companies ranked by size and includes those companies that appear in both the Center for Research in Security Prices database and the Standard and Poor's *Compustat* database. This study ranks the publicly traded companies into 25 groups based on multiple measures of size (not just market capitalization). The *Navigator* provides statistical formulae necessary to extrapolate a Size Adjusted ERP for the subject entity, based on the different measures of size. Investors expect an additional return on investment in smaller companies. Based on this data, over the 1963-2024 time frame investors in a company with similar size characteristics as DSI could expect returns above U.S. Treasury Coupon Bonds similar to those computed in the accompanying table (see Exhibit 28).

Equity Risk Premium Adjustment. The authors of the *Navigator* indicate that when using the *Navigator* data in the build-up method, an adjustment is needed. This adjustment is the difference between the current estimated equity risk premium and the historical average equity risk premium, and is called the Equity Risk Premium Adjustment.

Entity Specific Risk Premium. It may be appropriate to include an additional risk premium, or subtract a risk discount, for risks specific to the entity being valued. An Investor's perception of these risks have been analyzed throughout the previous chapters of this report and were summarized in Exhibit 26. Based on these risks, an Investor would conclude that an additional entity specific risk premium was appropriate.

Equity Discount Rate. The risk-less rate and various premiums are summed to develop a discount rate applicable to an equity investment in DSI. The equity discount rate computed based on the CRSP Deciles Size Study and the Risk Premium Report Study are presented in the accompanying table (see Exhibit 29).

Equity Discount Rate. The risk-less rate and various premiums are summed to develop a discount rate applicable to an equity investment in DSI (see Exhibit 29)

Weighted Average Cost of Capital

When cash flow to invested capital (debt free cash flow) is used, the estimate of future earnings is capitalized using a weighted average cost of capital (WACC). The WACC is a rate of return that incorporates both the costs of debt and equity. It is computed by weighting the equity discount rate by the portion of equity held in the entity, and by weighting a company's borrowing costs by the portion of debt held by the entity. The weighted cost of equity is added to the weighted cost of debt to arrive at a weighted cost of capital.

Cost of Equity Capital. The cost of equity capital was determined previously in Exhibit 29.

Cost of Debt Capital. The cost of debt is the current prevailing borrowing rate that the Company can expect when incurring long-term debt. An Investor would determine this by looking to the rates charged on loans guaranteed by the U.S. Small Business Administration (SBA). The maximum rate allowed on SBA loans is the prime lending rate plus a premium of 2.75 percentage points. The prime lending rate at the Valuation Date was 8.5 percent. By adding the maximum premium, the effective borrowing rate is 11.25 percent

The cost of debt must be tax effected. The formula to do so is:

Tax Effected Cost of Debt = Pre-tax Cost of Debt x (1 - income tax rate)

The income tax rate is the combined state and federal effective income tax rate. This is determined by the following formula:

Combined Effective Tax Rate = [(1 - State Rate) x Federal Rate] + State Rate

The applicable income tax rate for corporations in Subject State was 6.38 percent. Federal income tax rates are a flat 21 percent. From this the combined effective income tax rate was 26 percent.

EXHIBIT 30: Weighted Average Cost of Capital

Cost of debt - tax effected	7.59%	[a]	multiplied by weight	20.4%	[b] equals	1.55%
Cost of equity	22.70%	[c]	multiplied by weight	79.6%	equals	18.07%
Weighted average cost of capital discount rate				**100.0%**		**19.62%**
Rounded						**19.60%**
Less residual period long-term sustainable growth rate						-3.50%
Residual Period Capitalizaton Rate						**16.10%**

[a] Based on a borrowing rate of 10.25% and a 26.00% effective tax rate.
[b] Weights taken from the median of the public guideline companies from later in this report.
[c] From Exhibit 29.

By applying the effective income tax rate to the pretax cost of debt, the tax effected cost of debt was presented in the accompanying table (see Exhibit 30).

Weighting. When the Subject Interest lacks control prerogatives an Investor will weight the cost of debt and the cost of equity based on the actual values of debt and equity. This is because a non-controlling owner does not have the ability to change the capital structure. When valuing a controlling interest, the Investor has the ability to optimize the capital structure, and will use weightings reflective of such, rather than actual weightings. A frequent measure of an optimal capital structure is to look to the capital structure prevalent in the industry.

One benefit of using an optimal capital structure is the capture of the value of excess debt capacity when the subject's financial leverage is below optimal.

Concluded WACC. Based on each of these variables, an Investor would compute the WACC as presented in the accompanying table (see Exhibit 30).

Residual Period Capitalization Rate

When the discounted cash flows method is used, cash flows are projected into the future to the point where cash flows are expected to continue at a stabilized rate. At that point, the cash flow for a single period, referred to as the residual period, is used to determine the residual period value.

When a cash flow estimate for a single period is being used as an estimate of future cash flows, the equity discount rate must be modified by the expected growth rate. The long-term growth rate of most industries can be closely tied to the overall macro-economic growth rate of the economy.

Because the capitalization rate differs from the discount rate by growth (i.e., capitalization rate = discount rate - growth rate), an Investor will consider expectations for future growth by relying on the following model:

> *[O]ver a prolonged period of time it is difficult to sustain growth that exceeds the rate of inflation plus the real rate of growth in terms of the population.*[41]

An Investor would look to sources like *The Livingston Survey* to estimate future inflation. Economists contributing to *The Livingston Survey* predict that inflation (as measured by the consumer price index) will

41. *ASA Principles of Valuation: BV202* (American Society of Appraisers, 2010), 75.

increase by an annual rate of 2.26 percent over the next 10 years.[42] Turning to the second component of the growth model, the Subject State Department of Commerce estimated that the population of Athletic County, Subject State would grow at approximately 1.23 percent over the next ten years.[43]

By adding the estimated long-term inflation rate to the long-term population growth, an Investor would estimate the long-term growth at 3.5 percent (2.26 percent + 1.23 percent, rounded). The computation of the residual period capitalization rate can be found in the accompanying table (see Exhibit 30).

Valuation Multiples

Another source of the cost of capital are guideline publicly traded companies (GPC). Publicly traded companies can serve as guidelines to develop an appropriate rate of return that an investor in the subject entity would expect to receive. To develop an applicable cost of capital using GPCs an Investor would search for public companies that would have similar valuation factors. These factors include, but are not limited to the following:

- the same or similar line of business;
- similar product lines;
- similar procurement and distributions channels;
- similar competitive positions within the industry;
- similar expected rates of growth;
- similar historical and potential profitability;
- similar capital structures; and
- similar size, relative to sales volume and total assets.

Such factors are not universal and can vary based on products, industry and other factors.

To find appropriately comparable GPCs an Investor would search various databases for entities operating in the same industry. These databases include the SEC's Electronic Data Gathering Analysis and Retrieval (EDGAR) database and other online data providers such as Yahoo! Finance and Tagnifi.

These preliminary search criteria resulted in a number of companies. An Investor would more closely analyze these companies by obtaining the most recent Forms 10Q and 10K as filed with the SEC. From these filings, an Investor would perform a financial analysis and read excerpts of their SEC filings to determine the applicability of the companies as guidelines. An Investor would narrow the selection to several GPCs as being comparable for valuation purposes (see Exhibit 31). The GPCs are all involved in a similar line of business and affected by many of the same market forces.

Selected GPCs

Each of the selected GPCs are retailers of sporting goods and sports apparel having their shares publicly traded on a national stock exchanges. An Investor would specifically exclude public companies less comparable to DSI because of unprofitability that prevents a meaningful multiple from being computed, the inclusion of preferred shares, or that lacked sufficient information needed to make adjustments to their valuation multiples (as described later in this chapter).

Comparisons of GPCs With Subject Entity— Overview

An Investor would compare each of the GPCs to the subject entity on a variety of criteria for the purpose of drawing conclusions as to appropriate valuation multiples. Comparison criteria included profitability, financial position, size, growth, business opportunities and diversification. An Investor would use adjusted amounts in these comparisons. An Investor would adjust the GPCs for non-recurring items. The

42. *The Livingston Survey*, (Philadelphia: Federal Reserve Bank of Philadelphia, December 20, 2024), p. 2.
43. Computed as the compounded annual growth rate of the total population in Athletic County, as estimated by the Subject State Department of Commerce, Census and Economic Information Center, https://dataportal.mt.gov/t/DOC/views/CEIC_REMI_POPULATION_PROJECTION_COUNTY_AGE_RACE_SFE/Table?%3Aorigin=card_share_link&%3Aembed=y

EXHIBIT 31: Guideline Company Summary

Company	Ticker	Shares O/S [a]	Price/ Shr [b]	Market Value of Equity	Market Value of Invested Capital (MVIC)	Debt to MVIC	Total Assets [a]
Academy Sports & Outdoors, Inc.	ASO	73,744	$ 57.53	$ 4,242,492	$ 4,432,644	11.0%	$ 5,091,778
Big 5 Sporting Goods Corp	BGFV	21,947	1.79	39,285	59,823	43.4%	609,366
Dick'S Sporting Goods, Inc.	DKS	82,979	228.84	18,988,914	19,014,234	7.8%	10,451,811
Foot Locker, Inc.	FL	94,900	21.76	2,065,024	2,184,024	20.4%	6,862,000
Sportsman'S Warehouse Holdings, Inc.	SPWH	37,729	2.67	100,736	252,081	61.1%	967,685
					Average	28.7%	
					Median	20.4%	

Notes:
Shares and dollars in thousands
[a] As of most recent fiscal quarter
[b] Share prices as of Dec. 31, 2024
Source: Fundamental and Market Data by TagniFi

adjustments to DSI were discussed previously. The following section highlights some of the key issues identified.

Specific Comparisons

Operational Activity. Recalling Exhibit 8 of the *Internal Risks and Resources* chapter, DSI had a larger proportion of resources tied up in inventory as the GPCs, Further, it paid its vendors more quickly than the GPCs. All of this equated to DSI having a longer (inferior) cash conversion cycle than the GPCs. An Investor would look unfavorably on DSI's cash conversion cycle, suggesting that the valuation multiple of DSI should be lower than those found with the GPCs.

Asset Utilization. Recalling Exhibit 9 and Exhibit 10 in the *Internal Risks and Resources* chapter, DSI generated less revenue per employee, and on an unadjusted basis, the same amount of revenue per assets than the GPCs. An Investor would view this overall as being inferior to the GPCs. This comparison suggests that the valuation multiple of DSI should be lower than those found with the GPCs.

Profitability. Recalling Exhibit 11 from the *Internal Risks and Resources* chapter, DSI's gross profit margins have been superior to the GPCs. At the same time, its operating expenses have been higher, as a percentage of revenues, than the GPCs as shown in Exhibit 12. Exhibit 13 shows that the overall result was DSI's profitability being slightly better than the GPCs. In contrast, DSI's pretax ROA and pretax ROE were inferior than the GPCs', as shown in Exhibit 14.

Financial Liquidity. Recalling Exhibit 20 from the *Internal Risks and Resources* Chapter, DSI's current and quick ratios were stronger than the GPCs and its sales-to-working-capital ratio was lower. An Investor would consider DSI's stronger financial liquidity as favorable relative to the GPCs. This comparison suggests that the valuation multiple of DSI should be higher than those found with the GPCs.

Financial Leverage. Recalling Exhibit 21 and Exhibit 22 in the *Internal Risks and Resources* chapter, DSI's debt-to-equity ratio was lower (superior) to the GPCs', and its interest coverage ratio was similar to the GPCs'. This indicates that the valuation multiple of DSI should be higher than those found with the GPCs.

Size (see Exhibit 32). The size comparison of DSI to the public guidelines shows that the public guidelines are much larger than DSI based on revenues. Studies and empirical data show that larger public companies (on average) have higher price to earnings multiples than smaller companies. Since DSI is smaller than the guideline companies, an investor would generally expect a lower rate of return, other things being equal. In "Adjusting Price/Earnings Ratios For Differences In Company Size-An Update," *Business Valuation Review* (September, 1995) by Jerry O. Peters, AM, the price/earnings multiple of public companies with market values of $25 million or less traded at an average 25.8 percent discount to those with market values of $50.1 million to $99.9 million. Similar findings can be found in annual data published by Ibbotson Associates.

EXHIBIT 32: Size Comparison

Name	Annual Revenues $(000)	Times larger Than Subject
ASO	$ 6,051,358	117.12
BGFV	795,468	15.40
DKS	13,425,371	259.84
FL	8,124,000	157.24
SPWH	1,339,157	25.92
DSI	**$ 51,667**	

Investors perceive the risks associated with investments in smaller companies to be greater than larger companies. This perception may be attributable to factors such as market share, name recognition, management depth, and other factors.

Although the size of the entity is an important factor, certain procedures can measure and adjust for the differences in size. In the article "Adjusting Valuation Multiples for Size," published in *Valuation Strategies* (September/October 2001), the authors, Michael Mattson, Don Shannon and Don M. Drysdale, outline a procedure for adjusting for size differences. The procedure uses empirical data from stock markets to determine the effect of size on valuation multiples and then adjusts guideline company multiples for those effects. The procedure results in market derived valuation multiples that are appropriate for the subject company.

The applicability of such adjustments depends on the nature of the products offered, the operational structure,

EXHIBIT 33: Growth Comparison

	Historical Annual			Historical 5-Year CAGR			Analysts' Estimates		
Name	Revenue	EBITDA	Net Income	Revenue	EBITDA	Net Income	Next Year's Revenue	Next Year's Net Income	5-Year Net Income
ASO	-3.7%	-17.3%	-17.3%	6.3%	27.7%	44.2%	6.7%	10.6%	11.0%
BGFV	-10.1%	-545.7%	875.2%	-6.5%	na	na	0.0%	0.0%	11.7%
DKS	5.0%	-8.3%	0.3%	10.4%	23.9%	37.0%	3.9%	5.5%	5.5%
FL	-6.7%	-53.3%	-196.5%	0.5%	-17.1%	na	2.0%	19.1%	10.6%
SPWH	-7.1%	-23.1%	-62.6%	13.3%	9.3%	14.3%	2.2%	51.9%	11.7%
Average	-4.5%	-129.5%	119.8%	4.8%	11.0%	31.8%	3.0%	17.4%	10.1%
Median	-6.7%	-23.1%	-17.3%	6.3%	16.6%	37.0%	2.2%	10.6%	11.0%
DSI	**-3.4%**	**-25.4%**	**-24.4%**	**7.7%**	**11.9%**	**41.7%**	**-1.2%**	**-24.5%**	**-7.5%**

SAMPLE REPORT: Names and Amounts have been Fictionalized

and other industry factors. In this case, we adjusted the guideline companies' valuation multiples for differences in size as described later in this chapter.

Growth Rates (see Exhibit 33). An entity with a higher expected rate of growth will be more valuable than those with lower expected growth, all other things being equal. Greater growth provides the potential for greater future benefits to the shareholder. Expected growth can be based on many factors including historical growth, new products, price inflation, market conditions, and others.

DSI's historical revenue growth for the most recent period was negative, but still superior to the GPCs. Its five-year compounded annual growth in revenue was similar to the GPCs, while next years' forecasted revenue growth is negative. DSI's historical earnings growth, as measured by both EBITDA and net income, was superior than the GPCs. Going forward DSI's income growth is forecasted to be less robust as the GPCs.

Although the estimated future growth of the entity is an important factor, certain procedures can measure and adjust for the differences in growth. In the article, "Adjusting Pricing Multiples for Expected Growth," published in *Business Appraisal Practice* (Spring 2000), the authors, Stephen J. Bravo and Michael Mattson, outline a procedure for adjusting for growth differences between guideline companies and subject entities. The procedure uses established financial analysis to determine the effect of growth on valuation multiples and then adjusts guideline company multiples for those effects. The procedure results in market derived valuation multiples that are more applicable to the subject entity. When appropriate, an Investor would adjust the valuation multiples for differences in expected growth.

Business Opportunities, Diversification & Other Factors. The GPCs have greater geographic and industry diversification. They also have access to public capital markets. These factors increase the business opportunities for the public guideline companies.

Adjustments to Guideline Multiples

As presented, there can be differences between the GPCs and the valuation subject. Mathematical techniques exist that can help to mitigate the impact of these differences. The premise of these mathematical techniques is to substitute a cost of capital variable of a public guideline company for the valuation subject's variable. In other words, in the case of expected growth, the guideline company's expected growth is replaced with the subject company's expected growth when computing a valuation multiple. The same can be done for factors related to size and unsystematic risk.

The steps to perform these adjustments are as follows:

- Compute a valuation multiple for the guideline company.
- Convert the valuation multiple to a capitalization rate by taking the reciprocal.

EXHIBIT 34: Guideline Adjustment Formula

$$Ma = \frac{1}{\frac{1}{Mg} + \alpha\varepsilon(\theta+\mu)+\lambda}$$

Where:

Ma = Adjusted valuation multiple.

Mg = Unadjusted valuation multiple of the public guideline company.

α = *The ratio of revenue to after-tax EBITDA. This variable is set to one (1) if the valuation multiple is not a revenue*

ε = *The ratio of the public guideline company's market value of equity to market value of invested capital. This variable is set to one (1) if the valuation*

θ = *The size premium of the valuation subject less the size premium of the public*

μ = *The unsystematic risk premium of the valuation subject less the unsystematic risk premium of the public guideline.*

λ = *The expected long-term growth of the public guideline less the expected long-term growth of the valuation subject.*

- Convert the capitalization rate to a discount rate by adding the guideline company's expected long-term growth.
- Break the discount rate into its individual components as described by the Capital Asset Pricing Model.
- Substitute different variables as they relate to the valuation subject for the same variable that relate to the guideline companies.
- Convert the adjusted discount rate back into a capitalization rate by subtracting the expected long-term growth of the valuation subject.
- Convert the adjusted capitalization rate back into a valuation multiple by taking the mathematical inverse.

This procedure is expressed by the accompanying mathematical formula (see Exhibit 34). An Investor would apply this to the GPCs in order to arrive at valuation multiples that are more applicable to the valuation subject. The presentation of the variables used and the computations of the adjusted valuation multiples in *Appendix D* to this report.

