

Seminar
Workbook
Steps Covered

How



**ow to get the
most from the
sale of your
business.**

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How to get the most from the sale of your business

The following is an outline of the process of selling a business, applicable regardless of size, type, or profitability of the company.

1

Make Tentative Decision To Sell

The value of a business can be significantly increased through early and timely preparation for the sale.

2

Prepare A Business Evaluation Report

An evaluation report is needed to determine and substantiate the value of a business. Its contents include organizational, financial, and marketing analyses and the business evaluation results.

3

Review The Business Organizational Analysis

4

Review The Financial Analysis

Closely-held companies tend to suppress profits in order to save taxes. The buyer, however, needs to know the "true" profitability of the company. In addition, the future potential of the business and the "true" value of the balance sheet equity need to be quantified and substantiated to a buyer.

5

Review The Marketing Analysis

A quality professional Marketing/Market Research analysis can facilitate a substantial increase in the price received for the business.

6

Review The Business Valuation Results

7

Make The Decision To Sell

The decision should be based on evaluation of the opportunity costs of selling, and on analysis of circumstances and timing.

8

Prepare A Selling Document

The selling document is prepared on the basis of the evaluation report and is used as a tool for deal structuring and negotiations.

9

Target Buyers

For businesses with sales of one million dollars and above, the key targets for buyers are large corporations and investor groups. The search for suitable buyers requires careful research to identify compatible U.S. and/or foreign targets.

10

Structure The Deal

The terms of the deal determine the effective price. Creative deal structuring methods are used to attract a buyer, to negotiate favorable terms for the seller, and to facilitate the closing of the deal.

11

Negotiate The Deal

Professional negotiating strategies aid to successfully close the deal.

12

Close The Deal

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SEMINAR WORKBOOK

BUSINESS VALUATION AND SALE OF BUSINESS PROCESS

STEPS COVERED

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STEP 1: PREPARE A BUSINESS EVALUATION REPORT

Step 1.a. Reasons for a Seller Evaluation

- Objective Determination of Value
- Substantiate Intangible Elements of Value
- Identify Areas That Need to Be Improved to Increase Value
- Basis for Preparation of Selling Document
- Basis for Deal Structuring
- Familiarization of Broker with Seller Corporation
- Identify Off-Balance Sheet Assets
- Substantiate Goodwill

STEP 2: CONTENTS OF AN EVALUATION TO FACILITATE SALE OF A BUSINESS

Step 2.a. Major Category Sections in an Evaluation Report

- Organization
- Financial
- Marketing
- Valuation

Notes:

STEP 3: REVIEW THE ORGANIZATIONAL ANALYSIS

Step 3.a. Organizational Areas That Require Emphasis

- Description of Business Operations
- Description of Personnel
- Responsibilities of Key Personnel
- Business Segments and Subsidiaries
- Existence of "Going Concern" Business

STEP 4: REVIEW THE FINANCIAL ANALYSIS

Step 4.a. Financial Areas That Require Emphasis

- Preparation of Adjusted Historical Income Statements
- Analysis of Costs and Expenses
- Preparation of Pro Forma Income Statements for Future Years
- Preparation of Adjusted Balance Sheet

Notes:

Step 4.b. "Packaging" of Sales Forecast**Step 4.c. Present Value of Future Net Incomes**

Description	Future Years (\$000)				
	1	2	3	4	5
Net Income	\$150	\$200	\$250	\$400	\$500
Present Value Factor	0.9434	0.8900	0.8396	0.7921	0.7473
Present Value of Net Income	\$142	\$178	\$210	\$317	\$374

Note. Annual Discount Rate Equals 6 Percent.

Step 4.d. Asset Valuation

- Inventory
- Machinery & Equipment
- Real Estate

Notes:

Step 4.e. Other Typical Balance Sheet Items Requiring Adjustment

- Cash
- Cash Surrender Value of Owners' Life Insurance
- Organization Costs
- Loan Due from Owner
- Loan Due to Owner
- Loan Due on Personal Assets
- Long-Term Debt

Step 4.f. Typical Off-Balance Sheet Assets

Type of Business		Off-Balance Sheet Assets
Metal Products	—————>	Molds
Electronics	—————>	Patents
Financial Services	—————>	Software
Educational Services	—————>	Training Masters
Mailing House	—————>	Customer List
Music	—————>	Record Masters
Health Foods	—————>	Formulas
Health Services	—————>	Patients

