WEALTHPOINT®

Know your story.

SELLING YOUR BUSINESS – WHAT TO EXPECT

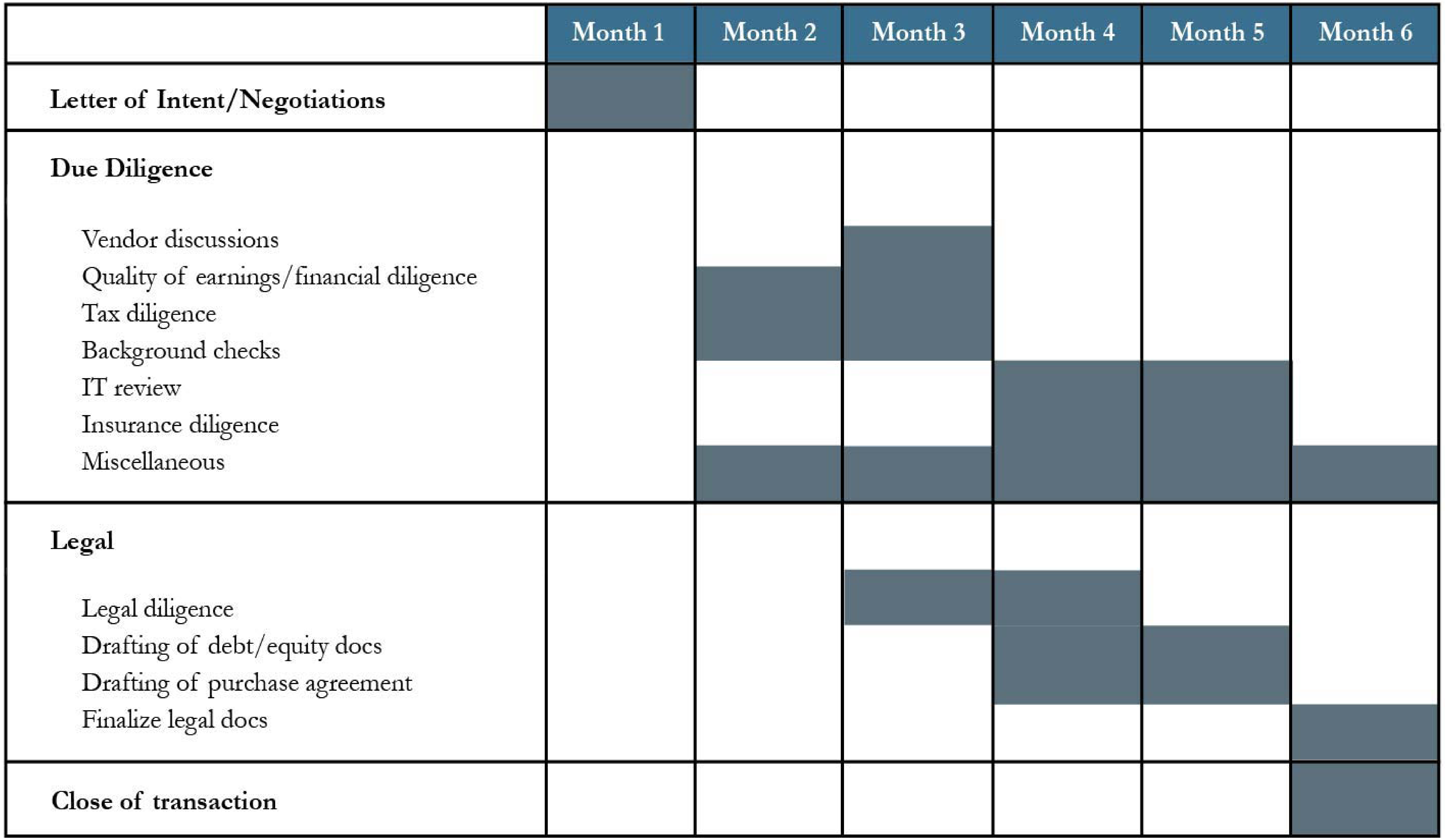
LEARNING OBJECTIVES

Selling your business is a complex transaction with many moving parts

Understanding the various parts of a transaction can provide insight into why some deals get done and others fall through

