



Acquisition Services Overview



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Acquisition Services Overview

Document Summary

This document outlines the methods undertaken by Sequoia Business Brokers Ltd. to assist individual or corporate buyers in the acquisition of one or more privately held businesses. The process involves 5 major steps: (1) Identifying target opportunities that meet your acquisition criteria; (2) Preparing a Broker's Opinion of Value of the preferred target; (3) Quantifying the strategic value of the preferred target; (4) Pursuing the target acquisition; and (5) Closing the deal.

Step 1 - Identify Target Opportunities

Identifying businesses that are target acquisition opportunities involves four stages: (1) Establishing the search criteria that clearly define the characteristics of a business you desire to acquire; (2) Compiling a database of companies that meet the search criteria; (3) Contacting the owners or decision makers at the target companies to determine if they have a bona fide intention to sell the company; and (4) Developing a shortlist of target opportunities.

Establish Search Criteria

Sequoia will work with you to define the target company characteristics or criteria desirable to you (e.g. revenues, profits, employees, intellectual property, products, geography, etc.).

Compile Target Company Database

Sequoia will compile a database of companies to target based upon the search criteria. Besides company name, the database will include decision maker contact information, approximate business size, industry classification, and the like. The list will be provided for your review and comment before Sequoia begins contact of the target companies.

Contact Target Companies

Sequoia will contact the decision makers of each target company to determine interest in selling the company. Each contact will be provided a Statement of Acquisition Objectives (SAO). The SAO legitimizes the search process with the target company decision maker by disclosing: (1) a profile of the acquiring party; (2) the desired characteristics of the target acquisition; and (3) a summary of the process going forward if the target company desires to continue with the process of being acquired.

Sequoia's search for target acquisition candidates will include approaching its professional network of companies in the business succession community including accounting firms, law firms, consulting firms, business brokerages, equity capital groups, mergers and acquisitions advisors, wealth managers, succession planners, and the like.

Develop Target Opportunity Shortlist

Of the companies that expressed interest in selling, Sequoia will qualify the company decision maker's intentions to sell. For those companies deemed to have a bona fide willingness to sell, Sequoia will prepare an Anonymous Business Profile for the shortlisted opportunities. The *ABP* is typically a one page document that discloses the fundamentals of the business including a range of the estimated fair market value of the business.

Step 2 - Broker's Opinion of Value

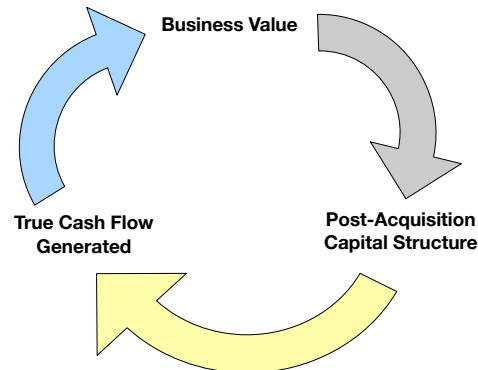
For your preferred target opportunity, Sequoia will determine a *Broker's Opinion of Value* of the target opportunity.

Valuation Methodologies

The Broker's Opinion of Value is not an appraisal or valuation of the business; instead, it is an opinion of the most probable selling price of the target business via an arm's length transaction under current open market conditions and should take account of multiple methodologies including:

Iterative Discounted Cash Flow (IDCF) Analysis

IDCF is a rigorous and comprehensive methodology that optimizes the price of the business to the seller subject to achieving the buyer's financial return objectives. Value to a buyer is quantified by the true cash flow generated over an investment time horizon after satisfying the cash requirements of the five claim holders to the business cash flow: a) the Seller, b) the Buyer, c) the Business, d) the Lenders, and e) the Tax Authority. Determining the buyer's true cash flow requires knowing the buyer's post-acquisition capital structure, but the buyer's post-acquisition capital structure cannot be known until one knows the business value; and one does not know the business value until one knows the buyer's actual cash flow.