Summary of the Valuation Multiples

Valuation multiples from GPCs can include price-to-earnings, market value of invested capital (MVIC) to earnings before interest and taxes (EBIT), MVIC to earnings before interest, taxes, depreciation and amortization (EBITDA), as well as others. An Investor would focus on the MVIC multiples because they are applied to EBIT and EBITDA, which more closely approximates cash flows than earnings.

The computation of the adjusted multiples can be found in *Appendix D*, and are summarized in the accompanying table (see Exhibit 35). As previously mentioned, the impact of size and growth have been factored into the adjustments. An Investor would also recognize that the impact of other factors presented in this chapter have been accounted for in the adjustment to the valuation multiples for unsystematic risk.

EXHIBIT 35: Adjusted Multiples Summary

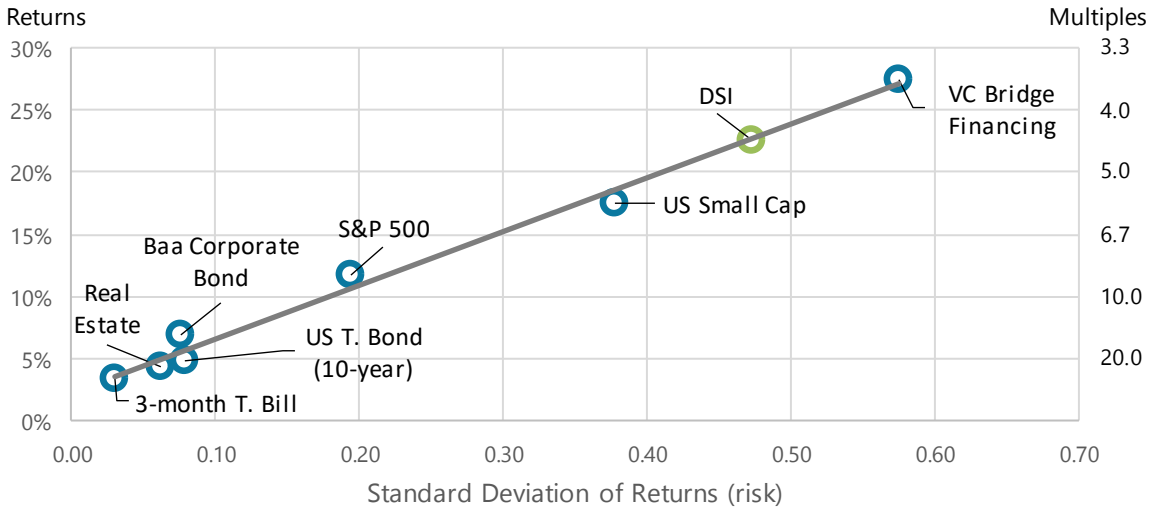
Name	Price-to-Earnings	MVIC-to-EBIT	MVIC-to-EBITDA
ASO	3.7	3.6	3.3
BGFV	na	na	na
DKS	4.0	3.7	3.4
FL	na	na	na
SPWH	3.3	4.1	2.6
Low	3.3	3.6	2.6
Average	3.7	3.8	3.1
High	4.0	4.1	3.4
Standard Deviation	0.29	0.22	0.36
Coefficient of Var.	0.08	0.06	0.12

Cost of Capital Reasonableness

To assess the reasonableness of the applicable cost of capital an Investor would compare it to rates of return achieved by various asset classes. The accompanying chart presents historical rates of return from 1926 to 2024 for different asset classes. This chart shows that as the holding period and risks (as measured by the standard deviation of returns) increase, the rates of return also increase.

DSI's equity discount rate has also been plotted on the chart showing the where it falls relative to the other asset classes (see Exhibit 36). The discount rate is above those found with micro-cap public companies. This is expected due to DSI being a small (relative to public companies) privately held entity. Further, an Invest would not consider the Subject Interest to be as risky as a venture capital investment. The chart also shows that the discount rate falls below venture capital rates. Overall, the concluded discount rate is within a reasonable range.

EXHIBIT 36: Returns by Asset Classes



Sources: Valuation Handbook, Harvard Business School Teaching Notes
An Investor will recognize that the Returns on the left axis differ from the inverse of the Multiples on the right axis by expected growth and that the comparisons of the Returns and the Multiples as presented in this chart assumes a zero percent expected growth.

Valuation Approaches

An Investor will consider using each of the valuation approaches to determine the fair market value of the Subject Interest.

Valuation Approach Overview

The various approaches to valuing an ownership interest in a business or intangible asset are based in the economic principles of "future benefits" and "substitution."

The principle of future benefits specifies that an investor will not pay more than today's value of economic benefits to be received in the future. The principle of substitution specifies that an investor will not pay more for an asset than the cost of another asset that performs the same function. These principles are applied in the various approaches to value, namely the income approach, the market approach and the asset approach. Each of these approaches have corresponding methods that can be used to develop a value.

Asset Approach

The asset approach (or cost approach) is based on the economic principle of substitution. In terms of an investment, the principle of substitution is that an investor will not pay more for an investment than the cost to purchase or create the same investment.

The underlying concept of the asset approach is simple. The value of the investment is the sum of its assets less its liabilities. When properly applied, asset approach methods can be highly complex. This approach not only considers physical assets, but also intangible assets such as trademarks, patents, customer relationships, and reputation, to name a few. This approach also considers actual liabilities as well as contingent liabilities that may exist. The asset approach recognizes that all economic value can be associated with the productive assets of the business, tangible and intangible.

Income Approach

The income approach is based on the economic principle of future benefits. It uses the concept of the "time value of money" to determine value. The time value of money concept is that an amount of money available now is worth more than the same amount in the future. The reason has to do with uncertainty and investment potential.

The receipt of an amount of money in the future is not completely certain. Events and circumstances may prevent the amount from being paid. Investors seek to be compensated for such risks. An amount available today can be invested and earn interest. The investor will have a greater amount of money in the future because of the interest earned. The sooner the money is available for investing, the more interest it can earn. Therefore, an amount of money is more valuable now than the same amount received in the future.

Under the income approach, value is computed as today's value (present value) of expected future economic benefits to be received. The computation of the present value considers the risks associated with the investment. The risks are expressed in the rate of return that the investor seeks to achieve. This rate of return is often called the "cost of capital."

The methods used in the income approach primarily include the discounted future cash flows (DCF) method and the capitalized earnings method.

Market Approach

The market approach is based on the economic principle of substitution, but can also incorporate some elements of the principle of future benefits. It uses the concept of "efficient markets." The efficient market hypothesis is that the market price of an investment will reflect and incorporate all relevant information related to the assets. It means that the trading price will always be equivalent to the fair market value of the investment.

This approach compares the subject entity to transactions involving reasonably similar companies whose values are known. The comparisons are used to develop a cost of capital based on the known values of the comparable companies. The cost of capital is usually expressed as a valuation multiple. The multiple is then applied to an appropriate measure of economic benefit to arrive at a value.

The methods used in the market approach include actual transactions involving the subject investment, the private company transaction method and the publicly traded guideline company method.

Method Selection

An Investor's selection of an appropriate approach and underlying method of valuation depends on the facts and circumstances of the case. The items that will impact the selection of the most appropriate method of valuation may include, but are not limited to, the following:

- The purpose of the valuation;
- The premise of value (i.e., liquidation versus going concern);
- The availability of adequate information on publicly traded comparable companies or transactions involving comparable private companies;
- The relative stability or irregularity of historical earnings; and,
- Growth expectations for the future.

An Investor will consider using valuation methods that relate to the income, asset, and market approaches as detailed in the following chapters of this report.

Asset Approach

An Investor would not use the asset approach to develop an estimate of the fair market value of the Subject Interest. But it would be used to value non-operating real estate held.

The asset approach is defined as:

> *a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.*[44]

Because GAAP recognizes assets at their historical costs, and generally will not recognize intangible assets unless they are purchased, the asset approach involves adjusting a company's individual assets and liabilities up or down from historical cost to reflect their current values. This includes tangible and intangible assets, as well as contingent liabilities.

Usually tangible assets can be easily identified and an appraisal can be performed to determine their values. The subject entity's balance sheet can be adjusted to reflect these values. Identifying and valuing intangible assets can be much more difficult. Such assets include trade names, trademarks, patents, reputation, trained workforce, and others. Valuation techniques used to value intangible assets typically rely on the earnings or cash flows generated by such assets. As such, the income and market approaches inherently capture the value of these assets. For this reason, the asset approach is generally less preferred when valuing a profitable operating entity.

IRS Revenue Ruling 59-60 expresses this as follows:

> *Earnings may be the most important criterion of value in some cases whereas asset value will receive primary consideration in others. In general, the appraiser will accord primary consideration to earnings when valuing stocks of companies which sell products or services to the public; conversely, in the investment or holding type of company, the appraiser may accord the greatest weight to the assets underlying the security to be valued.*[45]

In addition to holding companies, the asset approach is frequently used for non-operating assets held by entities.

Methods Considered

Book Value

Book value is an accountant's measure of recorded assets less recorded liabilities. Because accountants measure most items based on historical cost, book value typically does not reflect, nor is intended to measure the current market value of assets or liabilities.

DSI's book value was presented in *Appendix B*. For the reasons mentioned above, an Investor would not use the book value to determine the value of the Subject Interest.

Adjusted Net Assets

The adjusted net assets method estimates value as the sum of the subject entity's assets (including intangible assets) less its liabilities (including contingent liabilities). The value of the assets and liabilities is determined as if

44. International Glossary of Business Valuation Terms.
45. Internal Revenue Service, Revenue Ruling 59-60, 5(a).

EXHIBIT 37: Adjusted Assets

as of:	Unadjusted 12/31/2024	Nonoperating Items	Adjusted 12/31/2024	%
ASSETS				
Current assets				
Cash and equivalents	$ 12,684,294	$ -	$ 12,684,294	*41.3%*
Accounts receivable	12,462	316,929	329,391	*1.1%*
Inventory	13,627,141	-	13,627,141	*44.4%*
Other current assets	391,846	-	391,846	*1.3%*
Total current assets	26,715,743	316,929	27,032,672	*88.0%*
Fixed assets				
Buildings	10,195,278	(10,195,278)	-	*0.0%*
Furniture and fixtures	4,724,703	-	4,724,703	*15.4%*
Land	4,763,800	(4,763,800)	-	*0.0%*
Leasehold improvements	3,317,467	-	3,317,467	*10.8%*
Vehicles	210,315	-	210,315	*0.7%*
Fixed assets	23,211,563	(14,959,078)	8,252,485	*26.9%*
Accumulated depreciation				
A/D - buildings	(3,887,095)	3,887,095	-	*0.0%*
A/D - furniture and fixtures	(4,057,683)	-	(4,057,683)	*-13.2%*
A/D - leasehold improvements	(804,023)	-	(804,023)	*-2.6%*
A/D - other fixed assets	(37,050)	37,050	-	*0.0%*
A/D - vehicles	(108,700)	-	(108,700)	*-0.4%*
Accumulated depreciation	(8,894,551)	3,924,145	(4,970,406)	*-16.2%*
Net fixed assets	14,317,012	(11,034,933)	3,282,079	*10.7%*
Other noncurrent assets				
Net intangible assets	44,882	-	44,882	*0.1%*
Other non-current assets	360,898	-	360,898	*1.2%*
Other noncurrent assets	405,780	-	405,780	*1.3%*
Total Assets	**$ 41,438,535**	**$ (10,718,004)**	**$ 30,720,531**	***100.0%***

the entity will continue as an ongoing concern. As stated in Rev. Rul. 59-60, this method is most appropriate for investment companies and holding companies. This method may also be appropriate for operating companies that are marginally profitable or when a significant portion of a company's assets are composed of liquid assets (such as marketable securities) or other investments (such as real estate).

The first step in applying the Adjusted Net Assets method is to adjust the recorded assets and liabilities to their current market values and to add the market values of unrecorded assets and liabilities. It may also be appropriate to exclude non-operating assets and liabilities.

EXHIBIT 38: Adjusted Liabilities and Equity

as of:	Unadjusted 12/31/2024	Nonoperating Items	Adjusted 12/31/2024	%
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable	$ 1,572,647	$ -	$ 1,572,647	*5.1%*
Accrued expenses	1,299,473	-	1,299,473	*4.2%*
Current deferred revenue	641,070	-	641,070	*2.1%*
Current portion of long-term debt	680,110	(680,110)	-	*0.0%*
Customer deposits	351,679	-	351,679	*1.1%*
Gift certificates / loyalty cards	827,416	-	827,416	*2.7%*
Total current liabilities	5,372,395	(680,110)	4,692,285	*15.3%*
Long-term liabilities				
Notes payable	1,391,736	(1,391,736)	-	*0.0%*
Total long-term liabilities	1,391,736	(1,391,736)	-	*0.0%*
Total liabilities	6,764,131	(2,071,846)	4,692,285	*15.3%*
Equity				
Additional paid-in capital	529,327	-	529,327	*1.7%*
Retained earnings	34,145,077	(8,646,158)	25,498,919	*83.0%*
Total equity	34,674,404	(8,646,158)	26,028,246	*84.7%*
Total Liabilities and Equity	**$ 41,438,535**	**$ (10,718,004)**	**$ 30,720,531**	***100.0%***
Working capital	$ 21,343,348		$ 22,340,387	*72.7%*
Cash free working capital	8,659,054		9,656,093	*31.4%*

Source: CPA reviewed financial statements.

Adjusted Assets

The adjustments to assets are as follows:

Accounts Receivable. DSI is owned funds from the ESOP Trust related to ESOP diversification requirements, which was not recorded on the provided balance sheet. An Investor would add this short-term asset of $316,929 to the accounts receivable.

Inventory. While no adjustment to the inventory was made, it is likely that the market value of the inventory, if it were sold in an asset sale, would be significantly less than the carrying cost.

Land and Building. An Investor would treat the real estate as a non-operating asset because the real estate could be leased rather than owned. As such, an Investor would eliminate the land and buildings from off the balance sheet for valuation purposes.

Accumulated Depreciation. As part of the treatment of real estate as a non-operating asset, an Investor would also eliminate the accumulated depreciation related to the building from off the balance sheet.

The impact of these adjustments on the assets are presented in the accompanying table (see Exhibit 37).

Adjusted Liabilities and Equity

The adjustments to the liabilities and equity are as follows:

Current Portion of Long-Term Debt. As part of the treatment of real estate as a non-operating asset, an Investor would eliminate the current portion of long-term debt because it represents the current portion of the mortgage on the real estate.

Notes Payable. An Investor would also eliminate the mortgage note payable as part of the treatment of real estate as a non-operating asset.

Equity. The net amount of the adjustments to assets and liabilities would be offset by and adjustment by an adjustment to equity.

The impact of these adjustments on the liabilities and equity are presented in the accompanying table (see Exhibit 38). In this case, an Investor would consider earnings to be a better measure of economic benefit and, therefore, would not use the asset approach to develop a value of operations. An Investor would, however, adjust the balance sheet to use as a basis for the financial forecast presented later in this report.

Liquidation Value

The liquidation value method is similar to the adjusted net assets method. Value is estimated as the sum of the subject entity's assets less its liabilities. The difference is the assets and liabilities are valued as if being liquidated as opposed to in place with a going concern. As such, the liquidation value differs from the net asset value by the costs associated with disposition of the assets (e.g., sales commissions, taxes, legal, accounting, and other administrative costs associated with keeping the entity alive long enough to liquidate it). According to USPAP Standards Rule 9-3, this method should be considered. This rule states:

> *In developing an appraisal of an equity interest in a business enterprise with the ability to cause liquidation, an appraiser must investigate the possibility that the business enterprise may have a higher value by liquidation of all or part of the enterprise than by continued operation as is. If liquidation of all or part of the enterprise is the indicated premise of value, an appraisal of any real property or personal property to be liquidated may be appropriate.*
>
> *Comment: This Standards Rule requires the appraiser to recognize that continued operation of a business is not always the best premise of value because liquidation of all or part of the enterprise may result in a higher value. However, this typically applies only when the business equity being appraised is in a position to cause liquidation. If liquidation of all or part of the enterprise is the appropriate premise of value, the scope of work may include an appraisal of real property or tangible personal property. If so, competency in real property appraisal (STANDARD 1) or tangible personal property appraisal (STANDARD 7) is required.*[46]

Management did not indicate that there was any intention on pursuing a course of liquidation and it is likely that in liquidation DSI's inventory would have a much lower value than the carrying amount. As a result, an Investor would not use the liquidation value method.

Non-Operating Items

Occasionally, business entities hold assets or liabilities that are unrelated to the business operations. These can include items that are personal in nature, items that are obsolete, or items that are unneeded for the prudent operation of the business.

Real Estate

An Investor will treat DSI's real estate as a non-operating asset because it could operate from leased facilities rather than owning the real estate. To determine the value of the real estate, an Investor would rely on a real estate appraisal performed by ZZZ Real Estate Appraisals as of December 31, 2024. The appraised value was $13.5 million. The principal balance of the mortgage loans is then subtracted from the estimated current value of the real estate to arrive at an overall

46. The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice and Advisory Opinions: 2018-2019 Edition,* Standards Rule 9-3.

estimate of the equity value of the real estate. The computation of this net non-operating real estate was presented in the accompanying table (see Exhibit 39).

EXHIBIT 39: Non-Operating Real Estate

Appraised value	[a]	$ 13,500,000
Less: current mortgage balance	[b]	(2,071,846)
Total		**$ 11,428,154**
Rounded		**$ 11,428,000**

[a] From the real estate appraisal dated Dec. 31, 2024 prepared by ZZZ Real Estate Appraisal.

[b] Sum of the current portion of long-term debt, and the long-term debt from Appendix B plus $44,882 of amortized loan fees that reduce the debt for reporting purposes.

Income Approach

An Investor would use the income approach to develop an indication of value. Specifically, an Investor would use the discounted future cash flows method to estimate the fair market value of the Subject Interest.

To apply the income approach, an Investor would:

- determine the best method to use under the income approach;
- make any necessary adjustments to DSI's earnings;
- measure the economic benefits consistent with the b est method to be used, and;
- apply the previously determined cost of capital to the economic benefits by applying the method the relates to the measure of economic benefit.