Notes:

STEP 5: REVIEW THE MARKETING ANALYSIS

Step 5.a. Market Research Information Sources

- Articles and Trade Journals
- Annual Reports and Regulatory Filings
- Key Secondary Research Sources
- Computer Data Bases
- Industry and Marketing Experts

Step 5.b. Contents of Marketing Section

- Industry
- Market
- Company

Notes:

Step 5.c. Typical Industry Analysis

- Industry Overview
- Typical Marketing Methods
- Industry Leaders
- Historical Growth
- Forecast Growth
- Maturity
- Size
- Structure

Step 5.d. Typical Market Analysis

- Geographical Territory
- State of Market
- Competitors
- Market Size
- Market Penetration

Notes:

Step 5.e. Typical Company Analysis

- Existing Marketing Program
- Comparison to Other Companies in Similar Industries
- Five-Year Growth Forecast
- New Areas of Opportunity
- Customers
- Suggested Marketing Enhancements

Step 5.f. Examples of Suggested Marketing Enhancements

Type of Business	Existing Marketing Strategies	Suggested Marketing Enhancements
Machinery Manufacturing	Passive Sales Management	→ Implement Aggressive Sales Plan
Telecommunications	Use Only Direct Salespeople	→ Add Direct Mail Program
Computer Products	Too Few Salespeople	→ Add Direct Salespeople
Medical Products	Use Only Direct Salespeople	→ Use Distributors and Reps.
Electronics	Limited Number of Customers	→ Target New Industries
Food	Limited Territory	→ Implement Franchise Program

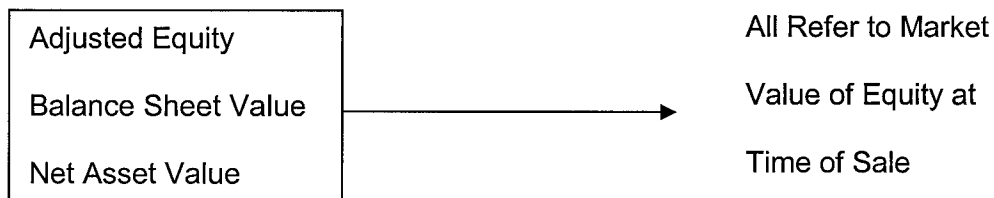
Notes:

STEP 6: REVIEW THE BUSINESS VALUATION AND THE EVALUATION RESULTS

Step 6.a. Components of the Value of a Business

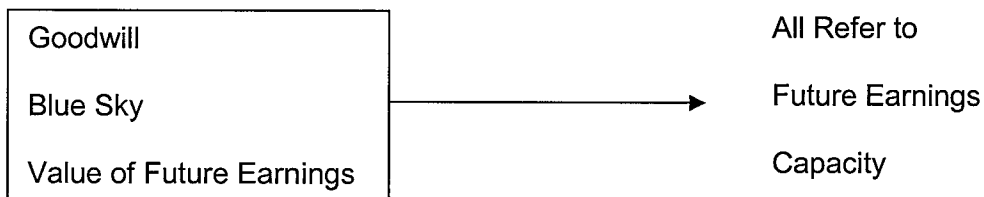
$$\begin{array}{r} \text{Market Value of Equity at Time of Sale} \\ \\ \text{Value of a Business} = \qquad \qquad \qquad + \\ \\ \text{Future Earnings Capacity} \end{array}$$

Step 6.b. Computation and Explanation of the Components of Value



Computation: Adjusted Equity Determined in the Adjusted Balance Sheet.

+



Computation: Present Value of 5 Years of Future Net Earnings.

