



Business Marketing Services Overview



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Business Marketing Services Overview

Services Summary

This document outlines the methods undertaken by Sequoia Business Brokers Ltd. to sell the assets or shares of privately held companies subject to: (1) Obtaining the highest selling price for the seller; (2) Obtaining terms and conditions of the sale acceptable to the seller; and (3) Selling the business within an acceptable timeframe to the seller.

Critical Success Factors - What Matters

The product Sequoia sells, your company, is of high value with a complex sales cycle involving multiple decision-makers, gatekeepers, and influencers. Successfully managing the multiple phases of the sales cycle requires professional sales expertise. Sequoia's seasoned sales professionals have the experience and proven track records in strategic deal making to achieve the objectives of the engagement.

We will actively undertake the marketing of your company. Passive marketing yields sub-prime results. Businesses do not sell themselves. Sequoia has no interest in engagements to simply *list* your business to increase our inventory with the hope of an increased probability of commissions. Instead, we embrace the challenge of proactively seeking buyers for your business that place a premium on its value.

In selling businesses, what matters is closing. Closing demands attention to 100% of the details. Sweating the details, anticipating problems, managing deal momentum, negotiating the best terms, qualifying buyers, defining a market, packaging your business; these are some the skills Sequoia Business Brokers will use to find a suitable buyer and guide the deal to the finish line; to close the sale of your business.

Selling is a Proactive Process

Putting a business up for sale by merely *listing* the business is a passive approach that will attract bargain hunters to make an offer at a value certain to be less than the published *asking price* of the business. The best buyers are often not actively considering an acquisition. Nevertheless, they are the buyers that may be financially strongest and the best positioned to capitalise on the benefits offered by your company. Such buyers must be actively sought.

Value is Driven by Motivation

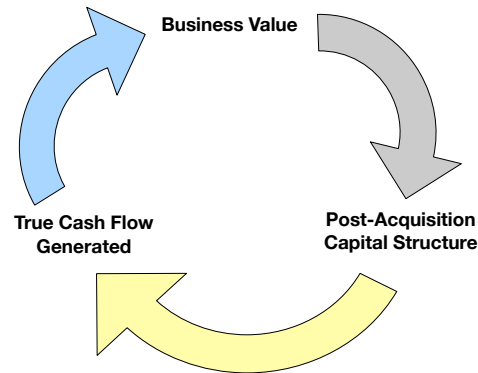
Generally Accepted Accounting Principles and the successor International Financial Reporting Standards cannot value a blue chip customer base, brand equity, or market access yet these and other factors have significant value to buyers. The buyer's motivation drives value far more than earnings multiples. A buyer's ability to understand the value drivers in your business is directly related to the process by which they are invited to make an offer to buy your company.

Step 1 - Broker's Opinion of Value

To ensure that your selling price objectives are attainable, calculation of the expected selling price of your company must be done before approaching the market. Sequoia will prepare a Broker's Opinion of Value of the expected selling price. 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 business via an arm's length transaction under current open market conditions and will use the following proven methodologies:

Iterative Discounted Cash Flow (IDCF) Analysis

IDCF is a rigorous and comprehensive methodology that optimizes the maximum 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 circular problem is solved through an IDCF analysis. An IDCF analysis repeatedly calculates complete pro-forma financials (fully projected Income Statements, Statements of Change in Cash Position, and Balance Sheets) 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 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.

If the Broker's Opinion of Value meets your selling price expectations, we can begin to prepare your business for sale.

Step 2 - Prepare your Business for Sale

Sequoia will conduct guided interviews with you (and any designates of yours which have been made aware of the impending sale of the business). The purpose is to discuss strategies, policies, and procedures of the business such as: competition, marketing, sales, distribution, customers, territories, administration, manufacturing, customer service, human resources, financial matters, information technology and security, process control, intellectual property and the like. The pool of information gathered enables us to prepare four essential selling documents before taking the business to market: (1) the Anonymous Business Profile, (2) the Confidential Business Presentation; (3) the Confidential Prospectus; and (4) the Confidential Price Analysis.