This chapter details the above items as well as the principal methods of the income approach. These methods include, but are not limited to, the capitalized cash flows method, the discounted cash flows method, the adjusted present value method, and the excess earnings method.

Income Approach Valuation Methods

The valuation methods under the income approach are based on time value of money principals. The principal method of the income approach is the discounted future cash flows (DCF) method.

Discounted Future Cash Flow Method

The DCF method involves projecting estimated future income streams and discounting those income streams by an appropriate discount rate to arrive at today's value of the estimated future earnings. The future income streams are usually estimated on an annual basis and can include either net income or cash flows. Earnings are forecasted for a number of future periods until such earnings reach a stable level of growth. Once the stable growth is achieved, a "terminal value" is determined.

The terminal value is the value of all future income streams after the point in time when a stable rate of growth has been estimated.

The appropriate discount rate is the rate of return an investor would expect to earn based on the risks of investing in a given entity. The sum of present values of projected income streams and the terminal value results in a value estimate for the entity itself (see Exhibit 40).

The DCF method is the basis for all income approach methods. It is modified in situations where future growth is expected to occur at stabilized rates, and where the current capital structure (ratio of debt and equity) is expected to change in the future.

Capitalization Method

The capitalization method is a derivation of the DCF, and is best described as a single period DCF. The capitalization cash flows (CCF) method computes value based on an entity's estimated future income by applying an appropriate capitalization rate to a single period estimate of future income. This capitalization rate takes

EXHIBIT 40: DCF Formula

$$PV = \frac{E1}{(1+k)} + \frac{E2}{(1+k)^2} + \ldots + \frac{E_n}{(1+k)^n} + \frac{\frac{E_n(1+g)}{k-g}}{(1+k)^n}$$

Where:

PV = Present value

$E_1 \ldots E_n$ = Expected amounts of economic income in each period period E_1 through E_n

k = Discount rate

n = Number of periods in the discrete projection period

g = Annually compounded growth rate in perpetuity for the prospective economic income, beyond the discrete projection period

into account the required rate of return an investor would expect based on the perceived investment risk, and expected growth in earnings.

Capitalization methods are most useful when economic income is stable and growing at an even rate. Capitalization methods are based on the Gordon-Shapiro dividend discount valuation model and use a single period of earnings to develop a value. The formula for capitalization methods is presented in the accompanying chart. Based on this formula value is computed by dividing the estimate of future earnings or cash flows by an applicable capitalization rate. The capitalization rate is computed by subtracting the long-term sustainable rate of growth from the applicable discount rate (see Exhibit 41).

EXHIBIT 41: CCF Formula

$$PV = \frac{CF}{k-g}$$

Where:

PV = Present value

CF = Expected ongoing cash flow or economic benefit

k = Discount rate (required yield rate or total rate of return)

g = Expected ongoing future growth in cash flows or economic benefits

If an entity's earnings or cash flows are growing at a constant rate into perpetuity, the capitalization method will yield that same value as the DCF. However, when an entity's near-term rate of growth is different from the long-term trend, or when near-term factors are influencing results (in a way that can be reasonably predicted), a discounted future earnings method can better capture the valuation impacts of such differences.

Adjusted Present Value Method

Another derivation of the DCF method is the adjusted present value (APV) method. This method is most useful when current debt levels are expected to change in the future, because the traditional DCF and CCF methods assume a static capital structure. It computes value by separating the impacts of debt and equity on value. First, the equity component can be measured with either the DCF or CCF methods using cash flows to invested capital with an equity discount or capitalization rate. Second, the debt component is then measured as the value of lower taxes due to the deductibility of interest expense (referred to as the "tax shield"). This component is measured at a rate of return reflecting the risk of achieving such benefits. These two parts are then

summed to arrive at the value of an enterprise. Interest bearing debt is then subtracted to arrived at the value of equity.

Excess Earnings Method

This method attempts to separate out the value of intangible assets when measuring the overall value. The excess earnings method was originally set forth in IRS Appeals and Review Memorandum 34 in 1920. It was updated by Revenue Ruling 68-609. It was published as "ARM 34" and was known as the "Treasury Method". The excess earnings method is based on the theory that earnings over and above a reasonable return on tangible assets represents a return on intangible assets. This method involves estimating the value of tangible assets and a reasonable return on those assets, and then determining a value of intangible assets based on any earnings that exceed the return on tangible assets. This method is a hybrid of the asset and income approaches, using elements of both.

This method involves the following steps:

- Determine the value of the entity's net tangible assets.
- Normalize the cash flow of the entity.
- Determine an appropriate rate of return for the tangible assets.
- Determine the cash flows attributable to the net tangible assets by multiplying the net tangible assets by the appropriate rate of return for such tangible assets.
- Deduct the cash flows attributable to the net tangible assets from the normalized cash flow of the entity.
- Determine an appropriate rate of return for the intangible assets.
- Divide the earnings attributable to intangible assets by a capitalization rate appropriate for intangibles, to estimate the total value attributable to the intangibles assets.
- Add the value of the net tangible assets to the value of the intangible assets to estimate an overall value.

While some valuation analysts use this method to value equity ownership interests, the ruling makes no reference to using the method for that purpose. IRS Revenue Ruling 68-609 states that the excess earnings method is appropriate when no better method exists. An Investor would not use this method because better methods were available.

Selected Method

An Investor would select the DCF method in this case because the growth in cash flows going forward is expected to vary from current levels.

Cash Flow Assumptions

In order to forecast future cash flows, an Investor must first forecast future earnings. These forecasts require many assumptions, which are derived from DSI's management. Specifically, DSI's CFO, Jack Roosevelt Robinson, provided an earnings forecast for the years 2023 through 2027.

Earnings Forecast Assumptions

Base Period. An Investor would build a financial forecast using the most recent adjusted annual financial statements as presented in Appendix B.

Revenues. Management has forecasted revenue to decline by 1.2 percent in 2025, and then grow by 2 percent annually thereafter.

Gross Profits. Management estimates that future gross profit percentages will be about 36.2 percent during 2025 and 35.8 percent thereafter. These estimates are lower than the historical gross profit percentages which have averaged about 37 percent over the past five years.

Payroll and Benefits. Management has estimated that the future cost of payroll and benefits will be approximately 18.6 percent of revenue going forward. This is similar to the most recent year end.

Advertising. Management anticipates advertising expense to range between approximately 1.5 percent of

revenue over the forecast period. This level is in-line with historical levels experienced over the past four-years.

Travel and Entertainment. Management has estimated that the future cost of travel and entertainment will range from approximately 0.2 percent of revenue over the forecast period. This is similar to the most recent year end.

Repairs and Maintenance. Management expects repairs and maintenance expense to be approximately 0.7 percent of revenue in 2025 and 2026, growing to 0.8 percent thereafter. This is in-line with historical amounts.

General and Administrative Expenses. Management forecasted general and administrative expenses to be 5.2 percent of revenue during the forecast period. This level is similar to historical levels.

Professional Expenses. Management estimated that professional expenses would be approximately 0.1 over the forecast period. This is similar to historical amounts.

Rent. Future rent amounts are expected to range from 2.2 percent of revenue during the first forecast period, dropping to 2.0 percent of revenue over the forecast period. These are similar to historical amounts.

Utilities. Management has estimated the future cost of utilities at approximately 1.0 percent of revenues during the forecast period. This is similar to historical amounts.

Noncash Charges. Noncash charges (depreciation and amortization expense) was estimated based on depreciation schedules for existing assets and forecasted depreciation on expected future capital expenditures.

Interest Income. Mr. Robinson estimated interest income at approximately $187,000 in the first forecast period, with $80,000 thereafter.

Interest Expense. Mr. Robinson estimated future interest expense based on loan amortization schedules for loans currently in place.

ESOP Distributions. Mr. Robinson estimated future ESOP distribution expense based on current levels and grown by expectations for amounts needed to buy-out participants going forward, and to provide for participant diversification requirements. These amounts are $1.6 million in the first forecasted period, $1.9 million in the second forecast period, and $1.8 million thereafter.

Income Taxes. As a PTE DSI does not pay income taxes, and as such, Mr. Robinson estimated future income taxes at zero.

Future Earnings. Based on these assumptions, the computed future earnings is presented in *Appendix C* to this report.

Adjustments to Forecast

Before estimating economic benefits an Investor would adjust DSI's forecasted earnings to remove non-recurring items, to account for non-operating items, and to normalize items related to the Subject Interest's ability to exercise control.

ESOP Contribution. To arrive at the fair market value to an ESOP participant, an adjustment is made to eliminate expenses related to the ESOP and to replace those expenses as if a more traditional retirement plan, such as a 401k plan, were in place. Prior to implementing the ESOP, DSI had a 401k plan. According to management, the 401k plan would still be in place had not the ESOP been established. Participation in the 401k plan was approximately 40 percent of the employees, and that DSI matched employee contributions up to 3 percent of wages. Based on this information, and Investor would compute an estimated replacement retirement plan cost by multiplying total forecasted wages, by 40 percent to estimate the wages of those who would participate and then multiply that amount by 3 percent to represent the contribution DSI would make to the replacement retirement plan.

Rent. Because real estate is being treated as a non-operating item, it is assumed that the real estate held could be leased instead of owned. With that in mind, an Investor would increase rent expense by the amount of rent that would be paid if the real estate were leased. To

estimate that amount, an Investor would look to the estimated current value of the real estate held as determined in the *Asset Approach* chapter ($13.5 million) and apply an estimated market real estate capitalization rate (i.e., approximately 7.0 percent)[47]. Future amounts would be grown at the long-term growth rate.

Depreciation on Buildings. As part of the treatment of real estate as a non-operating asset, an Investor would eliminate the depreciation related to the real estate.

Interest on Real Estate Loans. As part of the treatment of real estate as a non-operating asset, an Investor would eliminate the interest expense related to real estate loans.

Additional Depreciation Adjustment. An Investor would adjust the estimated depreciation expense further to conform with the computation of the non-real estate depreciation expense as found in Appendix C.

Income Taxes. To follow the recommendation of the ESOP Association, an Investor would include income tax expense as if DSI were a C-corporation rather than an S corporation. To estimate the amount of income tax, an Investor would compute the income taxes based on the computation of taxable income contained in *Appendix C*.

The impact of these adjustments on DSI's forecasted pretax earnings are shown in *Appendix C* to this report.

Measure of Economic Benefit

An Investor would estimate the economic benefits to the Subject Interest holder by looking to cash flows expected to be generated. This is because cash flow is, in most cases, a better measure of economic benefit than earnings.

EXHIBIT 42: Computation of Cash Flow to Invested Capital

	Adjusted pretax earnings
+	*Interest expense*
=	*Earnings before interest and taxes*
-	*Normalized income taxes*
+	*Noncash charges, i.e., depreciation and amort.*
=	*Gross cash flow*
-	*Incremental working capital to support growth*
-	*Anticipated capital expenditure needs*
-	*Required distributions to cover owners' taxes [a]*
=	***Net Cash Flow to Invested Capital***

[a] Only for business taxed as pass-through entities

Estimated Ongoing Cash Flows to Invested Capital

Cash flows can be evaluated on a "cash flow to equity" basis or a "cash flow to invested capital" basis. Cash flow to equity looks at the cash flow available to equity owners. Cash flow to invested capital includes cash paid to debt holders (interest expense). It is often called "debt free" cash flow because it represents cash flows as if the entity had no interest bearing debt. It allows the analysis to be performed on a debt neutral basis. The impact of any debt is then considered separately. An Investor would use cash flow to invested capital because it can be more useful when valuing a controlling ownership interest. The formula for cash flow to invested capital is presented in the accompanying table (see Exhibit 42).

An Investor would estimate future economic benefits by forecasting DSI's future earnings and cash flows. This is appropriate because future growth in cash flows is expected to be different from current levels.

Cash Flow Formula Variables

An Investor would use the following variables to compute the cash flow to invested capital.

47. CBRE Research, United States Cap Rate Survey H2 2024, https://www.cbre.com/insights/reports/us-cap-rate-survey-h2-2024.

EXHIBIT 43: Incremental Working Capital Needs

Year	Forecasted Revenue [a]	Working Capital as a % of Revenue [b]	Long-Term Growth Rate [c]	Total Incremental Working Capital Needs [d] = [a] x [b] x [c]
2025	$ 51,029	22.7%	3.5%	$ 405
2026	52,065	22.7%	3.5%	414
2027	53,087	22.7%	3.5%	422
2028	54,129	22.7%	3.5%	430
2029	55,192	22.7%	3.5%	439
2030	57,124	22.7%	3.5%	454

$ in thousands
[a] From Appendix C.
[b] Average of the BizMiner peers over the last six periods.
[c] From the discussion in the Cost of Capital chapter.

Pretax Earnings. An Investor would start the computation of cash flows with the adjusted pretax earnings determined in the financial forecast as presented in *Appendix C*. For valuation purposes, an additional year, 2030, was added so that the residual period would better represent a stabilized level of growth. The earnings for this period was grown at the long-term growth rate.

Interest Expense. An Investor would add the forecasted interest expense from non-real estate operations. In this case, the adjusted interest amount is zero.

Normalized Income Taxes. An Investor would compute the normalized income taxes as presented in *Appendix C* and use it in the computation of cash flows to invested capital.

Noncash Charges. An Investor would add back the non-cash charges, which was computed in *Appendix C* of this report.

Incremental Working Capital Needed For Growth. An Investor would estimate incremental working capital needs for growth based on a normalized level of working capital, as measured by industry data. This would be computed as presented in the accompanying table (see Exhibit 43).

Anticipated Capital Expenditures. Mr. Robinson provided an estimate of capital expenditures over the forecast period.

Residual Period. After earnings have been forecasted out to a point in time where future growth is expected to continue at a relatively constant rate, a capitalization method can be used to determine the value of cash flows from that point forward. This part of the forecast is called the residual period. The capitalization rate used for the residual period was presented earlier in this chapter.

EXHIBIT 44: Discounted Future Cash Flows

Year	Pretax Earnings	Interest Expense	Pretax Earnings to Invested Capital	Income Taxes	After Tax Earnings to Invested Capital	Non-Cash Charges	Increase/ (Decrease) in Working Capital	Capital Exp.	Cash Flow to Invested Capital	Mid-Period Convention	Discount Factor 19.60%	Present Values
	[a]	[b]	[c]=[a]-[b]	[d]	[e]=[c]-[d]	[f]	[g]	[h]	[i]=[e]+[f]-[g]-[h]	[j]	[k]	[l]=[i]x[k]
2025	$ 2,215	$ -	$ 2,215	$ 536	$ 1,679	$ 319	$ 405	$ 363	$ 1,230	0.50	0.91440	$ 1,125
2026	1,985	-	1,985	502	1,483	336	414	190	1,215	1.50	0.76455	929
2027	2,004	-	2,004	514	1,490	332	422	312	1,088	2.50	0.63925	696
2028	2,010	-	2,010	514	1,496	348	430	190	1,224	3.50	0.53449	654
2029	2,054	-	2,054	529	1,525	316	439	110	1,292	4.50	0.44690	577
2030	2,301	-	2,301	578	1,723	152	454	114	1,307	5.50	0.37366	488
Residual Period		-	-		-				1,353			
								Capitalization rate [m]	16.10%			
								Capitalized residual	8,404		0.37366	3,140
											Sum of the present values	$ 7,609

NOTES: Dollars in thousands. Not all references are described below.
[a], [b], [d], From Appendix C with 2030 grown at the long-term growth rate.
[f] From Appendix C.
[g] From Exhibit 43.
[h] From client prepared schedules.
[j] Based on cash being received evenly throughout the year.
[k] Based on the formula at Exhibit 40 and discount rate at Exhibit 29.
[m] From Exhibit 29.

Concluded Cash Flows to Invested Capital

Based on the previously presented pretax earnings and cash flow variables, an Investor would compute the cash flow to invested capital as presented in the accompanying table (see Exhibit 44).

Discounted Future Cash Flows Method

To compute a preliminary indication of value, an Investor will multiply the previously determined estimate of future cash flows by the applicable discount factors to arrive at a present value for each forecasted period. An investor will compute the discount factors based on the formula at Exhibit 40. An Investor will apply a mid-year convention in determining the discount factors because DSI cash flows are received

evenly throughout the year. An Investor will sum the present values to arrive at a preliminary indication of value (see Exhibit 44).

Market Approach

An Investor will not use the market approach to estimate the fair market value of the Subject Interest. However, an Investor would use the publicly traded guideline company method as a reasonableness check of the income approach.

An Investor would consider the market approach as presented in this chapter. Methods under the market approach include actual transactions involving ownership of the valuation subject, private company transactions where the valuation subject is compared to transactions involving private companies, and the publicly traded guideline company method where the valuation subject is compared to publicly traded companies.

Actual Transactions

With regard to actual transactions, Rev. Rul. 59-60 states:

> *Forced or distress sales do not ordinarily reflect fair market value nor do isolated sales in small amounts necessarily control as the measure of value.*[48]

From our inquiries with management and observations, we did not identify any arms-length transactions involving the Company's equity ownership interests in the recent past. As a result, an Investor would not use actual Company transactions to develop a value.

Private Company Transaction Method

The private company transaction method estimates value by comparing the subject entity to private companies that have been bought and sold. Information about the transactions is used to develop a valuation multiple that can then be applied to the subject entity to develop a value. Information on such transactions is available from several transaction databases. An Investor would search among these private transaction databases to find transactions involving similar companies. Specifically an Investor would search for entities having the North American Industrial Classification System (NAICS) code 451110, Sporting Goods Stores.

The search resulted in three transaction involving business with the same NAICS code as DSI having revenue greater than $5 million. Two of these transactions involved a business referred to as a "bicycle store", and not considered comparable. The remaining was referred to as 'Retail-Sports Equipment".

