What Sellers Should Expect From an Intermediary

1. Assistance in arriving at a fair price and help in the proper structure of the deal itself.
2. Assistance in gathering the necessary information and preparing it in a format convenient for a prospective purchaser.
3. Development of a market strategy.
4. Screening of the possible buyer candidates with an emphasis on maintaining confidentiality.
5. Arrangement of buyer visits to the selling company and meetings with company officials.
6. Communication of preliminary information to buyer candidates.
7. Negotiation of the sale price and deal structure.
8. Interaction with all of the outside advisors in order to follow the sale to a satisfactory conclusion.

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IBG's professionals have provided merger and acquisition services to the US middle market since 1986. Their award winning M&A broker and advisor experts have an industry leading track record of 1,100+ successful transactions. **www.ibgbusiness.com**

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Founded in 1986, IBG Business is widely recognized as one of the world's leading providers of merger and acquisition advisory services to mid-market business owners. Over the years, we've completed transactions totaling over a billion dollars in value and have earned reputations as leading authorities on the sale and purchase of middle market businesses in a variety of industries. Call us today for a free, confidential consultation.

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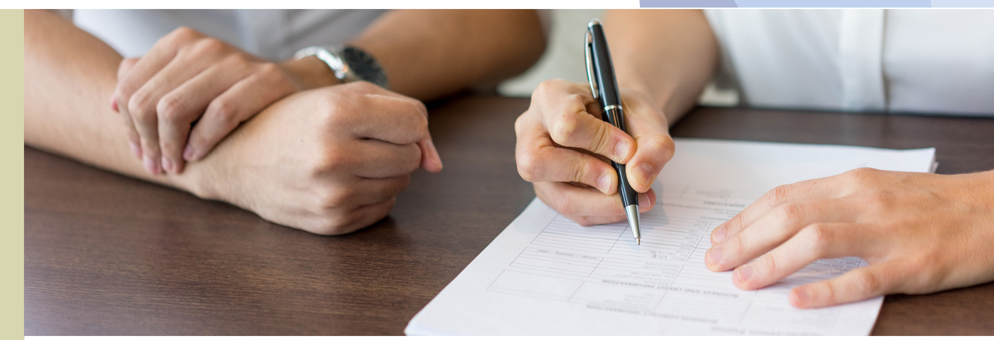
IN THIS ISSUE



About Valuation...

IBG Business exists to bring merger and acquisitions skills, resources and knowledge to middle market business owners selling (or buying) businesses. "The firm is defined by its expertise, character and commitment to delivering exceptional results," says IBG Oklahoma managing partner and principal, John Johnson. "Our team brings extensive background, robust training and deep resources to each deal. Time and again, the precise execution of our refined professional process has yielded maximum value under optimal terms and timing for our clients."

Owners should seek professional help prior to selling a business or planning an eventual exit. IBG Denver managing partner and principal, John Zayac, explains the complexities sellers face: "Price is often a starting point in the discussion, a common marker for value. However, it is only the tip of the iceberg. Price is predicated on a complex foundation of components including shifting responsibilities for risk, tax treatment and intangible values, all of which may move dramatically as a sale is negotiated." Regarding the question "What is my business really worth?" Gary Papay, IBG Pennsylvania managing partner, also asks "And why? Knowing the reasons underlying the value of a business can reveal value-enhancing improvements or set up better initial positioning of deal terms."

> *"Casual opinions of what a business is worth are as abundant as sparrows."*

Casual opinions of what a business is worth are as abundant as sparrows. Those opining rarely have knowledge of the particulars of the business, the deal terms, an understanding of the sector or any transaction expertise. All are imperative to formulating a competent view on value. Sellers often reach out to valuation specialists for a fair market value opinion, but these regimented, theoretical valuations--while an improvement on sparrows--are better suited to litigation, divorce, or estate planning.

The most useful guidance for prospective sellers will combine sophisticated

About Valuation... (cont.)

appraisal techniques with recent "boots on the ground" experience on actual transactions. A market-informed opinion of the value of a business will gauge how potential buyers might respond to its sale. The opinion should provide a range of values, articulate what factors underlie the opinion, and comment on possible impacts of different deal structures. Strategies to minimize obstacles and enhance value may be offered.

Seasoned mergers & acquisitions advisors can also expertly evaluate and manage the nuances and practicalities that arise in the 'real world'. In any transaction, the buyer and seller have opposing goals: each seeks to best serve their own interests but must ultimately acquiesce in some part to the other while retaining sufficient benefit for themselves. The odds of success in this process dramatically improve when it is proactively managed by a seasoned professional who can keep polarizing realities within a cooperative framework. The parties will also be more likely to work well together post-close.