Anonymous Business Profile

The *ABP* is a one-page data sheet used in the early stages of buyer contact. It does not identify your company name, location, or other characteristics of your company that you deem confidential. It highlights the fundamentals of your company and sells the benefits of your company's unique characteristics to buyers.

Confidential Business Presentation

Prospective buyers are delivered an in-person sales pitch on the company. The centre piece is a comprehensive Keynote (Powerpoint) presentation about the business tailored for the audience to which it is presented. The presentation is based on the content of the Confidential Prospectus (see below) adapted for an in-person sales presentation. It is provided only to parties that have been qualified and have signed a nondisclosure agreement.

Confidential Prospectus

The Confidential Prospectus is an individual expression of the unique characteristics of your company. It is provided only to parties that have been qualified and have signed a nondisclosure agreement. The focus is the benefit of your business to buyers. The goal is to engage the buyer in further discussions about your business in the context of combined resources (merged operations, new capital investment, etc.) with the buyer. Whereas it discloses financial information of your company, it is not exhaustive. Details are deferred until due diligence; after commitment has been made by the buyer to acquire your company. The contents of a typical Prospectus include:

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
- Pricing Strategy
- Competition

Financial Analysis

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

Human Resources Overview

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

Confidential Price Analysis

The Confidential Price Analysis is a paper that defends the value of your business to the buyer and the buyer's influencers and advisers. Once a buyer has otherwise committed in their mind that they wish to purchase your company, they will inevitably question the amount which they are being asked or are required to pay for the business. The purpose of the Confidential Price Analysis is to deal with the objection in a straightforward manner that is rooted in sound financial analysis. Using the techniques contained in the Broker's Opinion of Value (i.e. Iterative Discounted Cash Flow Analysis and Capitalized Earnings Approach), the Confidential Price Analysis defends the value of the business based on scientific fundamentals. Furthermore, once an Offer to Purchase has been mutually accepted, the buyer's advisers (accountant, lawyer, etc.) are naturally predisposed to claim the price offered was too high. The Confidential Price Analysis has been proven as an effective document to remove further price objections and maintain the value offered for the company.

Electronic Data Room

Sequoia will compile information about your company to prepare an *electronic data room*. The data room anticipates all information a buyer will likely require during due diligence to validate the legal and financial condition of the company, its properties and assets, and other matters to satisfy itself of the feasibility of the proposed transaction. After an Offer to Purchase or Letter of Intent has been mutually accepted and the purchase deposit monies are received in Sequoia's Trust Account, the electronic data room is posted to a secure authenticated web site to enable select, time-limited access by the buyer and the buyer's advisers engaged in due diligence (typically lawyers and accountants). Preparing the electronic data room before Offer acceptance and distributing it electronically after Offer acceptance ensures deal momentum is preserved.

Step 3 - Create a Market to Sell your Business

Buyer Competition is the Most Important Factor

Creating a market to foster buyer competition is the most effective way to maximize your company's value in terms of:

- Price: Many things affect price, but none as great as creating a market of competing buyers.
- Speed: Nothing motivates buyers to get the deal done more than knowledge of competing offers.
- Terms: Cash, vendor financing, exit timing, warranties, etc. are influenced by competition more than anything else.

Identify Prospective Buyers

Identifying the maximum number of qualified buyers is the key. The *most probable buyer* does not fall into a single category or profile. Who is most likely to benefit from the characteristics of your company? Is the principal value in your customer base, your people, your geographical coverage? Mapping these benefits to prospective buyers will result in buyers that are not necessarily competitors. Opportunistic buyers are often better suited than those with an acquisition on their agenda. Lateral thinking at this stage will pay great dividends.

Sequoia will seek qualified buyers through a combination of:

1. Working with you to identify allied industry sectors that would benefit from a combination with your business. Sequoia then researches companies in those sectors and contacts the company owners or CEOs to determine interest in the opportunity presented.
2. Promoting the opportunity to Sequoia's:
 - a. Stable of corporate, private equity, and high net worth individual buyers seeking to buy a business like yours;
 - b. Network of mergers and acquisitions professionals in the business brokerage, business succession, and private equity fields; and
 - c. Community of business succession advisors adjacent to liquidity events (accountants, lawyers, and wealth managers).
3. Advertising (anonymously) the business for sale in select publications and trade journals subject to your approval and funding of a targeted advertising campaign.