The transactions in the various databases generally involve privately held businesses where a controlling interest (usually 100 percent) has been transacted. One difficulty with using the information is that an Investor will not know the motivations of either the buyer or the seller. Nor would an Investor know if the buyer had synergies or economies of scale to gain from the transaction, nor

48. Internal Revenue Service, Revenue Ruling 59-60, §4.02(g).

would an Investor know if the seller was in distress or in a "fire" sale situation.

When looking to use closely-held company databases, an Investor will consider the following:

> *The following transaction databases were reviewed for this article: Pratt's Stats, BIZCOMPS and The Institute of Business Appraisers (IBA). It is up to each analyst to read the pertinent information, absorb it and apply it. However, there are some areas of concern that, while openly presented by the vendors, may not be initially obvious…*[49]

The author then goes on to review various business valuation standards including ASA and USPAP and concludes,

> *Overall, the standards quoted above collectively require the following:*
>
> - Similar qualitative and quantitative comparisons
> - Verifiability
> - Whether transaction was arm's length
> - Due diligence and due care
> - Obtain and analyze relevant financial and operating data
> - Minimize the differences in accounting treatments
> - Information about the buyer and seller
> - Unusual and nonrecurring items should be analyzed and adjusted
> - Degree of control
> - Degree of marketability and/or liquidity
> - Timing differences between market transactions and the valuation date
> - Strategic or investment value issues
> - Size, depth of management, diversification of markets, products and services, and relative growth and risk
> - The dates and, consequently, the relevance of the market data
> - Rationale and support for methods selected
> - Not commit a substantial error of omission or commission
> - Not render appraisal services in a careless or negligent manner
> - Obtain sufficient relevant data
> - Supportable opinion
>
> *The databases discussed here meet few of the requirements as described above. If not addressed properly, this can lead to potential violations of various business valuation standards.*[50]

Because of the issues referred to above, and the fact that a single transaction is insufficient data from which to develop the fair market value, an Investor would not used the private company transaction method.

Guideline Public Company Method

The guideline public company method estimates value by comparing the subject entity to publicly traded companies that have their shares bought and sold on a stock exchange or over-the-counter. To repeat what was

49. Hitchner, James R., "Transaction Databases: Useful or Not?" *Financial Valuation and Litigation Expert*, Oct/Nov 2009, p.1.
50. Id.

EXHIBIT 45: Implied Valuation Multiple

		Price-to-Earnings	MVIC-to-EBIT	MVIC-to-EBITDA
Estimated marketable value of equity	[a]	$ 19,037,000	$ 19,037,000	$ 19,037,000
Add interest bearing debt	[b]		-	-
Less cash	[c]		(12,684,294)	(12,684,294)
Estimated value of invested capital			6,352,706	6,352,706
Divided by measure of economic benefit		3,218,243	2,964,238	3,584,969
Implied Valuation Multiples		**5.92**	**2.14**	**1.77**

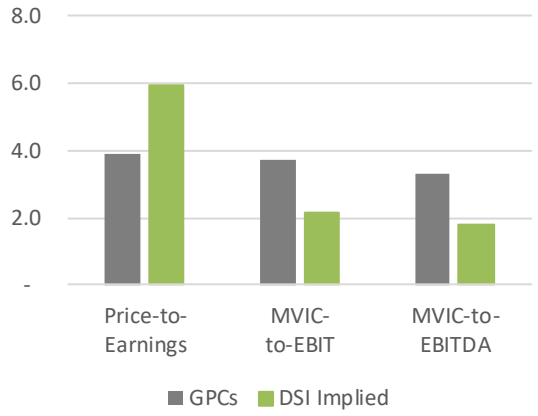
[a] From Exhibit 52.
[b] The interest bearing debt is non-operating and accounted for as a separate non-operat
[c] From Appendix B.

expressed previously in this report, IRS Revenue Ruling 59-60 states that consideration should be given to:

> *The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.*[51]

Financial information for publicly traded companies is a matter of public record, and their financial statements are available through the Securities and Exchange Commission (SEC). The trading prices for shares of publicly traded companies are available at any given time throughout a trading day. Historical daily low, high, and closing prices are published by various sources. This financial and other available information can be used to determine comparability of a GPC and the subject entity. Further, such financial information, along with trading price data can be used to develop valuation multiples that can then be used to value the subject entity.

EXHIBIT 46: Implied Multiple Comparison



Results of the GPC Method

An Investor would not specifically use the GPC method to develop a value for the Company, but would use it as a reasonableness check on the income approach. To do so, an Investor would take the selected adjusted

51. Id., §4.01(h).

valuation multiples computed in the *Cost of Capital* chapter of this report, and compare them to valuation multiples implied by the results under other methods.

To compute the implied multiples, an Investor would start with the concluded value from the *Conclusion* chapter of this report. For multiples that measure invested capital, the interest bearing debt would be added back and the cash balance would be subtracted. These would then be divided by the appropriate measure of economic benefit (in this case DSI's price-to-earnings, MVIC-to-EBIT, MVIC-to-EBITDA multiples) (see Exhibit 45), An Investor would give more weight to the MVIC-to-EBITDA multiple, because EBITDA is more similar to cash flows than earnings, and EBITDA is a very common measure of economic benefit use with privately held entities.

Once the implied valuation multiples have been computed, an Investor would compare them to the valuation multiples derived from the GPCs. The adjusted GPC multiples were presented previously in Exhibit 35 of the Cost of Capital chapter of this report.

The comparison of these multiples is illustrated in the accompanying chart (see Exhibit 46). DSI's implied price-to-earnings was much higher than the GPCs. This related to the recent decline in earnings (denominator). The MVIC-to-EBIT, and MVIC-to-EBITDA multiples were much somewhat lower than the GPCs. Given the focus an Investor would place on the MVIC-to-EBITDA multiple, and the GPC's greater access to capital markets and geographic diversity, this result suggests the results of this report appear reasonable.

Effects of Control on Value

An Investor would not make an adjustment for the Subject Interest's ability to exercise control. The method used to estimate the fair market value of the Subject Interest inherently captures the impact of control.

It is commonly recognized and well documented that an ownership interest lacking control will sell at a lower price than an equivalent controlling ownership interest. When control is not conveyed with the sale of an ownership interest, a downward adjustment to the preliminary indication of value may apply. This is commonly referred to as a "discount for lack of control" (a.k.a. minority discount). In some instances a premium (as opposed to a discount) for control may be applied when valuing a controlling ownership interest.

A controlling position in a business enterprise is typically worth more on a pro-rata basis than a non-controlling minority position for many reasons, including the rights of controlling owners to do any or all of the following:

- elect management/directors;
- select and/or remove management;
- set dividend/distribution policies;
- establish compensation and benefits;
- set business strategies and goals;
- acquire and liquidate assets;
- self-dissolve, or recapitalize the entity;
- revise organizational documents;
- establish or change buy-sell agreements or clauses; and
- cause the entity to become publicly traded.

A non-controlling interest holder cannot cause these actions to occur.

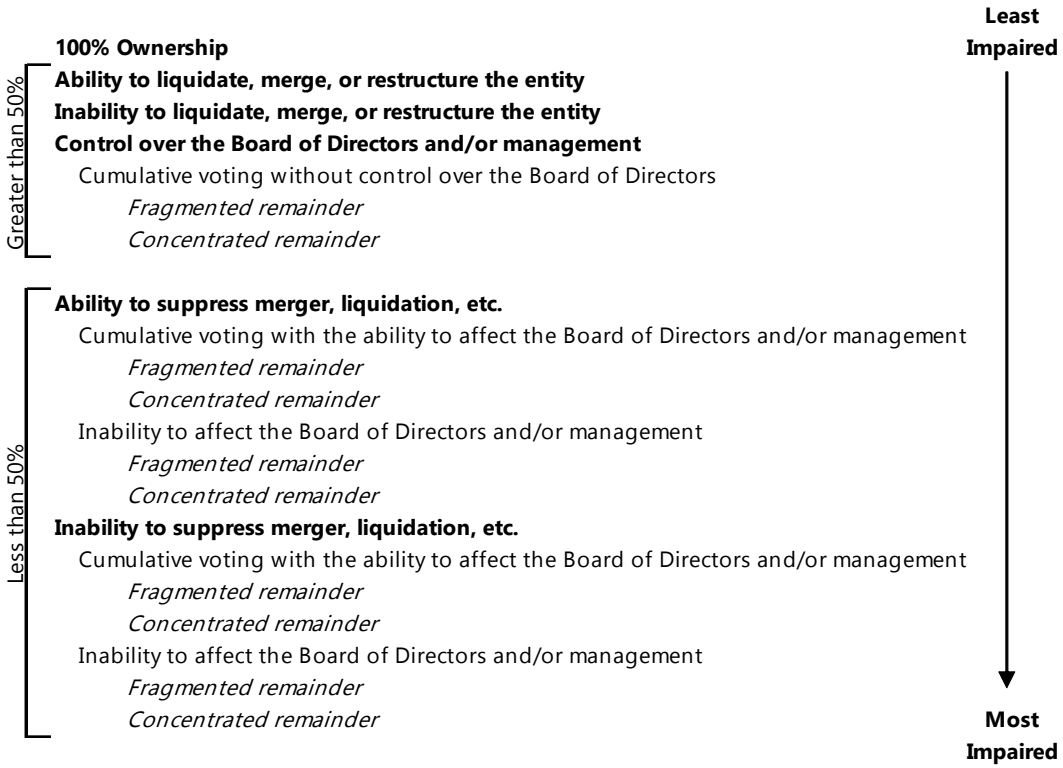
Other factors such as the rights of non-controlling owners and the distribution of ownership can also impact the value of an ownership interest. When assessing the value of an ownership interest it is important to consider the following factors:

Relative Ownership Distribution. The size of the ownership block being valued in relation to other blocks is important in establishing the degree of control. In a business enterprise that has hundreds of owners, a 20 percent interest can have a tremendous amount of control while in a business enterprise with only two owners, the owner of a 20 percent interest may have no control. If there are two owners, each holding 50 percent, neither has absolute control, but both have the ability to block any decision requiring a majority vote.

Swing Vote Characteristics. The existence of "swing vote" characteristics can significantly impact the value of a particular ownership interest. For instance, in a situation where a business enterprise has only three owners, two of them owning 49 percent each and the third owning 2 percent, the 2 percent owner can effectively exert significant control by casting the "swing vote."

Supermajority Statutes. Many states require a supermajority vote, usually 66 2/3 percent, before certain actions, such as a merger, can take place. In situations requiring a supermajority, a single owner with only a 34 percent interest is able to "block" the actions of the majority owner(s).

EXHIBIT 47: Control Spectrum



Source: David W. Simpson, "Minority Interest and Marketability Discounts: A Perspective: Part I", Business Valuation Review (March 1991).

Note: The above assumes the ability of an owner to vote for board members or managers. The inability to do so may cause the value of ownership interests greater than 50% to be similar in value (on a pro-rata basis) to ownership interests less than 50% that can vote.

Minority Dissolution Statutes. Some states permit minority interests to sue for dissolution. The specific applicable circumstances and size of the interest varies by state.

Organizational Documents. The rights and restrictions of owners contained in the articles of incorporation, bylaws, and organizational agreements can vary greatly from entity to entity. Such rights and restrictions can affect the ability to control or influence an entity in innumerable ways. The rights and restrictions that are most commonly addressed in organizational documents involve voting rights such as:

Nonvoting Interest. A holder of a nonvoting interest has little influence over the affairs of a business enterprise. If the holder cannot vote for board members or any other matter that requires a vote of the owners, such a holder has no control and little or no influence over the company, even if such owner has 99 percent of the outstanding ownership interest.

Cumulative Voting. Cumulative voting is a system whereby owners are allowed votes in proportion to their ownership percentage. The effect of cumulative voting can be illustrated by considering a vote of owners to elect directors. Under cumulative voting, a 20 percent owner can elect 20 percent of the board members. In situations where cumulative voting is not present, a 51 percent owner can elect all of the board members and deny board representation to all others. In some states, cumulative voting is mandated by statute.

Contractual Agreements. Certain contractual arrangements may also restrict control. Ownership agreements may preclude owners from exerting certain rights. Additionally, owners may forfeit, by contract, the right to do certain things, such as obtaining additional debt.

David W. Simpson illustrated the relationship between ownership rights and ownership distribution in an article published in the Business Valuation Review (see Exhibit 47). The table illustrates that influence and control increases by degrees, and that the impact of control or lack thereof must be analyzed in such manner.

As stated. the RSQC is specifically to be used to estimate the adjustment for lack of marketability related to non-marketable minority interests in private companies. As such, an Investor would not use the RSQC in this case because the Subject Interest is a controlling interest.

Adjustment for Control

> *The value of controlling a firm derives from the fact that you believe that you or someone else would operate the firm differently from the way it is operated currently.*[52]

If the value of control is derived from the ability to manage the Company in a more effective and efficient manner, the application of an adjustment for control depends on if the method used reflects that more effective and efficient management. If a valuation method inherently represents control, then no adjustment is needed when valuing a controlling interest. Likewise, if a valuation method inherently represents a lack of control, then no adjustment is needed when valuing a non-controlling interest.

In this case, the Subject Interest is a 100 percent controlling interest. The method used, the discounted future cash flows method, arrives at an indication of value that is inherently on a controlling basis when computed as it has been in this report. For this reason, an Investor would not make an adjustment for control.

52. Damodaran, Aswath, "The Value of Control: Implications for Control Premia, Minority Discounts and Voting Share Differentials," White Paper, June, 2005, p.3.

Effect of Marketability on Value

An Investor would apply an adjustment for lack of marketability of 5 percent in arriving at the estimate of the fair market value of the Subject Interest.

An ownership interest that can be sold easily and converted to cash is more valuable than an equivalent interest that cannot be sold easily. The ability to sell is called marketability, and the ability to convert to cash is called liquidity.

Marketability is:

> *The capability and ease of transfer or salability of an asset, business, business interest, or security.*[53]

Closely related to marketability is liquidity. Liquidity is:

> *The ability to readily convert an asset, business, business ownership interest, or security to cash without significant loss of principal.*[54]

When an ownership interest lacks certain elements of marketability and/or liquidity, an adjustment from the preliminary indication of value may be applicable. This is commonly referred to as a discount for lack of marketability (DLOM).

The standard for marketability is publicly traded stocks that enjoy significant trading volume on a major stock exchange. Owners of these stocks can know the value of their interests on a minute-by-minute basis, and can buy or sell these stocks at a moment's notice with the proceeds (net of fees) delivered in at least three business days.

A privately held business enterprise does not enjoy such marketability or liquidity. Liquidating a position in a privately held entity is more costly and time consuming. Fees may need to be paid to a business broker and other marketing costs may be incurred. Time is required to find a buyer, negotiate a price and draw up the necessary legal documents. In many cases, the purchase price is paid over a period of years.

In some cases, more onerous restrictions are placed on the ownership of privately held enterprises through organizational documents and/or agreements (e.g., bylaws, partnership agreements, operating agreements). These can include rights of first refusal (giving existing owners the right to purchase an ownership interest before it is sold to an outside party), and in some cases, an outright ban on the transferability. For these reasons, the marketability of a Subject Interest is important to estimating its value.

Empirical Evidence

Since the 1960s, numerous studies have been performed that suggest that privately held securities are considered less valuable than their publicly traded counterparts. These studies generally fall into two categories—restricted stock studies and initial public offering (IPO) studies.

53. International Glossary of Business Valuation Terms.
54. Id.

Restricted Stock Studies

Publicly traded companies may also issue shares of stock that are not registered with the U.S. Securities and Exchange Commission (SEC). These unregistered shares can be purchased by investment companies and accredited investors. However, these shares are typically restricted from being resold by provisions of SEC rule 144 for a minimum period of time. Because of this, they are referred to as "restricted stocks." Restricted stock studies seek to measure the lack of marketability of restricted stocks by comparing their transaction prices to corresponding unrestricted, publicly traded shares of the same company. Over time, these studies have consistently shown that restricted shares have transacted at discounts from the trading prices of their unrestricted, publicly trading counterparts.

IPO Studies

IPO Studies seek to measure the impact of the lack of marketability by comparing the transaction prices of private placements of unregistered shares prior to an (IPO) to the trading price of the shares after the IPO. These studies have, over time, consistently shown that private placements transactions occur at a discount relative to the trading prices after an IPO. Additional details about these studies can be found in the appendices to this report.

While the restricted stock studies and IPO studies may not, in and of themselves, identify the specific level of adjustment that is appropriate to the Subject Interest, they do provide compelling evidence that values of ownership interests in privately held entities are impaired relative to publicly traded stocks.

Factors Impacting Marketability

The following is a discussion of several factors that can impact the marketability of an equity ownership interest in a business enterprise. These factors have been separated into three broad categories, namely: price volatility; holding period, and; dividend risk. According to the authors of the *Discount for Lack of Marketability Toolkit*, these three factors have the most significant impacts on marketability.

Many of these factors have been discussed in previous chapters of this report, and despite being considered in other aspects of the analysis, these factors also impact the marketability of the Subject Interest.

Factors that Impact Volatility

Attractiveness of Subject Interest. An Investor would recognize that DSI's balance sheet strength and multi-location operations enhance the attractiveness of an investment in the Subject Interest.

Attractiveness of Subject Industry. Because the proxies used to determine price volatility are in the same industry, the impact of these factors are already accounted for.

Information Requirements and Availability of Access to or Reliability of Information. The financial information available for DSI lacks the level of details that are available to investors in publicly traded companies. Further, the financial statements of publicly traded companies are audited, while DSI's financial statements are not.

Management. Although the Company's management is considered effective at the enterprise level, they lack the depth of typical management found with publicly traded entities.

Earnings Levels, Revenue Levels, and Book to Market Value Ratios (Financial Condition). DSI's financial position was strong with significant non-operating assets, and little debt. Its Altman Z-score was strong. While revenues and earnings declined, the GPCs experience similar trends. These factors would point to a decreased volatility.

Business Risk. The GPCs have greater geographic diversification than DSI. This increases the price volatility of the Subject Interest.

General Economic Conditions, Prevailing Stock Market Conditions, Volatility of Stock, and Availability of Hedging Opportunities. Because the proxies used to determine price volatility are in the same industry, the impact of these factors are already accounted for.