Pre-sale valuation work and pro-active management of transactions are key, but subtle dynamics and market factors unique to a deal can also be vital determinants of value. IBG Arizona's principal and managing partner, Jim Afinowich, and managing partner, Bruce Black, recently worked on a deal that perfectly illustrates such market dynamics. The client's firm, a niche food manufacturer, initially might have had a competent fair market value of around $20M. IBG perceived growing demand in the industry vertical, and thought an opportunity existed with the evolving market dynamics. They advised the client to decline early offers and to continue to build value in the business. Improve it did, but IBG's "read" on the market and recommendation on timing made a tremendous impact for the client: a buyer seeking market control and expansion in the vertical ultimately out-bid several competitors to buy the company for the cash price of $120M. While such extreme opportunities are uncommon, the "savvy" of a seasoned dealmaker can radically impact what is already one of the biggest financial events in the lifetime of a business owner.

Business owners must understand optimal timing and valuation complexities prior to any sale. Today, demand remains robust for quality middle market businesses and valuations are still excellent, but a cooling in the market is anticipated. Active mergers and acquisition brokers and advisory firms prepared to assess opportunities with a "real-time" read on the transaction market remain the most vital resource for owners seeking to sell for top value.

Tips for a Better Sale

1. **Make sure all agree.**

   The decision to sell is not irreversible, but it should be firm. In a family business, it is important that not just the majority owner or CEO but all of the family members who have some ownership, or who work in the business, are brought into the selling process. Hopefully, they all agree with the decision. For non-family private businesses, all stockholders should be made aware of the situation.

2. **Select a head.**

   Decide up front who is going to be the ultimate manager of the selling process so there is no ambiguity later on. Decide whether it should be the majority owner, the CEO, the intermediary, or some other appropriate person.

3. **Keep it moving.**

   Set time frames on the selling process in order to have milestones: when to complete selling memorandum, contact buyers, sign Letter of Intent, close the deal, etc. Deals that drag don't close!

4. **Partner with professionals.**

   Improper advice can cost the owner tenfold later on. In retaining legal advice, the seller should be sure the selected legal counsel is a "transaction" attorney, not a trust attorney. To properly screen and qualify potential buyers, an intermediary should be brought on.

5. **Communicate with the banker about what is happening.**

   Bankers not only hate surprises, but if they are surprised, they may not be cooperative when the seller needs them most.

> *"...the 'savvy' of a seasoned dealmaker can radically impact what is already one of the biggest financial events in the lifetime of a business owner."*

Due Diligence and Disclosure

Earlier this year a group of sophisticated buyers of private companies was surveyed by management company, Smith Bucklin, about the benefits of working with a professionally represented seller. The vast majority (over 90%) preferred to buy a business which is professionally represented by an experienced M&A broker, because the buyers know that the seller coming to the table will be informed, prepared, and sincere. The negotiation process was smoother according to 80% of these buyers, and 60% said deals close more quickly.

These benefits are underpinned by a "due diligence" process that is often initiated by the advisor well before any prospective buyers are identified. Sellers will be asked to provide comprehensive information about their company's finances, management, operations, marketing and sales, competition, markets, legal issues and growth plans to an advisor, all of which will be required by any serious buyer looking at the company. Providing this information to the advisor, while at first glance may seem overly burdensome, will ultimately help the seller through the process and to the consummation of a successful transaction. Some of the questions due diligence might include:

1. Are there any revenues or expenses that are not clearly reflected in the financial statements?
2. Has the business or any of its owners been the subject of any bankruptcy filing, assignment for benefit of creditors, or insolvency proceedings of any kind during the past five years or has the business or any of its owners consulted with any attorney or advisor concerning such proceedings?
3. Are there any individual customers or clients who account for more than 10% of annual gross sales? If yes, list each by name and indicate the approximate percentage of annual gross sales and the relationship of the client to the business or its owners, if any.
4. Are there any commitments to employees or independent contractors regarding future compensation increases?
5. Are there suppliers who have a personal or special relationship with the business or any of the owners? If yes, list each such supplier, the nature of the relationship, and the approximate amount of annual purchases.
6. Are any of the employees or independent contractors related to any of the owners of the business, or to one another? If yes, list them by name and describe their relationship.
7. If any of the business's premises are leased, are there any disputes between the parties and is either party out of full compliance with the terms of the lease or leases?
8. Have there been any deaths, violent crimes or other criminal activity on the premises within the past three years?
9. Are there any substances, materials, or products on or near the premises which may be an environmental hazard such as, but not limited to, asbestos, formaldehyde, radon, paint solvents, fuel, medical waste, surface or underground storage tanks or contaminated soil or water?
10. Is there any equipment used in the business that it does not own, is not in good operable condition, or on which maintenance has been deferred?
11. Does the business have a franchise, distributorship or licensing agreement? Provide copies.

> *"...the vast majority (of buyers) prefer to buy a business that is professionally represented."*