- Timeline of the transaction
- Stock vs. Asset sale
- Letter of Intent
- Purchase price negotiation
- Terms of Sale negotiations
- Due diligence
- Allocation of value
- Working capital calculation
- Closing items

DEAL TIMELINE



STOCK SALE VS. ASSET SALE

Stock Sale

Buyer purchases the stock of the company

- Assumes all assets and liabilities

Advantageous to seller

- Seller pays capital gains on any value over their cost basis in the stock
- Buyer does not receive a step-up in basis on assets

Asset Sale

Buyer purchases the assets of the company

- Allocates the purchase price to different classes of assets (A/R, inventory, fixed assets, etc.) – §1060

Seller may pay tax at the corporate and individual levels

- On value received above basis

Advantageous to buyer

- Buyer receives a step-up in basis on the purchase assets
- Results in tax benefit (depreciation deduction)

§338(h)(10) election*

Combination of asset sale and stock sale

- Stock sale for legal purposes (same entity before and after the sale)
- Asset sale for tax purposes (allowing the buyer to depreciate the assets)

* Subject to certain restrictions

LETTER OF INTENT – INITIAL NEGOTIATIONS

Letter of Intent (LOI) indicates interest to purchase the company

Typical LOI provisions include:

- Information about the buyer
- Structure of the purchase (asset, stock, purchase price)
- Source and use of funds
- Facilities/buildings for operations
- Covenants/not to compete language
- Timing for close
- Fees and expenses
- Indemnities and escrow provisions
- Due diligence items
- Exclusivity provisions
- Term

PURCHASE PRICE NEGOTIATION

Purchase price negotiations are one of the most important aspects of a transaction

Methods to determine purchase price include:

Discounted cash flow

- Future cash flows projected for five to seven years and discounted to determine their present value

EBITDA Multiple

- Adjusted EBITDA multiplied by an agreed-to multiple
  - Financial buyers = lower multiples
  - Strategic buyers = higher multiples

Agreed-upon price

- In some situations, valuation methodologies may be used to provide a range of value but will not be used to determine the actual purchase price

Adjustments to purchase price include:

- One-time and/or extraordinary expenses
- Owner expenses (memberships, vehicles, etc.) and compensation