Market Capitalization Rank. If DSI were publicly traded, it would rank at the bottom of its industry in terms of market capitalization.

Existence and Effect of Pending Litigation. Management indicated that there were no threatened, pending, or ongoing items of litigation. As such, this factor would have a neutral impact on the price volatility.

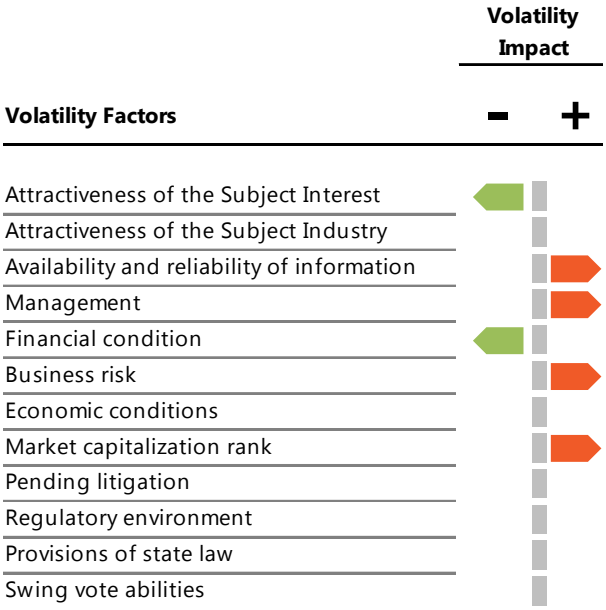
Degree and Effect of Industry Regulation. Because the GPCs used to determine price volatility are in the same industry, the impact of these factors are already accounted for.

Effects of State Laws. An Investor would recognize that no significant known state laws exist that would further increase the price volatility of the Subject Interest.

Existence of Swing-Vote Attributes in Subject Interest. Because the Subject Interest is a 100 percent interest, swing-vote attributes are not applicable.

Summary of Volatility Factors. A summary of the impact of these factors has been presented in the accompanying chart (see Exhibit 48).

EXHIBIT 48: Volatility Factors



Measurement of Price Volatility

The price volatility of a privately held entity cannot be directly determined because a consistent, market price is required for its computation. Price volatility for privately held entities can only be inferred by looking to GPCs and/or publicly traded industry peers.

In this case, an Investor would look to the previously identified GPC's as surrogates for price volatility. An Investor would compute the price volatilities based on daily price fluctuations over a three-month holding period. The determination of this holding period is presented later in this chapter.

An Investor would also adjust the price volatilities of the GPCs for differences in risk (standard deviations) and leverage (debt levels) relative to DSI. The purpose of these adjustments would be to make the volatilities more applicable to DSI.

Risk Adjustment. The first of these adjustments is for the standard deviation of returns. The *Navigator*, presents the standard deviations (risks) of returns of the overall securities market. This data is separated into eight different size measurements. These size measures are the same as presented previously in the *Cost of Capital* chapter. Each size measure is presented in a separate table that segregates each size measure into 25 portfolios ranging from the largest to the smallest.

An Investor would identify the standard deviation of returns for each GPC based on each size measure and the specific portfolio in which each specific GPC belongs. The median of the standard deviations for each GPC would then be computed.

An Investor would do the same for DSI, and then compare the medians of each GPC to DSI's median. The difference becomes the risk adjustment to the price volatilities.

Leverage Adjustment. The second adjustment is for leverage. The equity weighting of each GPC would be compared to DSI's equity weighting. The difference becomes the adjustment to the price volatility for leverage.

EXHIBIT 49: Adjusted Volatility

Ticker Symbol	Unadj. Volatilities	GPC Standard Deviations	DSI Standard Deviation	Adj. Factor	Size Adjusted Volatility	GPC Equity Weight	Asset Volatility	DSI Equity Weight	Adjusted Volatility
ASO	35.5%	20.2%	26.3%	1.30	46.2%	89.0%	41.1%	79.6%	51.6%
BGFV	98.0%	25.0%	26.3%	1.05	102.9%	56.6%	58.2%	79.6%	73.1%
DKS	33.5%	19.2%	26.3%	1.37	45.8%	92.2%	42.2%	79.6%	53.0%
FL	42.3%	20.1%	26.3%	1.31	55.4%	79.6%	44.1%	79.6%	55.4%
SPWH	88.3%	25.6%	26.3%	1.03	90.9%	38.9%	35.4%	79.6%	44.5%
Avg.	**59.5%**				**68.2%**				**55.5%**
Median	**42.3%**				**55.4%**				**53.0%**

Selected volatility	53.0%
Adjustment for volatility factors	5.0%
Volatility applicable to DSI	**58.0%**

The impact of these adjustments on the price volatility, along with the volatility applicable to the Subject Interest is presented in the accompanying table (see Exhibit 49).

Factors that Impact Holding Period

The length of time an Investor is required to hold an investment before it can be sold is an important factor in estimating the adjustment for lack of marketability. The holding period not only relates to the time value of money, but also the potential for an event that would adversely impact the price of the investment. Accordingly, the longer the holding period, the greater the adjustment for lack of marketability.

Prospects for a Sale or Public Offering of the Company. Although conducting an IPO is possible for the Company, the costs of conducting an initial public offering (i.e., administrative, regulatory, and advisory fees) are not considered economically optimal for the Company, especially in consideration of the Company's modest size. This factor would increase the holding period.

Number of Identifiable Buyers. The number of potential buyers for the Subject Interest is considered moderate given the small number of GPC that might consider an acquisition of DSI.

Volume of Comparable Private Transactions. As presented previously in the *Market Approach* chapter, there was one transaction involving an industry participant that was might be comparable, but a lack of information would prevent an Investor from making such determination. This suggests a low number of transactions in the industry.

Offering Size as a Percentage of Total Shares Outstanding. The Subject Interest represents a 100 percent ownership. As such, the Subject Interest would be a more attractive investment than an minority interest. The benchmark data used as a basis for the holding period also involves primarily controlling interests. As such, this factor would not modify the holding period.

Attributes of Controlling Shareholder, If Any. The Subject Interest being valued can exercise all

prerogatives of control. The benchmark data also represents controlling interests. An Investor would not adjust the holding period for this factor.

Ownership Concentration Effects. Because the Subject Interest holds 100 percent of the ownership, this factor is not applicable.

Percent of Shares Held by Insiders, Percent of Shares Held by Institutions, Percent of Independent Directors. Because the Subject Interest holds 100 percent of the ownership, this factor is not applicable.

Listing on a Major Exchange. The subject company is not publicly traded and does not have access to the public capital markets. The benchmark data used for the holding period also represents entities that are privately held. As such, this factor would not increase the holding period.

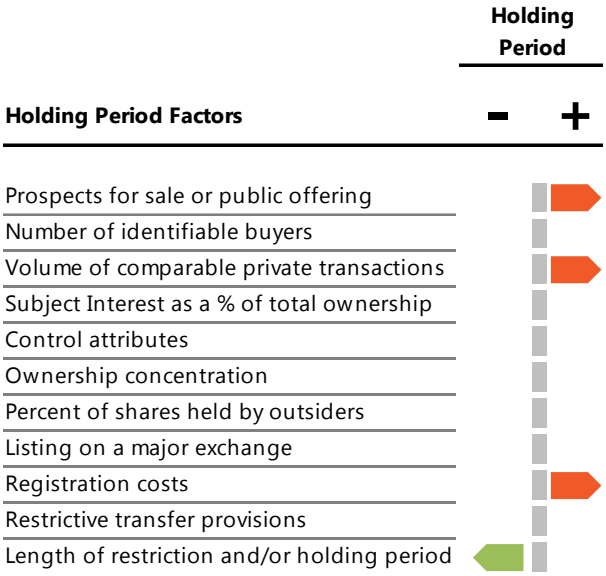
Registration Costs. Due to the relative size of DSI the cost to register the Subject Interest with the SEC, relative to expenses and overall profitability, would be prohibitive.

Restrictive Transfer Provisions. As a 100 percent controlling interest, any restrictive transfer provisions could be overcome by the Trust.

Length of Restriction Period and Length of Expected Holding Period. For guidance as to an appropriate holding period, an Investor would look to the Doubleday Sports, Inc. Employee Stock Ownership Plan Company Stock Repurchase Policy. Based on this document, mandatory distributions of repurchase liability will occur as follows:

- Upon normal retirement—as soon as practicable after normal retirement.
- Upon death—no later than one year after the close of the Plan year in which such participant's death occurs.
- Upon total and permanent disability—no later than one year after the close of the Plan year in which such participant's total and permanent disability occurs.
- Upon termination of employment—no later than one year after the close of the fifth plan year in which the participant separates from service.[55]

EXHIBIT 50: Holding Period Factors



Based on this policy, the shortest holding period would be as soon as practicable after separation from service. The longest holding period would be two-years, except for terminated employees, which could see a six-year holding period. The mid-point for separations other than termination is one-year. Management did indicate that they intend to pay terminated employees over a five-year period. Such a holding period is still longer than a publicly traded stock, but much shorter than the benchmark data used to estimate the holding period.

Summary of Holding Period Factors. A summary of the impact of these factors has been presented in the accompanying chart (see Exhibit 50).

55. Doubleday Sports, Inc. Employee Stock Ownership Plan Company Stock Repurchase Policy dated Sept. 1, 2013 section 8.

Measurement of Holding Period

Recalling Exhibit 50, the majority of the factors point to an increased holding period. However, an Investor will recognize that not all of the factors have an equal impact. More specifically, the Subject Interest is a 100 percent controlling interest. A benchmark for the holding period is the holding period found with private equity investments. It is common for private equity firms to hold their investments in privately held business entities for approximately five-years. However, given the repurchase policy, the holding period would be much shorter than many privately held entities. As such, an Investor would estimate the holding period at approximately three months.

Factors that Affect Dividends

Dividend-Paying (or Distribution) Ability and History. DSI has no history of paying distributions/dividends and management has indicated that there are no plans to do so in the foreseeable future.

Dividend Yield. Because DSI has not paid distributions/dividends and is not expected to do so for the foreseeable future, the dividend yield was zero.

Other Factors Affecting Marketability

Owners with an Adversarial Relationship. Management indicated that there were no adversarial relations among management.

Liquidity of Control Owners. As a 100 percent controlling interest, this factor has minimal impact on the Subject Interest.

Conclusion of Factors

Based on these facts, an Investor would consider the marketability of the Subject Interest to be impaired relative to a highly marketable investment such as a publicly traded stock, and that a disinterested, third party investor would require a discount to the purchase price to be enticed to invest in the Subject Interest.

EXHIBIT 51: Ghaidarov Average-Strike Option Sensitivity Analysis

		Expected Holding Period (Years)				
		0.25	0.5	0.75	1	1.25
		Implied Adj. for Lack of Marketability				
Volatility	55.0%	6.0%	9.0%	11.0%	13.0%	14.0%
	56.0%	6.0%	9.0%	11.0%	13.0%	15.0%
	57.0%	7.0%	9.0%	11.0%	13.0%	15.0%
	58.0%	7.0%	9.0%	12.0%	13.0%	15.0%
	59.0%	7.0%	10.0%	12.0%	14.0%	15.0%
	60.0%	7.0%	10.0%	12.0%	14.0%	16.0%
	61.0%	7.0%	10.0%	12.0%	14.0%	16.0%

Quantifying Adjustments for Marketability

Diverse methods exist to estimate and quantify the impact of marketability on the value of a privately held business enterprise. These methods include:

- Option Pricing Models (OPMs);
- the Quantitative Marketability Discount Model (QMDM); and,
- Restricted Stock Studies.

The applicability of each of these in the current case has been presented as follows:

Option Pricing Models

A tactic used by investors to protect the value of an appreciated security is to purchase a put option. A put option gives the holder the right to sell a security at a predetermined price. If the market value of the security declines, the put allows the investor to sell it at the higher option price, thus protecting the investor from the decline in value. The holder of a non-marketable security runs the risk of declining value while an Investor is waiting for a marketability event. Based on option theory, an Investor would require a discount to the price equal to the cost of purchasing a put option. The basis for computations under OPMs is the Black-Scholes model. Other researchers have modified the Black-Scholes

model to provide better computations of adjustments for lack of marketability.

An Investor would select the Ghaidarov Average-Strike Option model for computing an estimated adjustment for lack of marketability. This model requires several inputs including price volatility, the holding period and the distribution yield. Each of these, as they relate to the Subject Interest, was determined previously in this report.

Given these inputs, the Ghaidarov Average-Strike Option model produces an estimate for the adjustment for lack of marketability ranging as shown in the shaded area of the accompanying sensitivity analysis table (see Exhibit 51).

QMDM

Z. Christopher Mercer of Mercer Capital published the book, *Quantifying Marketability Discounts*, in 1997, where he presented the Quantitative Marketability Discount Model (QMDM). The QMDM is based on time value of money principles and attempts to value illiquid interests of privately owned businesses based on specific cash flow characteristics of the business.

It uses several variables as inputs into the QMDM formula to compute an adjustment for lack of marketability. These inputs include:

- The expected rate of growth in the value of the Subject Interest
- The expected holding period for the Subject Interest
- The required rate of return for the Subject Interest
- Expected dividend payments.

The developer of the QMDM states that it should not be used for a controlling interest. As such, an Investor would not used the QMDM to estimate an adjustment for lack of marketability.

Restricted Stock Studies

The restricted stock approach estimates the discount for lack of marketability by measuring the difference between transactions of a company's restricted shares and their freely traded counterparts. "Restricted shares" (also called "letter stocks" or "restricted stock") are shares of publicly traded companies that are restricted from being sold on the open market. These securities generally possess the same attributes as their freely-traded counterparts, except that they have restrictions imposed by the Securities and Exchange Commission. By measuring the difference between what investors are willing to pay for the restricted shares and what they are willing to pay for the freely traded shares, the effect of marketability, or lack thereof, can be quantified.

Generally, these studies only provide a broad analysis of adjustments for lack of marketability. However, The *Restricted Stock Study Quintile Calculator* (RSQC), takes raw data from one of these studies, the Stout Restricted Stock Study, and adjusts the data for relative differences in volatility, holding period, dividends and other qualitative factors to develop an adjustment for lack of marketability that is more applicable to the Subject Interest. The developer of the RSQC describe this process as follows:

> *This analysis involves matching the subject company to a similar quintile of restricted stocks based on fundamental criteria such as revenues, market value, and profitability. The median discount of the matched quintile is then used as a benchmark for the subject company's discount "as if" the company were a restricted stock. This restricted stock study equivalent discount, or RSED, provides an estimate of the discount an investor would expect assuming the company's illiquidity, volatility, holding period, dividends, and other fundamental criteria match similar quintiles of restricted securities.*
>
> *The RSQC then enables the user to further adjust the RSED for differences between the volatility, holding period, dividend yields, and/or other qualitative factors considered to affect the illiquidy/marketability of the match quintile of restricted stocks and the subject company. The User makes these adjustments using either regression analyses or the [Stout] data, option pricing models, and/or Mandelbaum-type*

factor-based analyses that are contained in the RSQC. The adjustments are then utilized to adjust the RSED discount to an appropriate DLOM applicable to a non-marketable minority interest in a private company.[56]

The developers of the RSQC indicate that it is intended to be used with non-controlling interest. As such, an Investor would not use the RSQC to develop an adjustment for lack of marketability.

Summary

Based on the above analysis, an investor would rely on the Ghaidarov model to develop an adjustment for lack of marketability, and would apply an adjustment near the middle of the range found of 5 percent.

56. VPS Valuation Products and Services, *User Manual - VPS DLOM Excel Toolkit: Restricted Stock Study Quintile Calculator*, p. 8.

Conclusion

Reconciliation

An Investor would compare and contrast the results of the asset, income and market approaches in order to reconcile them.

As presented previously, an Investor would consider using the asset approach but would ultimately reject it for valuing DSI's operations, noting that DSI's adjusted net assets do not capture the true picture DSI's intangible asset value. An Investor would also recognize that the adjusted net assets exceeds the value arrived at using the income approach. As a retail business, DSI's inventory would likely have a much lower value under the asset approach than the recorded amount. It is reasonable, therefore, that the conclusion of value would be lower. The asset approach would be used to measure the value of non-operating real estate.

An Investor would also consider and ultimately use the income approach as detailed in this report. As presented in the Market Approach chapter, an Investor would consider using the GPC method, but due the factors presented in that chapter, would only use the GPC method as a reasonableness check of the conclusion of this report.

Conclusion

We have performed this valuation engagement based on the consideration of relevant factors. Our estimate

EXHIBIT 52: Conclusion of Value

Value of operations	[a]	$ 7,609,000
Value of non-operating assets	[b]	11,428,000
Value of equity		$ 19,037,000
Divided by the total number of shares outstanding		50,000
Preliminary per share value		$ 380.74
Adjustment for lack of marketability — 5.00%		(19.04)
Fair market value per share		$ 361.70
Multiplied by the number of shares under consideration		50,000
Fair market value of 50,000 shares of common stock, representing a 100.00% ownership interest in Doubleday Sports, Inc, as of December 31, 2024 on a Controlling, Non-marketable basis.		**$ 18,085,000**

[a] From Exhibit 44.
[b] From Exhibit 39.

SAMPLE REPORT: Names and Amounts have been Fictionalized

(opinion) of the fair market value of 50,000 shares of the voting common stock of Doubleday Sports, Inc. as of December 31, 2024 on a controlling, non-marketable basis as held by the ESOT is:

Eighteen Million Eighty-Five Thousand Dollars
$18,085,000
which equates to
Three Hundred Sixty-One Dollars Seventy Cents per Share
$361.70/share
(see Exhibit 52)

This valuation was performed solely to comply with regulatory requirements as defined by the U.S. Department of Labor related to the annual valuation of shares held by Doubleday Sports, Inc. Employee Stock Ownership Trust. The resulting estimate of value should not be used for any other purpose or by any other party.

The previous letter and this report are to be considered a single document, distributed only in their entirety, and intended and restricted only for use by the trustee of the Doubleday Sports, Inc. Employee Stock Ownership Trust and its legal and financial advisors. This report is not to be copied or made available to any persons without the express written consent of GBV.