Step 6.c. Return-on-Investment Test

Notes:

STEP 7: EVALUATE THE OPPORTUNITY COSTS OF SELLING

**STEP 8: DOES THE ANALYSIS OF CIRCUMSTANCES AND TIMING
SUGGEST SELLING?**

STEP 9: MAKE THE DECISION TO SELL

**STEP 10: SELECT A PROFESSIONAL BROKERAGE
INTERMEDIARY**

**STEP 11: EVALUATE AND SIGN A SALE-OF-BUSINESS
CONTRACT**

Notes:

STEP 12: PREPARE A SELLING DOCUMENT

Step 12.a. Considerations in Packaging the Selling Document

- Prepared on the Basis of the Evaluation Report
- Prepared for the Eyes of the Buyer
- Positive Details Are Emphasized to Attract a Buyer
- Negative Factors Should Not Be Hidden
- Basis for Negotiations
- Basis for Deal Structuring

STEP 13: CONTENTS OF A SELLING DOCUMENT

Step 13.a. Qualitative Elements of Value

- Talents of the Management Team
- Documentation of Systems and Procedures
- Quality of Systems and Procedures
- Continuity of the Business Entity
- Replacement Planning

Notes:

STEP 14: TARGET BUYERS

Step 14.a. Considerations for Targeting Buyers

- Perform a Professional Literature and Database Search
- Focus on Compatible Buyers
- Advertising Could Draw Unattractive Responses
- A Network of Contacts Could Be a Powerful Resource
- Perform a Targeted Search

STEP 15: STRUCTURE THE DEAL

Step 15.a. Key Factors in Structuring the Deal

- Type of Consideration (Payment)
- Timing
- Effect of Taxes
- Continuing Obligations of the Parties

Notes:

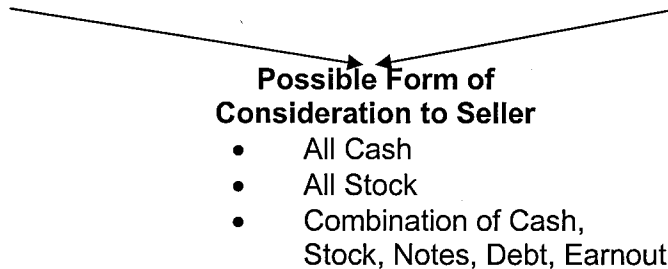
Step 15.b. Profile of Typical Deal Structures

Typical Buyer

- Public or Private Corporation
- Sales Above 1 Billion Dollars
- Manufacturing or Service Business

Typical Seller

- Closely-Held Corporation
- Sales of 1 to 80 Million Dollars
- Manufacturing or Service Business



Step 15.c. Factors Considered in a Sale of Assets

- Step-up of Assets
- Allocation of Purchase Price to Assets
- Utilization of Off Balance Sheet Assets
- Amount of Goodwill Which Cannot Be Amortized for Tax Purposes
- Tax Impact to the Seller Corporation
- Tax Impact to the Owners

Step 15.d. Factors Considered in a Sale of Stock

- No Direct Step-up of Assets
- Amount of Goodwill Which Cannot Be Amortized for Tax Purposes
- Tax Impact to the Seller Corporation
- Tax Impact to the Owners
- Buyer Has Risk of Assuming Contingent or Undisclosed Liabilities

STEP 16: NEGOTIATE THE DEAL

Step 16.a. Key Factors Which Facilitate Successful Negotiations

- A Positive People Fit—"Chemistry" Between the Parties
- Reliance of the Owners on the Brokerage Intermediary
- Coordination and Performance of the Negotiations by a Professional
- Consideration and Evaluation of the Needs of the Other Parties Involved

Step 16.b. Selected Negotiating Strategies

- Meeting Room Comfort and Seating
- Appearance of Plant or Office Facilities
- Cover Non-Difficult (Agreeable) Issues First
- Focus on Key Issues
- Flexibility—When It Makes Sense
- Control Meeting Dates
- Continuous Awareness of the Issues Until Closing

Notes:

Step 16.c. Objectives of the Letter of Intent

- Memorandum of the Intended Deal
- Not Legally Binding
- Practical Document Which Summarizes Items That Need to Be Resolved
- Summarizes Major Warranties and Indemnifications
- Confirms the Need for the Buyer to Perform Due Diligence on the Seller's Business
- Provides Access Rights of the Seller to Investigate the Buyer

Step 16.d. Announcement of the Intention to Sell—After the Confidentiality Period

- Supervisory Employees Should Be Personally Told
- Notification Should Be in the Format of an Announcement
- Only True and Straightforward Statements Should Be Made
- Major Questions Should Be Answered But Not Dwelled Upon
- Supervisors Should Be Requested to Notify Their Subordinates

Notes:

STEP 17: REVIEW THE PURCHASE AGREEMENT

STEP 18: CLOSE THE DEAL

Notes:

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