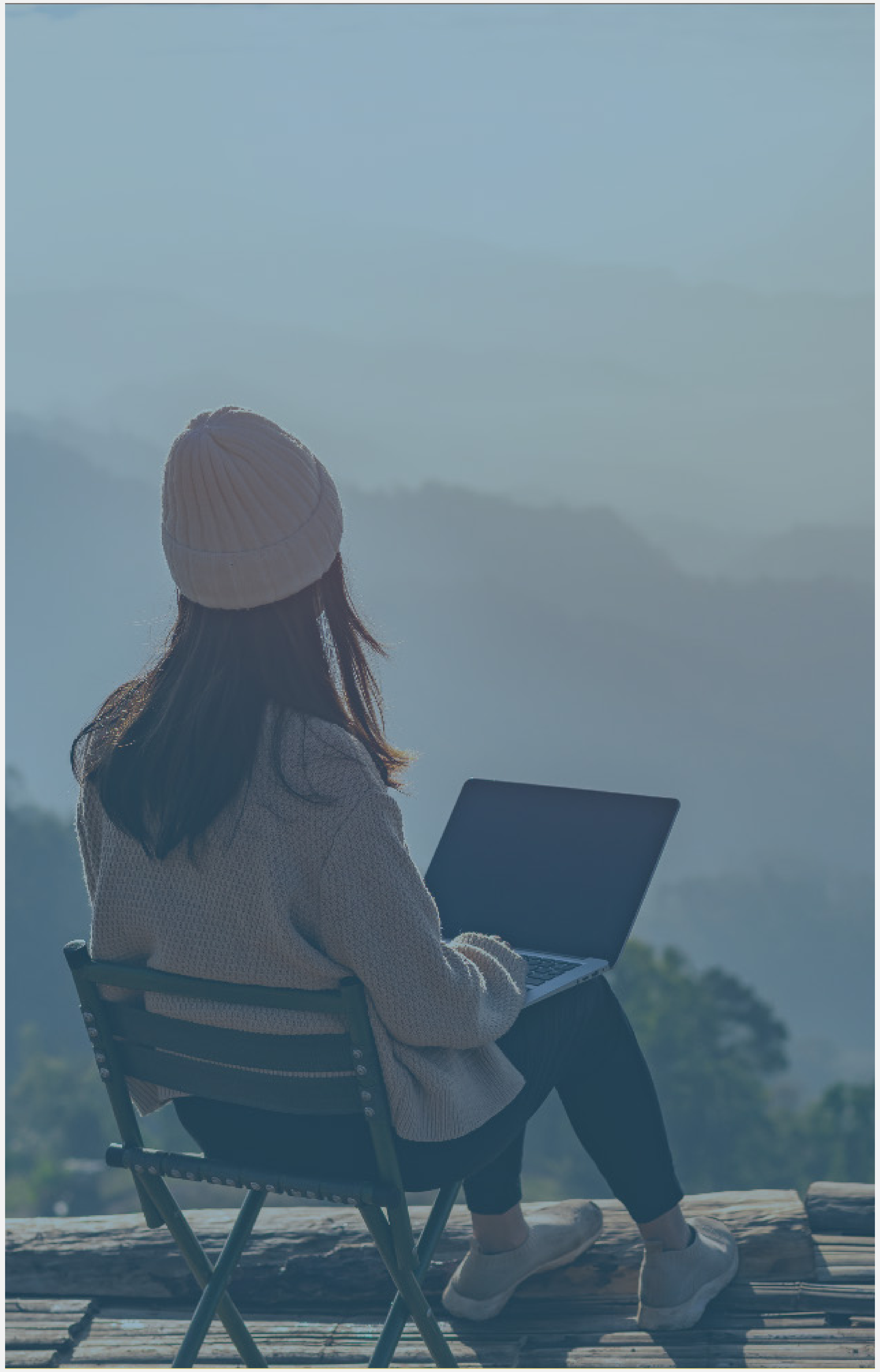
PURCHASE PRICE FACTORS

↑ Purchase Price

- Customer diversification
- Repeatable financial performance (low volatility of earnings)
- Strong organization/management team
- Growing company and industry /ability to capture additional market share
- Credible financial statements (audited or reviewed)
- Long-term contracts

↓ Purchase Price

- Significant customer concentration
- Unstable or volatile financial performance
- Weak organization/management team
- Shrinking industry/decreasing margins
- Internally prepared or compiled financials



DUE DILIGENCE

Due diligence is the buyer's review of all information pertaining to the seller
- Typically the most time-consuming part of the transaction

Financial diligence
- Collection of all tax returns and financial statements
- Quality of earnings (if needed)

Customer/vendor diligence
- Communications with current customers and vendors

Employee diligence
- Onsite visit with key personnel
- Background checks

IT
- Review of technology and systems (ERP, financial, CRM, etc.)
- Onsite visit

Insurance
- Benefit plans for employees
- Property, casualty, E&O, commercial, umbrella, etc.