This valuation engagement was conducted in accordance with the business valuation standards of the ASA, the AICPA, and USPAP, and is subject to the Statement of Assumptions and Limiting Conditions as presented in the appendices to this report.

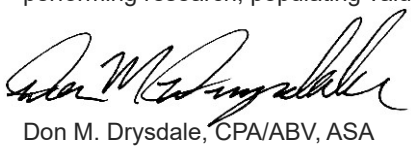
We have no present or contemplated financial interest in Doubleday Sports, Inc. Our fees for this analysis were based on our customary billing rates, and are in no way contingent upon the results of our findings. We have no obligation or responsibility to update this report for events, circumstances or information that comes to our attention subsequent to the date of this report, although I will be pleased to perform an update should one be required.

Appendix A: Certification

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, impartial, and unbiased professional analyses, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have performed valuation services, as an appraiser/valuation analyst regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with business valuation standards promulgated by the American Institute of Certified Public Accountants, the American Society of Appraisers, and the Uniform Standards of Professional Appraisal Practice standards for conducting and reporting on business valuations.
- No one provided significant professional assistance to the persons signing this report.
- The economic, external and industry data used in this report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that data.
- The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
- We have relied on the work of outside specialists. These specialists, Joshua L. Simonson, MAI, and Elliot M. Clark, MAI, of Clark Real Estate Appraisal; performed a real estate appraisal on property held by Doubleday Sports, Inc. as of March 18, 2021.
- We have no obligation to update the report or the opinion of value for information that comes to our attention after the date of the report.

Under the direction of the lead appraiser on this engagement Dustin Crespin and Santiago D'Agostino assisted in performing research, populating valuation models with data, and providing other general assistance.



Don M. Drysdale, CPA/ABV, ASA
March 31, 2025

SAMPLE REPORT: Names and Amounts have been Fictionalized

Appendix B: Financial Information

Doubleday Sports, Inc

Historical Balance Sheets

as of:	12/31/2020	%	12/31/2021	%	12/31/2022	%	12/31/2023	%	12/31/2024	%
ASSETS										
Current assets										
Cash and equivalents	$ 9,090,302	*29.3%*	$ 9,810,110	*27.6%*	$ 8,655,260	*21.5%*	$ 10,345,764	*25.2%*	$ 12,684,294	*30.6%*
Accounts receivable	66,780	*0.2%*	28,094	*0.1%*	20,133	*0.0%*	14,866	*0.0%*	12,462	*0.0%*
Inventory	7,986,646	*25.8%*	10,407,709	*29.3%*	15,809,640	*39.2%*	15,303,496	*37.2%*	13,627,141	*32.9%*
Prepaid expenses	275,705	*0.9%*	280,729	*0.8%*	254,382	*0.6%*	306,603	*0.7%*	391,846	*0.9%*
Total current assets	17,419,433	*56.2%*	20,526,642	*57.8%*	24,739,415	*61.4%*	25,970,729	*63.1%*	26,715,743	*64.5%*
Fixed assets	20,151,103	*65.0%*	20,126,531	*56.7%*	23,020,305	*57.1%*	23,134,061	*56.2%*	23,211,563	*56.0%*
Accumulated depreciation	(6,914,838)	*-22.3%*	(7,324,286)	*-20.6%*	(7,762,830)	*-19.3%*	(8,360,198)	*-20.3%*	(8,894,551)	*-21.5%*
Net fixed assets	13,236,265	*42.7%*	12,802,245	*36.1%*	15,257,475	*37.9%*	14,773,863	*35.9%*	14,317,012	*34.5%*
Other noncurrent assets										
Intangible assets	218,855	*0.7%*	213,112	*0.6%*	213,112	*0.5%*	72,196	*0.2%*	44,882	*0.1%*
Accumulated amortization	(64,714)	*-0.2%*	(86,286)	*-0.2%*	(107,857)	*-0.3%*	-	*0.0%*	-	*0.0%*
Net intangible assets	154,141	*0.5%*	126,826	*0.4%*	105,255	*0.3%*	72,196	*0.2%*	44,882	*0.1%*
Construction in progress	6,371	*0.0%*	1,828,969	*5.2%*	-	*0.0%*	-	*0.0%*	-	*0.0%*
Other non-current assets	178,306	*0.6%*	217,486	*0.6%*	206,054	*0.5%*	315,846	*0.8%*	360,898	*0.9%*
Other noncurrent assets	338,818	*1.1%*	2,173,281	*6.1%*	311,309	*0.8%*	388,042	*0.9%*	405,780	*1.0%*
Total Assets	**$ 30,994,516**	***100.0%***	**$ 35,502,168**	***100.0%***	**$ 40,308,199**	***100.0%***	**$ 41,132,634**	***100.0%***	**$ 41,438,535**	***100.0%***

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Historical Balance Sheets (continued)

as of:	12/31/2020	%	12/31/2021	%	12/31/2022	%	12/31/2023	%	12/31/2024	%
LIABILITIES AND EQUITY										
Current liabilities										
Accounts payable	$ 2,733,944	*8.8%*	$ 3,364,632	*9.5%*	$ 3,326,753	*8.3%*	$ 2,432,972	*5.9%*	$ 1,572,647	*3.8%*
Accrued expenses	964,268	*3.1%*	1,223,143	*3.4%*	1,396,352	*3.5%*	1,270,724	*3.1%*	1,299,473	*3.1%*
Current deferred revenue	424,554	*1.4%*	495,535	*1.4%*	559,001	*1.4%*	606,407	*1.5%*	641,070	*1.5%*
Current deferred tax liability	-	*0.0%*	-	*0.0%*	-	*0.0%*	-	*0.0%*	-	*0.0%*
Current portion of long-term debt	398,965	*1.3%*	604,781	*1.7%*	628,917	*1.6%*	653,727	*1.6%*	680,110	*1.6%*
Customer deposits	299,307	*1.0%*	340,766	*1.0%*	309,678	*0.8%*	319,428	*0.8%*	351,679	*0.8%*
Gift certificates / loyalty cards	578,810	*1.9%*	691,930	*1.9%*	788,843	*2.0%*	844,520	*2.1%*	827,416	*2.0%*
Total current liabilities	5,399,848	*17.4%*	6,720,787	*18.9%*	7,009,544	*17.4%*	6,127,778	*14.9%*	5,372,395	*13.0%*
Long-term liabilities										
Notes payable	7,255,930	*23.4%*	3,354,399	*9.4%*	2,669,146	*6.6%*	2,071,830	*5.0%*	1,391,736	*3.4%*
Total long-term liabilities	7,255,930	*23.4%*	3,354,399	*9.4%*	2,669,146	*6.6%*	2,071,830	*5.0%*	1,391,736	*3.4%*
Total liabilities	12,655,778	*40.8%*	10,075,186	*28.4%*	9,678,690	*24.0%*	8,199,608	*19.9%*	6,764,131	*16.3%*
Total equity	18,338,738	*59.2%*	25,426,982	*71.6%*	30,629,509	*76.0%*	32,933,026	*80.1%*	34,674,404	*83.7%*
Total Liabilities and Equity	**$ 30,994,516**	***100.0%***	**$ 35,502,168**	***100.0%***	**$ 40,308,199**	***100.0%***	**$ 41,132,634**	***100.0%***	**$ 41,438,535**	***100.0%***
Working capital	$ 12,019,585	*38.8%*	$ 13,805,855	*38.9%*	$ 17,729,871	*44.0%*	$ 19,842,951	*48.2%*	$ 21,343,348	*51.5%*
Cash free working capital	2,929,283	*9.5%*	3,995,745	*11.3%*	9,074,611	*22.5%*	9,497,187	*23.1%*	8,659,054	*20.9%*

Source: CPA reviewed financial statements.

Doubleday Sports, Inc

Historical Income Statements

years ended:	12/31/2020	%	12/31/2021	%	12/31/2022	%	12/31/2023	%	12/31/2024	%
Revenue	$ 42,762,822	100.0%	$ 50,652,807	100.0%	$ 54,663,692	100.0%	$ 53,502,191	100.0%	$ 51,666,592	100.0%
Cost of sales	26,766,569	*62.6%*	30,751,572	*60.7%*	34,343,109	*62.8%*	34,933,911	*65.3%*	32,938,997	*63.8%*
Gross profit	15,996,253	*37.4%*	19,901,235	*39.3%*	20,320,583	*37.2%*	18,568,280	*34.7%*	18,727,595	*36.2%*
Operating expenses										
Advertising	$ 647,625	*1.5%*	$ 651,512	*1.3%*	$ 671,045	*1.2%*	$ 680,786	*1.3%*	$ 769,349	*1.5%*
Rents	959,687	*2.2%*	956,707	*1.9%*	1,054,050	*1.9%*	1,048,600	*2.0%*	1,086,613	*2.1%*
Repairs and maintenance	299,946	*0.7%*	323,963	*0.6%*	338,953	*0.6%*	348,456	*0.7%*	368,536	*0.7%*
Salaries and wages	6,658,750	*15.6%*	6,992,403	*13.8%*	8,181,217	*15.0%*	8,988,480	*16.8%*	9,525,484	*18.4%*
ESOP distributions	395,115	*0.9%*	541,989	*1.1%*	917,607	*1.7%*	1,119,247	*2.1%*	1,476,865	*2.9%*
General and administrative	1,795,076	*4.2%*	2,096,893	*4.1%*	2,599,749	*4.8%*	2,967,380	*5.5%*	2,714,704	*5.3%*
Professional services	80,095	*0.2%*	65,164	*0.1%*	60,965	*0.1%*	56,164	*0.1%*	64,387	*0.1%*
Travel	44,069	*0.1%*	17,677	*0.0%*	73,057	*0.1%*	54,085	*0.1%*	82,767	*0.2%*
Utilities	376,646	*0.9%*	417,076	*0.8%*	523,751	*1.0%*	481,025	*0.9%*	530,786	*1.0%*
Expenses before non-cash charges	11,257,009	*26.3%*	12,063,384	*23.8%*	14,420,394	*26.4%*	15,744,223	*29.4%*	16,619,491	*32.2%*
EBITDA	4,739,244	*11.1%*	7,837,851	*15.5%*	5,900,189	*10.8%*	2,824,057	*5.3%*	2,108,104	*4.1%*
Non-cash charges	498,927	*1.2%*	499,823	*1.0%*	622,679	*1.1%*	646,684	*1.2%*	620,731	*1.2%*
Income from operations	4,240,317	*9.9%*	7,338,028	*14.5%*	5,277,510	*9.7%*	2,177,373	*4.1%*	1,487,373	*2.9%*
Other income (expenses)										
Gain (loss) on disposal of assets	13,500	*0.0%*	3,820	*0.0%*	(30,897)	*-0.1%*	2,000	*0.0%*	14,286	*0.0%*
Interest expense	(376,906)	*-0.9%*	(339,948)	*-0.7%*	(143,418)	*-0.3%*	(119,397)	*-0.2%*	(95,793)	*-0.2%*
Interest income	50,781	*0.1%*	73,366	*0.1%*	99,333	*0.2%*	243,541	*0.5%*	335,512	*0.6%*
Other income	1,251,637	*2.9%*	12,978	*0.0%*	-	*0.0%*	-	*0.0%*	-	*0.0%*
Other income (expenses)	939,012	*2.2%*	(249,784)	*-0.5%*	(74,982)	*-0.1%*	126,144	*0.2%*	254,005	*0.5%*
Net Income	**$ 5,179,329**	***12.1%***	**$ 7,088,244**	***14.0%***	**$ 5,202,528**	***9.5%***	**$ 2,303,517**	***4.3%***	**$ 1,741,378**	***3.4%***
5 year average EBITDA									$ 4,681,889	
5 year average net income									4,302,999	

Source: CPA reviewed financial statements.

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Historical Financial Ratios

for the years ended:	2020	2021	2022	2023	2024	Average	Median
Activity Ratios:							
A/R turnover	686.6	1,067.8	2,266.9	3,057.3	3,781.2	2,172.0	2,266.9
DSO	1	-	-	-	-	-	-
Inventory turnover	3.2	3.3	2.6	2.2	2.3	2.7	2.6
DIO	114	111	140	166	159	138	140
A/P turnover	11.1	10.1	10.3	12.1	16.4	12.0	11.1
DPO	33	36	35	30	22	31	33
Cash conversion cycle, days	82	75	105	136	137	107	105
Profitability Ratios:							
Gross Profit Margin	37.4%	39.3%	37.2%	34.7%	36.2%	37.0%	37.2%
Pretax profit margin	12.1%	14.0%	9.5%	4.3%	3.4%	8.7%	9.5%
Operating expense margin	27.5%	24.8%	27.5%	30.6%	33.4%	28.8%	27.5%
EBITDA margin	11.1%	15.5%	10.8%	5.3%	4.1%	9.4%	10.8%
EBIT to total assets	0.14	0.21	0.13	0.05	0.04	0.11	0.13
Pretax return on total assets	18.5%	21.3%	13.7%	5.7%	4.2%	12.7%	13.7%
Pretax return on equity	32.9%	32.4%	18.6%	7.2%	5.2%	19.3%	18.6%
Liquidity Ratios:							
Current ratio	3.2	3.1	3.5	4.2	5.0	3.8	3.5
Quick ratio	1.7	1.5	1.2	1.7	2.4	1.7	1.7
Sales-to-working capital	3.6	3.7	3.1	2.7	2.4	3.1	3.1
Working capital as a % of sales	28.1%	27.3%	32.4%	37.1%	41.3%	33.2%	32.4%
Working capital to total assets	0.4	0.4	0.4	0.5	0.5	0.4	0.4
Leverage Ratios:							
Debt-to-equity	0.7	0.4	0.3	0.2	0.2	0.4	0.3
Book value to liabilities	1.4	2.5	3.2	4.0	5.1	3.2	3.2
Assets-to-equity	1.7	1.4	1.3	1.2	1.2	1.4	1.3
Retained earnings to assets	0.6	0.7	0.7	0.8	0.8	0.7	0.7
EBITDA-to-Interest	12.6	23.1	41.1	23.7	22.0	24.5	23.1
Asset Utilization Ratios:							
Revenues-to-total assets	1.4	1.4	1.4	1.3	1.2	1.3	1.4
Number of employees	310	215	200	260	250		
Revenue per employee ($000)	$ 137.9	$ 235.6	$ 273.3	$ 205.8	$ 206.7		
Growth							**5-Yr CAGR**
Revenue growth	20.0%	18.5%	7.9%	-2.1%	-3.4%	8.2%	7.7%
Gross profit growth	22.7%	24.4%	2.1%	-8.6%	0.9%	8.3%	7.5%
EBIT growth	514.8%	73.1%	-28.1%	-58.7%	-31.7%	93.9%	16.6%
EBITDA growth	294.3%	65.4%	-24.7%	-52.1%	-25.4%	51.5%	11.9%
Pretax earnings growth	1597.5%	36.9%	-26.6%	-55.7%	-24.4%	305.5%	41.7%
Net income growth	1597.5%	36.9%	-26.6%	-55.7%	-24.4%	305.5%	41.7%

Doubleday Sports, Inc

Computation of Altman Z Score

	Ratio	Multiplier	Extended
Working capital to total assets	0.500	6.56	3.28
Retained earnings to total assets	0.800	3.26	2.61
EBIT to total assets	0.036	6.72	0.24
Book value to total liabilities	5.100	1.05	5.36
Altman Z score			**11.49**

Appendix C: Adjusted Financial Forecast

Doubleday Sports, Inc

Adjustments to Management's Earnings Forecasts

For Future Periods 2025 through 2029

	Future Period 2025					
	Mgmt's Forecast	ESOP Adjustments	Non-operating Items	Adjusted Forecast	Mgmt's Forecast %	Adjusted Forecast %
Revenue	$ 51,029,207	$ -	$ -	$ 51,029,207	100.0%	100.0%
Cost of goods sold	32,550,981	-	-	32,550,981	63.8%	63.8%
Gross profit	18,478,226	-	-	18,478,226	36.2%	36.2%
Payroll and benefits	9,468,905	113,627	-	9,582,532	18.6%	18.8%
Advertising	751,177	-	-	751,177	1.5%	1.5%
Travel and Entertainment	102,400	-	-	102,400	0.2%	0.2%
Repairs and Maintenance	378,820	-	-	378,820	0.7%	0.7%
General and Administrative	2,662,114	-	-	2,662,114	5.2%	5.2%
Professional	64,950	-	-	64,950	0.1%	0.1%
Rent	1,114,296	-	945,000	2,059,296	2.2%	4.0%
Utilities	530,180	-	-	530,180	1.0%	1.0%
Total operating expenses	15,072,842	113,627	945,000	16,131,469	29.5%	31.6%
EBITDA	3,405,384	(113,627)	(945,000)	2,346,757	6.7%	4.6%
Depreciation and amortization	610,814	-	(291,814)	319,000	1.2%	0.6%
Earnings from operations	2,794,570	(113,627)	(653,186)	2,027,757	5.5%	4.0%
Other income and expenses						
Interest income	187,000	-	-	187,000	0.4%	0.4%
Interest expense	(67,553)	-	67,553	-	-0.1%	0.0%
ESOP distributions	(1,600,000)	1,600,000	-	-	-3.1%	0.0%
Pretax earnings	1,314,017	1,486,373	(585,633)	2,214,757	2.6%	4.3%
Income taxes	-	536,000	-	536,000	0.0%	1.1%
Forecasted Net Income	**$ 1,314,017**	**$ 950,373**	**$ (585,633)**	**$ 1,678,757**	2.6%	3.3%

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Adjustments to Management's Earnings Forecasts (continued)