This is a circular problem that is solved through an Iterative Discounted Cash Flow (IDCF) analysis. IDCF analysis repeatedly calculates complete pro-forma financials (fully projected Income Statements, Statements of Change in Cash Position, and Balance Sheets) using standard accounting procedures until a value and a capital structure are found that satisfy the objectives of the seller and the buyer.

Capitalized Earnings Approach

The Capitalized Earnings Approach seeks to determine the selling price of a business by capitalizing its normalized cash flow as a function of the Cost of Equity of the business. Such analysis involves: (1) determining the adjusted EBITDA of the target business over a multiyear period; (2) determining the cost of equity through consideration of industry coefficients for Competition, Risk, Profit Trend, Location & Facilities, Marketability, Industry Trends, Ease of Replication, Barriers to Entry and the like; and (3) computing the most probable selling price of the target business based on the product of the above.

Proposed Deal Structure

Given the Broker's Opinion of Value, Sequoia will propose a capital structure for the deal. We will vet the proposed deal structure with likely funding participants to ensure that the deal composition is doable under current market conditions and lending practices.

Step 3 - Quantify Target Strategic Value

Sequoia will obtain as much information as possible from the preferred target opportunity. We will strive to determine information in the following areas:

Business Summary

- Business Overview
- Ownership Structure
- Major Business Lines & Sources of Revenue
- Facilities
- Company Strengths
- Company Weaknesses
- Market Opportunities
- Market Threats

Marketing and Sales Analysis

- Target Market Analysis
- Geographic Market Analysis
- Sales & Promotion
- Payment Cycle
- Competition

Human Resources Overview

- Summary of HR Status
- Key Employee Review
- Status of Existing Contracts
- Management Transition

Financial Analysis

- Summary of Company Financials
- Income Analysis (Unadjusted)
- Income Analysis (Proforma)
- Normalised EBITDA
- Balance Sheet (Unadjusted)
- Balance Sheet (Normalised)
- Schedule of Fixed Assets
- Financial Ratio Analysis

Of particular interest, we will seek to identify characteristics of the target opportunity that will result in synergies with your company in the event of a combination of the two entities.

Step 4 - Pursue Target Opportunity

When you decide to pursue the acquisition of the preferred target opportunity, the process undertaken includes: (1) Preparing and presenting a letter of intent or offer to purchase; (2) Preparing a Request for Funding to source financing.

LOI or Offer to Purchase

Sequoia will prepare a Letter of Intent (LOI) or Offer to Purchase, as appropriate, on your behalf. The LOI or offer is intended to document the major terms of the deal including:

- Confirmation of the price and means by which it is to be paid
- Conditions precedent: matters agreed to be resolved before closing
- Confirmation that it is non-binding; subject to a Definitive Agreement of Purchase and Sale
- Restrictive covenants such as non-compete clauses
- Recognition that warranties or indemnities are to be detailed in the Definitive Agreement
- An agreed period of exclusivity or 'no-shop clause'
- A timetable of events

Source Financing

Sequoia will act on your behalf to source funding for the deal. We will prepare a Request for Funding and circulate it to the appropriate funding sources to determine interest in participating in the financing. The initial Request for Funding would include: (i) a description of the buyer; (ii) key characteristics of the business to be financed; and (iii) the proposed capital structure including funds requested. Of those parties willing to participate, a follow-on to the Request for Funding would be supplied providing detailed and supporting documentation required by the lenders. The result would be a Discussion Paper issued by the lenders wishing to participate enabling you to choose your preferred funding partners.

Step 5 - Close the Deal

The following steps remain to the closing of the deal; a process that takes typically two months to conclude.

Due Diligence

The LOI or offer will afford you a reasonable period to validate operational, financial, and legal matters associated with the pending transaction. If not prepared by the seller, Sequoia will collect information from the seller to prepare an *electronic data room*. The data room anticipates all information you will likely require to validate the legal and financial condition of the company, its properties and assets, and such other matters to satisfy yourself of the feasibility of the proposed transaction. Furthermore, to satisfy certain contingent conditions, Sequoia will manage the processes involved with any parties required to complete asset appraisals, final funding approvals, and the like.