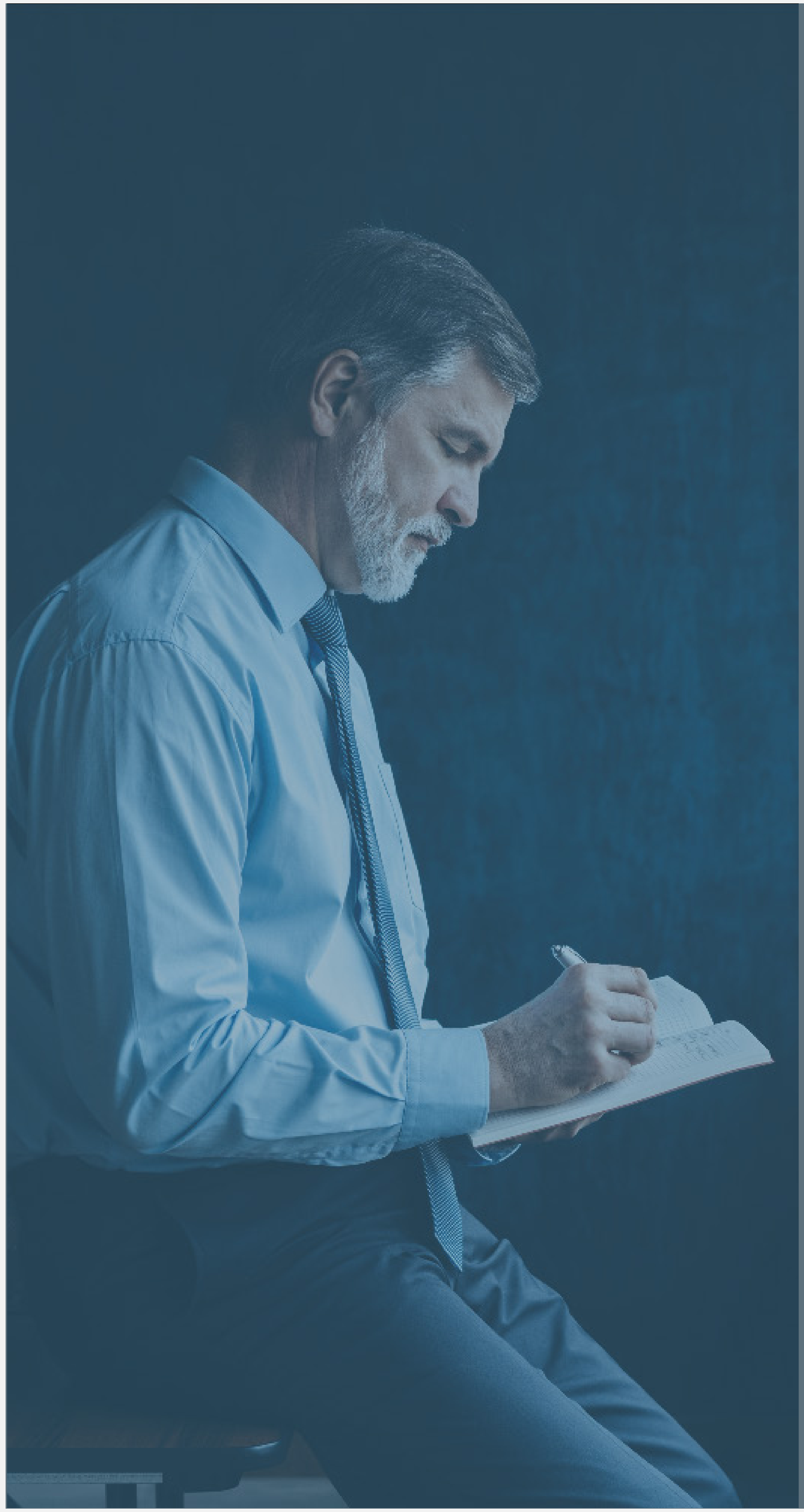
Legal
- Leases, agreements, corporate documents, contracts, etc.

Miscellaneous
- Onsite visit of company's facilities

ALLOCATION OF VALUE

In an asset sale, the buyer and seller must agree how to allocate the purchase price amongst the assets

Asset Class	Asset Description	Typical Allocation	Typical Tax Treatment
Class I	Cash and general deposit accounts	Cash account balance	Value = Basis (no tax recognized)
Class II	Marketable securities	Fair market value of investments held	Value may be higher or lower than basis; taxable event
Class III	Accounts Receiveable	Book value of A/R (less bad debts)	Value = Basis (no tax recognized)
Class IV	Inventory	Book value (may be adjusted for obsolete inventory)	Value = Basis (no tax recognized)
Class V	Tangible Personal Property (i.e. real estate)	Book value or fair market value	Value may be higher or lower than basis; taxable event (and possibly depreciation recapture)
Class VI	Intangible Property (trademarks, not-to-compete, etc.)	Fair market value	Ordinary income
Class VII	Goodwill and Going Concern Value	Difference between purchase price and sum of all classes above	Capital Gains



WORKING CAPITAL CALCULATION

Buyer and seller must agree to a working capital number at the close of the transaction

- **Possible scenarios for agreement on working capital**
  - Fixed number
  - Range
    - -Example: $5,000,000 working capital with collar of $150,000
    - -Range: $4,850,000 – $5,150,000
  - If final working capital is less than the agreed number, the seller must pay the buyer
  - If final working capital is more than the agreed number, the buyer must pay the seller

- **It's important to define working capital and method of determining it**
  - Usually defined as current assets less current liabilities
    - -Cash may or may not be included depending on specifics of the purchase
  - The buyer may want to use the last 12 months' average or a projected value
    - -Last 12 months' average will usually be used to smooth out the financial performance

CLOSING ITEMS

Execution of documents

- Sale and purchase agreements
- Assignment of contracts

Liquidation of the entity

Change of control bonus payments

- Do they need to be paid before or after the transaction?