For Future Periods 2025 through 2029

	Future Period 2026					
	Mgmt's Forecast	ESOP Adjustments	Non-operating Items	Adjusted Forecast	Mgmt's Forecast %	Adjusted Forecast %
Revenue	$ 52,065,002	$ -	$ -	$ 52,065,002	100.0%	100.0%
Cost of goods sold	33,406,321	-	-	33,406,321	64.2%	64.2%
Gross profit	18,658,681	-	-	18,658,681	35.8%	35.8%
Payroll and benefits	9,670,040	116,040	-	9,786,080	18.6%	18.8%
Advertising	766,200	-	-	766,200	1.5%	1.5%
Travel and Entertainment	122,000	-	-	122,000	0.2%	0.2%
Repairs and Maintenance	380,000	-	-	380,000	0.7%	0.7%
General and Administrative	2,707,240		-	2,707,240	5.2%	5.2%
Professional	66,000	-	-	66,000	0.1%	0.1%
Rent	1,113,328	-	978,000	2,091,328	2.1%	4.0%
Utilities	500,000	-	-	500,000	1.0%	1.0%
Total operating expenses	15,324,808	116,040	978,000	16,418,848	29.4%	31.5%
EBITDA	3,333,873	(116,040)	(978,000)	2,239,833	6.4%	4.3%
Depreciation and amortization	618,114	-	(282,114)	336,000	1.2%	0.6%
Earnings from operations	2,715,759	(116,040)	(695,886)	1,903,833	5.2%	3.7%
Other income and expenses						
Interest income	80,000	-	-	80,000	0.2%	0.2%
Interest expense	(40,017)	-	40,017	-	-0.1%	0.0%
ESOP distributions	(1,900,000)	1,900,000	-	-	-3.6%	0.0%
Pretax earnings	855,742	1,783,960	(655,869)	1,983,833	1.6%	3.8%
Income taxes	-	502,000	-	502,000	0.0%	1.0%
Forecasted Net Income	**$ 855,742**	**$ 1,281,960**	**$ (655,869)**	**$ 1,481,833**	1.6%	2.8%

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Adjustments to Management's Earnings Forecasts (continued)

For Future Periods 2025 through 2029

	Future Period 2027					
	Mgmt's Forecast	ESOP Adjustments	Non-operating Items	Adjusted Forecast	Mgmt's Forecast %	Adjusted Forecast %
Revenue	$ 53,086,602	$ -	$ -	$ 53,086,602	100.0%	100.0%
Cost of goods sold	34,074,448	-	-	34,074,448	64.2%	64.2%
Gross profit	19,012,154	-	-	19,012,154	35.8%	35.8%
Payroll and benefits	9,870,101	118,441	-	9,988,542	18.6%	18.8%
Advertising	781,524	-	-	781,524	1.5%	1.5%
Travel and Entertainment	125,000	-	-	125,000	0.2%	0.2%
Repairs and Maintenance	400,000	-	-	400,000	0.8%	0.8%
General and Administrative	2,761,385		-	2,761,385	5.2%	5.2%
Professional	68,000	-	-	68,000	0.1%	0.1%
Rent	1,115,000	-	1,012,000	2,127,000	2.1%	4.0%
Utilities	505,000	-	-	505,000	1.0%	1.0%
Total operating expenses	15,626,010	118,441	1,012,000	16,756,451	29.4%	31.6%
EBITDA	3,386,144	(118,441)	(1,012,000)	2,255,703	6.4%	4.2%
Depreciation and amortization	626,971	-	(294,971)	332,000	1.2%	0.6%
Earnings from operations	2,759,173	(118,441)	(717,029)	1,923,703	5.2%	3.6%
Other income and expenses						
Interest income	80,000	-	-	80,000	0.2%	0.2%
Interest expense	(12,802)	-	12,802	-	0.0%	0.0%
ESOP distributions	(1,800,000)	1,800,000	-	-	-3.4%	0.0%
Pretax earnings	1,026,371	1,681,559	(704,227)	2,003,703	1.9%	3.8%
Income taxes	-	514,000	-	514,000	0.0%	1.0%
Forecasted Net Income	**$ 1,026,371**	**$ 1,167,559**	**$ (704,227)**	**$ 1,489,703**	1.9%	2.8%

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Adjustments to Management's Earnings Forecasts (continued)

For Future Periods 2025 through 2029

	Future Period 2028					
	Mgmt's Forecast	ESOP Adjustments	Non-operating Items	Adjusted Forecast	Mgmt's Forecast %	Adjusted Forecast %
Revenue	$ 54,128,634	$ -	$ -	$ 54,128,634	100.0%	100.0%
Cost of goods sold	34,755,936	-	-	34,755,936	64.2%	64.2%
Gross profit	19,372,698	-	-	19,372,698	35.8%	35.8%
Payroll and benefits	10,075,003	120,900	-	10,195,903	18.6%	18.8%
Advertising	797,155	-	-	797,155	1.5%	1.5%
Travel and Entertainment	130,000	-	-	130,000	0.2%	0.2%
Repairs and Maintenance	410,000	-	-	410,000	0.8%	0.8%
General and Administrative	2,816,613		-	2,816,613	5.2%	5.2%
Professional	70,000	-	-	70,000	0.1%	0.1%
Rent	1,118,000	-	1,047,000	2,165,000	2.1%	4.0%
Utilities	510,000	-	-	510,000	0.9%	0.9%
Total operating expenses	15,926,770	120,900	1,047,000	17,094,670	29.4%	31.6%
EBITDA	3,445,928	(120,900)	(1,047,000)	2,278,028	6.4%	4.2%
Depreciation and amortization	640,422	-	(292,422)	348,000	1.2%	0.6%
Earnings from operations	2,805,506	(120,900)	(754,578)	1,930,028	5.2%	3.6%
Other income and expenses						
Interest income	80,000	-	-	80,000	0.1%	0.1%
Interest expense	-	-	-	-	0.0%	0.0%
ESOP distributions	(1,800,000)	1,800,000	-	-	-3.3%	0.0%
Pretax earnings	1,085,506	1,679,100	(754,578)	2,010,028	2.0%	3.7%
Income taxes	-	514,000	-	514,000	0.0%	0.9%
Forecasted Net Income	**$ 1,085,506**	**$ 1,165,100**	**$ (754,578)**	**$ 1,496,028**	2.0%	2.8%

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Adjustments to Management's Earnings Forecasts (continued)

For Future Periods 2025 through 2029

	Future Period 2029					
	Mgmt's Forecast	ESOP Adjustments	Non-operating Items	Adjusted Forecast	Mgmt's Forecast %	Adjusted Forecast %
Revenue	$ 55,191,506	$ -	$ -	$ 55,191,506	100.0%	100.0%
Cost of goods sold	35,451,055	-	-	35,451,055	64.2%	64.2%
Gross profit	19,740,451	-	-	19,740,451	35.8%	35.8%
Payroll and benefits	10,284,823	123,418	-	10,408,241	18.6%	18.9%
Advertising	813,098	-	-	813,098	1.5%	1.5%
Travel and Entertainment	135,000	-	-	135,000	0.2%	0.2%
Repairs and Maintenance	425,000	-	-	425,000	0.8%	0.8%
General and Administrative	2,872,945	-	-	2,872,945	5.2%	5.2%
Professional	72,000	-	-	72,000	0.1%	0.1%
Rent	1,125,000	-	1,084,000	2,209,000	2.0%	4.0%
Utilities	515,000	-	-	515,000	0.9%	0.9%
Total operating expenses	16,242,865	123,418	1,084,000	17,450,283	29.4%	31.6%
EBITDA	3,497,586	(123,418)	(1,084,000)	2,290,168	6.3%	4.1%
Depreciation and amortization	599,033	-	(283,033)	316,000	1.1%	0.6%
Earnings from operations	2,898,553	(123,418)	(800,967)	1,974,168	5.3%	3.6%
Other income and expenses						
Interest income	80,000	-	-	80,000	0.1%	0.1%
Interest expense	-	-	-	-	0.0%	0.0%
ESOP distributions	(1,800,000)	1,800,000	-	-	-3.3%	0.0%
Pretax earnings	1,178,553	1,676,582	(800,967)	2,054,168	2.1%	3.7%
Income taxes	-	529,000	-	529,000	0.0%	1.0%
Forecasted Net Income	**$ 1,178,553**	**$ 1,147,582**	**$ (800,967)**	**$ 1,525,168**	2.1%	2.8%

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Forecasted Income Tax (as if C-corporation)

		2025	2026	2027	2028	2029	2030
Forecasted EBITDA	[a]	$ 2,347	$ 2,240	$ 2,256	$ 2,278	$ 2,290	$ 2,370
Interest income	[a]	187	80	80	80	80	-
Tax basis EBITDA		2,534	2,320	2,336	2,358	2,370	2,370
Tax depreciation:							
Depreciation on existing assets	[b]	(294)	(278)	(249)	(228)	(170)	-
Bonus depreciation	[c]	(145)	(38)	-	-	-	-
Depreciation on capital expenditures	[c]	(32)	(75)	(111)	(152)	(164)	(148)
Total tax depreciation		(471)	(391)	(360)	(380)	(334)	(148)
Tax EBIT		2,063	1,929	1,976	1,978	2,036	2,222
Interest deduction		-	-	-	-	-	-
Taxable income		$ 2,063	$ 1,929	$ 1,976	$ 1,978	$ 2,036	$ 2,222
Tax at 26.00%		**$ 536**	**$ 502**	**$ 514**	**$ 514**	**$ 529**	**$ 578**

Doubleday Sports, Inc

Forecasted Bonus Depreciation

		2025	2026	2027	2028	2029	2030
Bonus Depreciation Percentages		40%	20%	-	-	-	-
Capital expenditures	[a]	$ 363	$ 190	$ 312	$ 190	$ 110	$ 114
Bonus depreciation		**$ 145**	**$ 38**	**$ -**	**$ -**	**$ -**	**$ -**
Capital expenditures to be depreciated		$ 218	$ 152	$ 312	$ 190	$ 110	$ 114

[a] From client provided schedules.

Doubleday Sports, Inc

Forecast of Tax Depreciation on Items not Subject to Bonus Depreciation

Year	Cost	Life	2025	2026	2027	2028	2029	2030
Existing assets	$ 560		$ 294	$ 278	$ 249	$ 228	$ 170	$ -
2025 acquisitions	150	10	15	27	22	17	14	11
2025 acquisitions	86	5	17	28	17	10	10	5
2026 acquisitions	104	10		10	19	15	12	10
2026 acquisitions	48	5		10	15	9	6	6
2027 acquisitions	240	10			24	43	35	28
2027 acquisitions	72	5			14	23	14	8
2028 acquisitions	30	10				3	5	4
2028 acquisitions	160	5				32	51	31
2029 acquisitions	50	10					5	9
2029 acquisitions	60	5					12	19
2030 acquisitions	52	10						5
2030 acquisitions	62	5						12
			$ 32	$ 75	$ 111	$ 152	$ 164	$ 148

SAMPLE REPORT: Names and Amounts have been Fictionalized

Doubleday Sports, Inc

Forecast Book Depreciation

Year	Cost	Life	2025	2026	2027	2028	2029	2030
Existing assets			$ 294	$ 278	$ 249	$ 228	$ 170	$ -
2025 acquisitions	220	10	11	22	22	22	22	22
2025 acquisitions	143	5	14	29	29	29	29	14
2026 acquisitions	10	10		1	1	1	1	1
2026 acquisitions	60	5		6	12	12	12	12
2027 acquisitions	240	10			12	24	24	24
2027 acquisitions	72	5			7	14	14	14
2028 acquisitions	30	10				2	3	3
2028 acquisitions	160	5				16	32	32
2029 acquisitions	50	10					3	5
2029 acquisitions	60	5					6	12
2030 acquisitions	75	10						4
2030 acquisitions	90	5						9
			$ 319	$ 336	$ 332	$ 348	$ 316	$ 152

Appendix D: Adjustments to Public Guideline Companies

Adjusted GPC Market Value of Equity Multiples

		Market Value of Equity to:						
Company	Ticker	Unadjusted Latest FYE Price/Earnings	Implied Capitalization Rate	θ Size Adjustment	μ Unsystematic Risk Adjustment	λ Growth Rate Adjustment	Adjusted Capitalization Rate	Adjusted Latest FYE Price/Earnings
Academy Sports & Outdoors, Inc	ASO	8.2	12.2%	0.0423	0.0187	0.0884	27.1%	**3.7**
Big 5 Sporting Goods Corp	BGFV	NA	NA	0.0191	NA	0.0844	NA	**NA**
Dick'S Sporting Goods, Inc.	DKS	18.1	5.5%	0.0507	0.0768	0.0670	25.0%	**4.0**
Foot Locker, Inc.	FL	NA	NA	0.0450	NA	0.0879	NA	**NA**
Sportsman'S Warehouse Holdin	SPWH	2.5	40.2%	0.0232	(0.2443)	0.1198	30.1%	**3.3**
25th Percentile		2.5						**3.3**
Mean		9.6						**3.7**
Median		8.2						**3.7**
75th Percentile		18.1						**4.0**
Standard Deviation		6.5						**0.3**
Coefficient of Variation		0.67						**0.08**

Adjusted GPC Market Value of Invested Capital Multiples

		Market Value of Invested Capital to:							
Company	Ticker	Unadjusted LTM MVIC/EBIT	Implied Capitalization Rate	ε MVIC Adjustment	θ Size Adjustment	μ Unsystematic Risk Adjustment	λ Growth Rate Adjustment	Adjusted Capitalization Rate	Adjusted LTM MVIC/EBIT
Academy Sports & Outdoors, Inc.	ASO	7.5	13.3%	0.96	0.0423	0.0187	0.0884	28.0%	**3.6**
Big 5 Sporting Goods Corp	BGFV	NA	NA	0.66	0.0191	NA	0.0844	NA	**NA**
Dick'S Sporting Goods, Inc.	DKS	13.0	7.7%	1.00	0.0507	0.0768	0.0670	27.2%	**3.7**
Foot Locker, Inc.	FL	16.1	6.2%	0.95	0.0450	NA	0.0879	#VALUE!	**NA**
Sportsman'S Warehouse Holdings, Inc.	SPWH	4.7	21.3%	0.40	0.0232	(0.2443)	0.1198	24.4%	**4.1**
25th Percentile		5.4							3.6
Mean		10.3							3.8
Median		10.3							3.7
75th Percentile		15.3							4.1
Standard Deviation		4.5							0.2
Coefficient of Variation		0.43							0.06

Adjusted GPC Market Value of Invested Capital Multiples

		Market Value of Invested Capital to:							
Company	Ticker	Unadjusted LTM MVIC/EBITDA	Implied Capitalization Rate	ε MVIC Adjustment	θ Size Adjustment	μ Unsystematic Risk Adjustment	λ Growth Rate Adjustment	Adjusted Capitalization Rate	Adjusted LTM MVIC/EBITDA
Academy Sports & Outdoors, Inc.	ASO	6.3	15.9%	0.96	0.0423	0.0187	0.0884	30.6%	**3.3**
Big 5 Sporting Goods Corp	BGFV	NA	NA	0.66	0.0191	NA	0.0844	na	**NA**
Dick'S Sporting Goods, Inc.	DKS	10.2	9.8%	1.00	0.0507	0.0768	0.0670	29.3%	**3.4**
Foot Locker, Inc.	FL	6.4	15.6%	0.95	0.0450	NA	0.0879	#VALUE!	**NA**
Sportsman'S Warehouse Holdings, Inc.	SPWH	2.9	34.7%	0.40	0.0232	(0.2443)	0.1198	37.8%	**2.6**
25th Percentile		3.7							**2.6**
Mean		6.4							**3.1**
Median		6.3							**3.3**
75th Percentile		9.2							**3.4**
Standard Deviation		2.6							**0.4**
Coefficient of Variation		0.40							**0.11**

GPC Valuation Multiple Adjustments ($ in thousands)

	MVIC Adjustments			Size Adjustments			Unsystematic Risk Adjustments			Growth Adjustments		
Ticker	Market Value Equity	MVIC	ε MVIC Adj.	Size Premium of Subject	Size Premium of GPCs	θ Size Adj.	Risk of Subject	Risk of GPCs	μ Adj.	Growth Estimate of GPC	Growth Estimate of Subject	λ Growth Adj.
ASO	4,242,492	4,432,644	0.96	13.75%	9.52%	4.23%	4.00%	2.13%	1.87%	6.06%	-2.78%	8.84%
BGFV	39,285	59,823	0.66	13.75%	11.84%	1.91%	4.00%	NA	NA	5.66%	-2.78%	8.44%
DKS	18,988,914	19,014,234	1.00	13.75%	8.68%	5.07%	4.00%	-3.68%	7.68%	3.92%	-2.78%	6.70%
FL	2,065,024	2,184,024	0.95	13.75%	9.25%	4.50%	4.00%	NA	NA	6.01%	-2.78%	8.79%
SPWH	100,736	252,081	0.40	13.75%	11.43%	2.32%	4.00%	28.43%	-24.43%	9.20%	-2.78%	11.98%

Size Adjusted Equity Risk Premium ($ in thousands)

Ticker	Market Value of Equity	Log of MVE	Slope	Constant	Size Adj. ERP	Book Value of Equity	Log of BV of Equity	Slope	Constant	Size Adj. ERP
ASO	4,242,492	3.62762	(0.02667)	0.19355	**0.09680**	1,961,527	3.29259	(0.02213)	0.16798	**0.09511**
BGFV	39,285	1.59423	(0.02667)	0.19355	**0.15103**	175,611	2.24455	(0.02213)	0.16798	**0.11831**
DKS	18,988,914	4.27850	(0.02667)	0.19355	**0.07944**	3,063,385	3.48620	(0.02213)	0.16798	**0.09083**
FL	2,065,024	3.31493	(0.02667)	0.19355	**0.10514**	2,868,000	3.45758	(0.02213)	0.16798	**0.09146**
SPWH	100,736	2.00318	(0.02667)	0.19355	**0.14013**	243,570	2.38662	(0.02213)	0.16798	**0.11516**
25th Percentile					**0.08812**					**0.09115**
Mean					**0.11451**					**0.10217**
Median					**0.10514**					**0.09511**
75th Percentile					**0.14558**					**0.11674**
Standard Deviation					**2.69%**					**1.20%**
Coefficient of Variation					**0.23**					**0.12**

Size Adjusted Equity Risk Premium ($ in thousands)