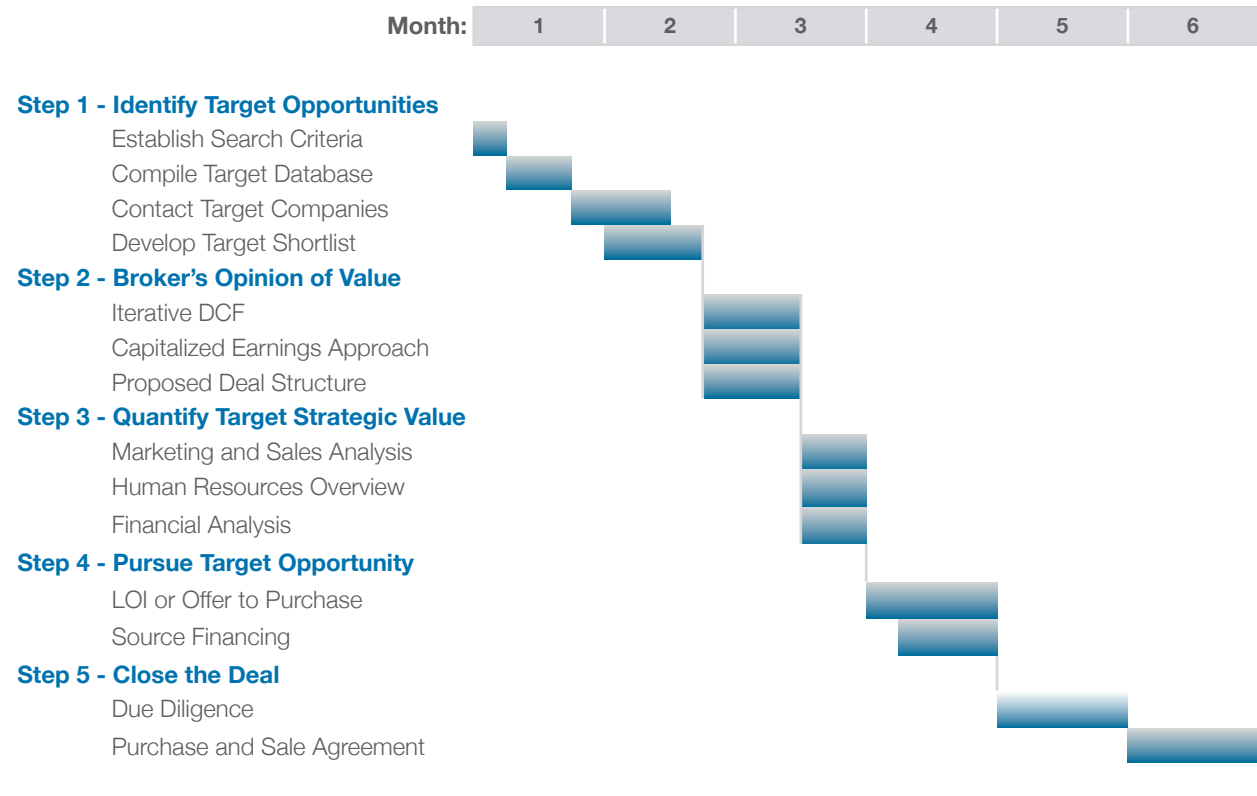
Purchase and Sale Agreement

Although your lawyer will initiate the Definitive Agreement, both sides need some caution at this stage. A good lawyer will: (i) focus on the objective of closing the deal, (ii) pragmatically find a way around problems; and (iii) think in sound commercial (and not purely legal) terms. Conversely, a poor lawyer will find ways to unpick a good deal by extending the negotiation process to the point where it becomes at risk of failure. Agree with the seller that both sets of lawyers are to be servants of the deal and not masters of it. Sequoia's role at this stage is to: (1) Coordinate between the parties and their lawyers; (2) keep all parties focussed on the *finish line* especially considering the emergence of matters of dispute; and (3) intermediate on business matters that may arise during the drafting of the final Agreement.

Our job is complete when the transaction closes.

Timing

The following table highlights the major steps and components of an engagement required to successfully acquire a business and the approximate timing of each.



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