Invitation to Participate

Just as out-of-box thinking begets a quality market of buyers, a rigorous sales process yields maximum participation. We will contact the decision maker (usually the owner or CEO) of each company in the target buyer market. During each contact, we establish credibility, focus on the benefits of your company to the buyer, form the basis for future discussion, and maintain confidentiality. We will determine if the buyer has interest to acquire your company. If so, the party is extended an Invitation to Participate that includes:

- Anonymous Business Profile
- Nondisclosure Agreement (NDA)

Each prospective buyer must sign a nondisclosure agreement protecting the confidentiality of all subsequent communications and information transfer. Prospective buyers are qualified to determine their motivation, fit, and financial ability to consummate the purchase of your business. Qualified buyers under NDA are introduced to the company in more detail through delivery of the Confidential Business Presentation.

Solicit Offers to Purchase

After the Confidential Business Presentation, the remaining qualified buyers are eligible to receive a Request for Offers that includes:

- Confidential Prospectus
- Offer to Purchase or Letter of Intent Template

All parties are encouraged to interact with the seller in a controlled set of meetings or discussions. It is during this stage that we must assert a compelling commercial argument to each buyer that emphasizes the added value represented by your company within the framework of their operation or ownership.

Accept Offers for the Business

Of the offers received it is important that the chosen one is made aware that, whereas you may grant some degree of temporary exclusivity to them, you have not rejected the other finalists; nor have you severed relations with them. To do so would ignore commercial realities of this stage of the deal since retaining this right offers you choice, which in turn influences the price, speed, and terms ultimately received in the deal. An Offer to Purchase or Letter of Intent from the buyer documents 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 noncompete clauses
- Recognition that warranties and indemnities are to be detailed in the Definitive Agreement
- An agreed period of exclusivity or *no-shop clause*
- A timetable of events

Step 4 - Close the Deal

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

Due Diligence

When making an offer to purchase, the buyer takes a *leap of faith*. The buyer's actions will have been based on third-party information; usually with caveats that the information is subject to buyer verification. The time has come for the buyer to validate that what has been represented is substantially what is being bought. To facilitate, Sequoia will post the electronic data room to a secure authenticated web site to enable select, time-limited access to the buyer and the buyer's advisors engaged in due diligence.

Sequoia plays a critical role in managing the effects of change in the mindset of the parties during this phase. Although buying and selling a company is a business matter; it is one conducted by people. When an offer is accepted there is a distinct change in buyer and seller points of view. Glasses once half full become half empty. The increased presence of advisors (accountants, bankers, lawyers, and wealth managers) produces conflicting information and negative viewpoints. Maintaining momentum is crucial. Sequoia's role now focusses on defending value, maintaining clear and direct communication flow between all parties, anticipating roadblocks and solutions thereto, and eliminating friction between parties adopting an adversarial stance. Until the deal is done, the process remains a sales function and closing becomes the number one most important sales skill.

Purchase and Sale Agreement

This will be the final agreement upon which your business is sold. The buyer's lawyer initiates the agreement.

Both sides need some caution with their lawyers at this stage. First, choosing a lawyer experienced in mergers & acquisitions activity is paramount. There are many facets of business law; those focussed on M & A activity know the ins, outs, and nuances of business transactions and are a necessity for representing your legal interests in this matter. Besides the lawyer's specific expertise, a good lawyer will: (i) focus on closing the deal, (ii) pragmatically find a way around problems; and (iii) think in sound commercial (and not purely legal) terms. Conversely, a poor or inexperienced lawyer will find ways to unpick a good deal through irrelevant distractions to the point where it becomes at risk of frustration or failure. We must agree with the buyer 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 the activities between the parties and their lawyers; keep all parties focussed on the "finish line" especially considering the emergence of matters of dispute; and (2) intermediate on business matters that may arise during the drafting of the final Purchase 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 sell your business and the approximate timing of each.



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