Ticker	5-Year Avg. Net Income	Log of 5-yr Avg. NI	Slope	Constant	Size Adj. ERP	MVIC	Log of MVIC	Slope	Constant	Size Adj. ERP
ASO	449,476	2.65271	(0.02226)	0.14819	**0.08914**	4,432,644	3.64666	(0.02630)	0.19583	**0.09992**
BGFV	21,661	1.33568	(0.02226)	0.14819	**0.11846**	59,823	1.77687	(0.02630)	0.19583	**0.14910**
DKS	887,448	2.94814	(0.02226)	0.14819	**0.08256**	19,014,234	4.27908	(0.02630)	0.19583	**0.08329**
FL	343,800	2.53631	(0.02226)	0.14819	**0.09173**	2,184,024	3.33926	(0.02630)	0.19583	**0.10801**
SPWH	52,117	1.71698	(0.02226)	0.14819	**0.10997**	252,081	2.40154	(0.02630)	0.19583	**0.13267**
25th Percentile					**0.08585**					**0.09161**
Mean					**0.09837**					**0.11460**
Median					**0.09173**					**0.10801**
75th Percentile					**0.11422**					**0.14089**
Standard Deviation					**1.35%**					**2.35%**
Coefficient of Variation					**0.14**					**0.21**

Size Adjusted Equity Risk Premium ($ in thousands)

Ticker	Assets	Log of Assets	Slope	Constant	Size Adj. ERP	5-Yr Avg. EBITDA	Log of 5-Yr Avg. EBITDA	Slope	Constant	Size Adj. ERP
ASO	5,091,778	3.70687	(0.02502)	0.18812	**0.09537**	715,575	2.85466	(0.02353)	0.16132	**0.09415**
BGFV	609,366	2.78488	(0.02502)	0.18812	**0.11844**	68,404	1.83508	(0.02353)	0.16132	**0.11814**
DKS	10,451,811	4.01919	(0.02502)	0.18812	**0.08756**	1,528,139	3.18416	(0.02353)	0.16132	**0.08640**
FL	6,862,000	3.83645	(0.02502)	0.18812	**0.09213**	811,200	2.90913	(0.02353)	0.16132	**0.09287**
SPWH	967,685	2.98573	(0.02502)	0.18812	**0.11342**	80,809	1.90746	(0.02353)	0.16132	**0.11644**
25th Percentile					**0.08985**					**0.08964**
Mean					**0.10138**					**0.10160**
Median					**0.09537**					**0.09415**
75th Percentile					**0.11593**					**0.11729**
Standard Deviation					**1.22%**					**1.31%**
Coefficient of Variation					**0.12**					**0.13**

Size Adjusted Equity Risk Premium ($ in thousands)

Ticker	Revenue	Log of Revenue	Slope	Constant	Size Adj. ERP
ASO	6,051,358	3.78185	(0.02036)	0.17116	**0.09416**
BGFV	795,468	2.90062	(0.02036)	0.17116	**0.11210**
DKS	13,425,371	4.12793	(0.02036)	0.17116	**0.08712**
FL	8,124,000	3.90977	(0.02036)	0.17116	**0.09156**
SPWH	1,339,157	3.12683	(0.02036)	0.17116	**0.10750**
25th Percentile					**0.08934**
Mean					**0.09849**
Median					**0.09416**
75th Percentile					**0.10980**
Standard Deviation					**0.96%**
Coefficient of Variation					**0.10**

Size Adjusted Equity Risk Premium ($ in thousands)

Ticker	Employees	Log of Employees	Slope	Constant	Size Adj. ERP	Average	Median
ASO	9,900	3.99564	(0.02225)	0.18560	**0.09670**	**0.0952**	**0.0952**
BGFV	2,100	3.32222	(0.02225)	0.18560	**0.11168**	**0.1247**	**0.1184**
DKS	18,600	4.26951	(0.02225)	0.18560	**0.09060**	**0.0860**	**0.0868**
FL	13,140	4.11860	(0.02225)	0.18560	**0.09396**	**0.0959**	**0.0925**
SPWH	2,050	3.31175	(0.02225)	0.18560	**0.11191**	**0.1184**	**0.1143**

25th Percentile	**0.09228**
Mean	**0.10097**
Median	**0.09670**
75th Percentile	**0.11180**
Standard Deviation	**0.90%**
Coefficient of Variation	**0.09**

Blended Growth Estimates of GPCs

Ticker	5-Yr Growth Est.	Perpetual Growth Est.	Implied Disc. Rate	Present Value of the Growth Rate 1	2	3	4	5	Residual Period	Sum of the Present Values	Blended Growth Est.
ASO	11.04%	3.50%	16.70%	0.95149957	0.90535143	0.86144150	0.81966122	0.77990730	6.11518224	10.43304326	**6.06%**
BGFV	11.70%	3.50%	13.27%	0.98613931	0.97247074	0.95899163	0.94569935	0.93259131	9.87954967	14.67544201	**5.66%**
DKS	5.51%	3.50%	10.05%	0.95874602	0.91919394	0.88127354	0.84491750	0.81006129	12.80020516	17.21439745	**3.92%**
FL	10.60%	3.50%	17.28%	0.94304229	0.88932876	0.83867464	0.79090565	0.74585748	5.60205000	9.80985882	**6.01%**
SPWH	11.70%	3.50%	44.91%	0.77082327	0.59416851	0.45799892	0.35303622	0.27212853	0.68015705	3.12831250	**9.20%**
DSI	-7.50%	3.50%	22.70%	0.75387123	0.56832183	0.42844148	0.32298971	0.24349265	1.31257755	3.62969445	**-2.78%**

Implied Discount Rate

Ticker	P/E	Implied Cap. Rate	Long-Term Growth Est.	Implied Disc. Rate	Risk-Free Rate	Size Adj. ERP	ERP Adjustment	Implied Unsystematic
ASO	9.4	10.64%	6.06%	16.70%	4.86%	9.52%	0.19%	2.13%
BGFV	NA	NA	NA	NA	4.86%	11.84%	0.19%	NA
DKS	16.3	6.13%	3.92%	10.05%	4.86%	8.68%	0.19%	-3.68%
FL	NA	NA	NA	NA	4.86%	9.25%	0.19%	NA
SPWH	2.8	35.71%	9.20%	44.91%	4.86%	11.43%	0.19%	28.43%

SAMPLE REPORT: Names and Amounts have been Fictionalized

Appendix E: Sources of Information

In performing this analysis, we were provided with and/or relied upon various sources of information, including but not limited to:

- Doubleday Sports, Inc. financial statements as of and for the years ended January 2, 2021, January 1, 2022, December 31, 2022, December 30, 2023, and January 4, 2025, reviewed by ZYX & Associates, Certified Public Accountants;
- Doubleday Sports, Inc. internally prepared financial statements as of and for the year ended December 30, 2024;
- Doubleday Sports, Inc. internally prepared forecast of revenues and expenses for the future years ending December 31, 2025 through 2029;
- Appraisal Report of Doubleday Sports, 123 Main Street, Sport City, Subject State, as of December 31, 2024 prepared by Jonathan Lee Bench of ZZZ Real Estate Appraisal;
- Restated Articles of Incorporation of Doubleday Sports, Inc. dated December 31, 2013;
- Restated Bylaws of Doubleday Sports, Inc. adopted September 1, 1969;
- Doubleday Sports, Inc. Employee Stock Ownership Plan Adoption Agreement Amended and Restated, May 1, 2024;
- Amended and Restated Summary Plan Description Doubleday Sports, Inc. Employee Stock Ownership Plan (as amended May 1, 2024);
- Doubleday Sports, Inc. Employee Stock Ownership Plan, Effective January 1, 2015;
- Doubleday Sports, Inc. Employee Stock Ownership Plan Company Stock Repurchase Policy dated September 1, 2015;
- General information about the Company as presented on the web site, www.DoubledaySports.com;
- Unaudited supplemental information, including, but not limited to:
  - History of the Company;
  - Sales and operating profitability statements;
  - Ownership breakdown of the shares;
  - General information on the Company's marketing, competitors, suppliers, customers, and other information from interviews with the Company's management;
- Analysis of information on possible publicly traded and privately held comparable companies and industry information including the following:
  - Search of the Electronic Data Gathering and Retrieval (EDGAR) database of public company filings with the Securities and Exchange Commission, via Tagnifi;
  - Analysis of possible public company and industry information via computer database;
  - Specific company annual reports, 10-K's, 10-Q's of publicly held companies, obtained through Tagnifi;
  - Database searches and review of articles, forecasts and abstracts via the Internet;
  - Analysis of possible privately held comparable companies obtained from BizComps database;

- Information regarding external factors including the economic outlook for the region, as well as the overall U.S. economy, technical innovations, government regulations and other factors;
- Information regarding the present conditions and outlook for the industry in which the Company operates;
- Resources regarding business valuation issues, including the following:
  - *Business Valuation Review*, a publication of the Business Valuation Committee of the American Society of Appraisers;
  - ASA Business Valuation Standards of the American Society of Appraisers, and the Uniform Standards of Professional Appraisal Practice, published by the Appraisal Foundation;
  - *Financial Valuation: Applications and Models*, Fourth Edition, 2017, Hitchner;
  - Kroll *Cost of Capital Navigator*; and,
- Other various relevant information.

Appendix F: Qualifications

Gibraltar Business Valuations
Better. Value.

1905 W 8th Street
Suite 207
Loveland, CO 80537

CO 303.532.2545
IL 630.296.7708
UT 801.466.5410
AZ 520.512.5410

DON M. DRYSDALE

Certified Public Accountant (CPA)
Accredited in Business Valuation (ABV)
Accredited Senior Appraiser (ASA)
DDrysdale@4aValue.com

Professional Designations:

- Certified Public Accountant, Arizona #7549-E
- Accredited in Business Valuation #600
- Certified Public Accountant, Utah #289292-2601
- Accredited Senior Appraiser

Professional Memberships:

- Assoc. of Int'l Certified Professional Accountants
- Appraisal Issues Task Force
- American Society of Appraisers

Previous Employment History:

- **Yeanoplos Drysdale Group, PLLC**
  Member, Tucson, Arizona

- **Certified Public Accounting Firms**
  Salt Lake City, Utah and Phoenix, Arizona
  Including KPMG Peat Marwick

- **Beacon Valuation Group, LTD**
  Manager, Tucson, Arizona

- **Bank One of Arizona**
  Accountant, Phoenix, Arizona

Education and Training:

- **Weber State University**
  Bachelor of Arts - Accounting

- **American Institute of CPAs**
  Certificate of Educational Achievement
  Various National Business Valuation Conferences
  National Auto Dealers Conference
  Construction Industry Executive Forum

- **Financial Consulting Group**
  Various Member Firm Conferences
  Various Annual "FCG Universities"

- **Nat'l Assoc. of Certified Valuation Analysts**
  Fundamental & Techniques for Small Businesses

- **Arizona Society of CPAs**
  Various Annual Business Valuation and Litigation Support Conferences

- **Utah Association of CPAs**
  Various Annual Business Valuation Symposia

Articles and publications:

Authored or co-authored articles in the following publications:

- Valuation Strategies
- Industry Valuation Update, Volume Three, Construction
- Financial Valuation: Applications and Models
- *Journal of Business Valuation*.

Presentations and Lectures:

Given business valuation lectures and presentations for the following organizations:

- University of Arizona
- University of Utah
- Weber State University
- American Institute of Certified Public Accountants
- American Society of Appraisers
- National Association of Certified Valuators and Analysts
- Canadian Institute of Chartered Business Valuators
- Arizona Society of CPAs
- California Society of CPAs
- Society of Louisiana CPAs
- Utah Association of CPAs
- Financial Consulting Group
- National Business Institute
- Lorman Education Services
- Risk Management Association
- Southern Arizona Estate Planning Council
- CPA/Law Forum of Tucson
- Business Valuation Resources

Appendix G: Limiting Conditions

We have relied upon information:
We have based our report on historical and prospective financial information, historical and current entity information, and other information provided by owners, management, and third parties. We have not audited or reviewed this information and the resulting report should not be construed, or referred to as an audit, examination or review. Had we audited or reviewed the underlying data and information, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we take no responsibility for the underlying data presented or relied upon in this report. We have assumed that all of the representations and information supplied by the Company, its management and agents are true, accurate, and complete.

We have relied on public and other information sources we believe to be reliable. However, we make no representation as to the accuracy, completeness or correctness of such information and have performed no procedures to corroborate the information.

We have relied upon the representations of the owners, management, and third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that the Company has good title to all assets. GBV assumes no responsibility for matters of a legal or tax-oriented nature affecting any of the property valued or any opinion of value.

We based this valuation in part on forecasts of revenues, earnings, and other matters as estimated by the management of the Doubleday Sports, Inc. Some assumptions inevitably will not materialize, and numerous unanticipated events and circumstances may occur. Therefore, the actual performance in the areas forecasted will vary from the forecasts and the variations may be material. GBV expresses no form of assurance whatsoever on the likelihood of achieving the forecasts or on the reasonableness of the assumptions, representations and conclusions.

Any such forecasts are presented for valuation purposes only, and are not intended to be used separately or for any other purpose, including: to obtain credit, make investment decisions, make purchase decisions, or solicit investors. Any such potential parties must independently examine the outlook for the Company and make their own separate determinations. The parties should employ qualified advisors to assist them in doing so.

The report will not be used for:
We have performed this valuation only for the Company and the purpose stated herein. The report and any information contained within are not to be used for any other purpose by any other party. Such other use will render the report invalid and is not authorized. This report or its findings are not to be included in, or referred to, in any offering memorandum (public or private) or prospectus of any kind.

The report, its information and findings are confidential and are not to be published, copied, reproduced, disclosed, or disseminated in any way by any means, in whole or in part, without the express prior written permission of a duly authorized officer of GBV. This report is copyrighted and remains the property of GBV. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of GBV.

Assumptions (not all inclusive):
In determining the opinion of value included in this report, we have assumed that the existing management will maintain the character and integrity of the Company through any reorganization or reduction of any existing owner's/ manager's participation in the activities of the Company.

We have assumed that there are no factors such as restrictive agreements of any kind, other than those noted herein, which will affect or impair value in any way or the ability to affect an expedient sale of the ownership interest being valued.

We have assumed for valuation purposes that the Company is in good standing and is not in violation of any laws or regulatory statute of any kind; this has not been independently verified. We have also assumed that there are no contingent or other liabilities of any kind, including pending or threatened lawsuits, environmental or hazardous waste or other similar matters except as noted herein.

The dollar amount of any value reported is based on the purchasing power of the U.S. dollar as of the valuation date. The appraiser assumes no responsibility for economic or physical factors occurring subsequent to the date that may affect the opinions reported.

GBV is not an environmental consultant, engineer or auditor, and takes no responsibility for any actual or potential liability from environmental contamination or injury from such contaminants or hazardous substances. GBV has not independently determined whether the subject business enterprise is subject to any present or future liability relating to environmental matters (including but not limited to CERCLA/Superfund liability, contamination of soil, water or air, or release of any substance that could damage the environment or individuals) nor the scope of any such liabilities. We take no such liabilities into account, except as they have been reported to us by the subject company or by an environmental consultant working for the subject company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, GBV has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

The estimate of fair market value assumes that the Company is a “going concern,” based on an all cash purchase, or equivalent terms thereof. The Company would have a materially different value in liquidation. No estimate of the value that could be achieved in liquidation is included in this report.

If the business is sold or transferred:
GBV, its owner, officers, employees and contractors do not purport to be guarantors of value. Valuations involving closely held companies is an imprecise science, with value being a question of fact, and reasonable people differing in their opinions of value. However, GBV and the individual analyst(s) have used conceptually sound and commonly accepted methods and procedures of valuation in determining the opinion of value included in this report.

Nothing in this report is intended to recommend, imply or provide any guarantees, representations, or opinions of any kind whatsoever regarding the financial prudence, collateral, investment potential or debt service ability of the Company or any investment in its stock or assets by any party, including investors of any kind, financial institutions and all other individuals or entities. Such parties should undertake a full due diligence review of the Company and make their own independent determinations of its future prospects, financial and otherwise, and the financial prudence, tax, legal, and all other ramifications of any contemplated transaction and should retain independent and qualified advisors.

Nothing in this report should be construed as providing a “due diligence” study of the Company, as such a study has not been undertaken. Such a study could uncover factors not considered herein which could result in a materially different estimate of value. No “fairness opinion” of any kind is expressed herein regarding an ownership interest in the subject entity or for any pending or contemplated transaction.

GBV has not been retained to provide, nor has performed purchase price allocation, asset impairment testing, or intangible asset valuation services.

Nothing in this report constitutes a recommendation regarding the purchase or sale of any securities or assets. GBV expresses no opinion, guarantees or form of assurance of any kind, expressed or implied, on the potential investment performance resulting from a purchase of an interest in the Company or its assets.

This report is neither an offer to sell, nor a solicitation to buy securities, and/or equity in, or assets of, the subject entity.

Other:
We have no present or contemplated financial interest in the Company. Our fee for this analysis is based upon our customary billing rates plus out-of-pocket expenses, and is in no way contingent upon the results of our findings. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report, although we would be happy to do so should prior arrangements be made, including providing expert testimony or to be in attendance in court or at any government hearing with reference to the matters contained herein. The opinion expressed herein is valid only for the stated effective date, December 31, 2024, and only for the stated valuation purpose. The actual value realized at a date subsequent to the valuation date may vary from the value set forth and such variations may be material.

No change of any item in the report shall be made by anyone other than GBV, and we shall have no responsibility for any such unauthorized change.

The valuation date is stated in the report without any guarantees as to the fair market value at the valuation date or any future date, or any contrary opinions as to the value as of the same date.

Possession of the report or work papers or other written documentation regarding the analysis does not carry with it the right of publication of all or part of it, nor may it be used or relied upon without previous written consent for any purpose other than that set forth above. No third parties are intended to be benefited. GBV assumes no responsibility for any liability for damages of any kind resulting from reliance on this report by the Company or any other party. Schedules, information and other work papers developed during the assignment by GBV or supplied by the client are the sole property of GBV and are not subject to examination or production to the client at any time during or after the engagement.