Funds held in escrow

Earn-out provisions (if applicable)

Pay-off statements with the bank (if applicable)

IMPORTANT DISCLOSURES

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The financial information included in this report has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy. All information provided should be confirmed to any official account statement and is not a replacement for any account statement or transaction confirmation issued by the custodian or investment/insurance provider. WealthPoint (WP) has made reasonable steps to accurately reproduce the information from your official account custodian statements. Differences in positions and valuations may occur due to the reporting dates used and differences in valuation sources and methods. Please contact the carrier or your financial representative if you have any questions about your statements. In the event of a discrepancy your official account statement valuations would prevail.

Nature of Services, and Responsibilities

The business advisory services, and possible resulting recommendations (estate planning solutions, need for liquidity planning, etc.) will vary in type and complexity, depending on a client's individual personal and business circumstances and goals. Services and responsibilities are outlined in our Proposal Letter and Relationship and Engagement Agreement. It is important that you provide accurate and complete responses to the questions asked by the WP Partner, that you review the information provided to you in the initial Instinct Verification, Decision Dialogue, financial modeling or other report, as well as any final report, and that you promptly inform the Partner of any subsequent changes to your situation or the information provided. You are solely responsible for the accuracy or completeness of the information you have provided, which may affect the results of any recommendations contained in the report. Information should be kept up to date, as results may vary over time and as assumptions change.

Methods of Analysis and Projection

Information collected is intended to project future financial scenarios to meet your future goals or liquidity requirements. Financial Projections and other information prepared by WP are based on assumptions provided by and/or reviewed with the client in their final report, are hypothetical in nature, do not reflect actual investment or business results and are not guarantees of future performance. Actual results will vary, perhaps to a significant degree.

- Personal Investments - WP uses simple aggregate growth rates to project personal investments and retirement accounts, and all inputs are either provided by the client or client's financial advisor/provider or are jointly agreed on by WP and the client. Return assumptions do not reflect the deduction of any commissions, fees or product charges that may apply to any particular investment, which may negatively impact returns.
- Insurance Illustrated Performance - All policy values used reflect current policy charges, current cost of insurance rates, current mortality and expense risk charges, average fund expenses and the stated hypothetical gross rate of return. The policy values are hypothetical for illustration purposes only and may not be used to project or predict investment results. Policy values will vary based on the actual performance of sub-account investments selected, actual insurance charges over the life of the plan and the timing of the premium payments. A WP illustration may utilize a supplemental illustration from an insurance provider, that is only part of the basic illustration and must be read in conjunction with the actual basic illustration. Please refer to the actual illustration for more information about the guaranteed elements of the policy and other important details.
- Business Income Statement, Cash Flow Statement and Balance Sheet – Current company financial statement information is provided by the client, as well as revenue and expense growth assumptions for future years. These assumptions are used to project future Net Income, and business valuation based upon an appropriate multiplier disclosed to the client.
- Personal Cash Flow – Cash flows are projected based on information obtained from the client (tax returns, personal financial statements, bank statements, W-2s, 1099s, K-1s, etc.). Future cash inflows and outflows are based on input from the client and the client's advisors.
- Estate/Trust Cash Flow – Cash flows due to and from Trusts will be based on trust documents and financial information (tax returns, financial statements, etc.) obtained from the client.
- Personal Assets – In some situations, WP may project the value of an asset (i.e. real estate, other assets, etc.) based on input from the client and the client's advisors.
- Taxes – Taxes are being calculated in the analysis. However, WP does not provide tax advice and the tax calculations are for illustrative and hypothetical purposes only. The client should consult with their tax advisor to evaluate their tax situation.


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