

Valuing & Selling Your Business



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Dear Business Owner,

Thank you for meeting with a professional business consultant from Alamo Corporate Group. The decision to sell your business is one that I know you won't take lightly. Choosing the right firm to handle your sale is especially important. I hope the information we have assembled in this booklet will make your decision easier.

Each of our business consultants is committed to four goals to meet your needs:

- to deal with sellers and buyers forthrightly and with integrity at all times;
- to determine the true value of the businesses we represent and achieve that value for the seller;
- to put qualified buyers into good long-term business opportunities;
- to complete transactions that stand the test of time and continue to be good for both the buyer and seller.

The diligent pursuit of these goals allows us to meet your objective, which is the sale of your business to a qualified buyer at the best possible price.

I am proud of the reputation we have built since our first transaction many years ago. We consistently achieve excellent results for our clients because our system for selling businesses has been perfected and fine-tuned over hundreds of business sales.

To learn more about us and how we can sell your business, please look through this booklet – it could be the best decision of your life!

Respectfully,

A handwritten signature in blue ink that reads "Don R. Hankins".

Don R. Hankins



REASONS WHY SUCCESSFUL BUSINESSES ARE SOLD

The owner is retiring.

There are health issues.

There are partnership disputes.

The owner may have family members who are
relocating.

The owner is tired or “burned out.”

The owner does not want to upgrade.

The owner can't handle the business.



WHAT SELLS YOUR BUSINESS

- **Commitment** – The seller is committed to sell the business at a price and terms consistent with the marketplace.
- **Documentation** – The seller provides all the necessary documents and information required to sell the business. Buyers and lenders will require accurate records.
- **Valuation and Pricing** – The business is independently analyzed and the optimal price and term determined.
- **Terms** – Alamo Corporate Group shows how offering terms to qualified buyers will maximize price and minimize the time needed to sell the business. Taxes may be reduced. Recorded liens and other devices ensure that the debt will be paid.
- **Advertising** – Alamo Corporate Group advertises the business to get the highest possible response and the greatest number of prospects.
- **Confidential Exposure** – Alamo Corporate Group discloses the nature of the business (but not the name) to the broadest group of qualified buyers.
- **Qualifying** – Alamo Corporate Group “weeds out” unqualified buyers and the “tire kickers.”
- **Showing/Tour** – Alamo Corporate Group introduces the business to potential prospects so that they can see it and feel it.
- **Offer to Purchase** – The buyer writes an Offer to Purchase with contingency clauses. Alamo Corporate Group represents its client’s interests to get the best possible offer. The offer addresses all important issues and is the logical next step in the process.



WHAT SELLS YOUR BUSINESS *(cont.)*

- **Accept the Offer** – The seller accepts the proposed Offer to Purchase or makes a counteroffer.
- **Mutual Acceptance** – All parties agree to the terms and conditions of the sale and the buyer receives permission to inspect books and records, equipment and customer lists.
- **Contractual Arrangements** – Arrangements are made for lease assignment, loan assumptions, consulting agreements, franchise transfer, equipment lease assignment, non-compete agreement, etc. Alamo Corporate Group does the legwork.
- **Contingency Removal** – All contingencies are removed, and the Offer to Purchase is converted to a binding Purchase Agreement. Alamo Corporate Group works with the attorneys to ensure that all the paperwork is in order.
- **Open Escrow** – Alamo Corporate Group provides all necessary information to the escrow attorney; an escrow account is opened and the proper documents are prepared.
- **Document Review** – Copies of the closing documents are given to all parties for review and comment. This happens before anyone has to sign any legal document.
- **Closing** – Final inventory is completed and all parties meet together to execute all required documents.

The seller collects the check!



WHAT BUYERS LOOK FOR

Provable Books and Records

Reasonable Price

Leverage and Terms (if a bank will not lend on the assets, the seller will have to or sell to an all cash buyer at a lower price or simply not sell)

Living Wage

Furniture, Fixtures and Equipment (That is current and not worn out)

Lease (With reasonable term and cost)

Training (By the seller for 1-2 months)

Appearance

Covenant Not to Compete

A Good Reason for the Sale

Time is of the Essence

No Last Minute Surprises



WHAT IS MY BUSINESS WORTH?

The value of a business depends on the needs and perspective of each individual buyer. Value is related to risk and the ability of the business to generate an income stream that is comfortable for the buyer.

It is important to start with the basics:

- Review hard assets
- Recast, normalize, confirm and review earnings trends
- Review factors that can impact future earnings
- Select the appropriate valuation and approach
- Calculate and apply external factor discounts

While there are many different valuation methods, they can be grouped into one of the following categories:

- Cost of Asset Approach
- Income/Earnings Method
- Market/Comparable Sales Approach

Review of all valuation methods are necessary if a full business evaluation is required. Because these take time and can be quite expensive, when determining a Most Probable Selling Price, Alamo personnel use a proprietary computer model which considers seller discretionary earnings, replacement cost of the assets, most probable lending levels and debt cost, as well as buyer's expected return on investment to determine a price. This is then tested against the sale of other similar companies.

Seller's Discretionary Earnings is defined as total owners compensation. This includes the profit or loss of the Business plus owner salary, deducted interest, deducted depreciation plus other benefits such as luxury automobiles, excessive insurance, exotic travel and payments to other family members which are non essential to the business operations, plus non recurring and non essential expenses. Normally, the value of equipment is much less important than the amount of discretionary cash flow a business is generating.



WHAT IS MY BUSINESS WORTH? *(cont.)*

In the final analysis, the final price of a business must pass the sanity test:

- Must cover debt service
- Must provide a reasonable income and return on investment for the buyer
- Must allow for working capital fluctuations
- Must cover replacement capital expenditures

Turnaround Opportunities – Businesses with a negative cash flow may not pass the sanity test but may be a good acquisition candidate for the right buyer.

While Alamo Corporate Group assists the seller in finding the best method to price a business, the final price and terms are determined by the negotiations between the buyer and the seller. Conversely, while Alamo Corporate Group may assist the buyer in obtaining financing, the offer amount rests solely with the buyer, and the final price and terms are the result of negotiations between the parties. These negotiations are an area that we recommend that you allow us to help. Keeping the emotions away from the negotiations will add many dollars to your total price.



HOW THE PURCHASE OF A SMALL BUSINESS IS FINANCED

There are many sources of financing a buyer can explore:

- Family, friends, partners
- Commercial banks
- Home equity, pension funds, insurance cash value
- Government agencies
- Strategic partners
- Leasing companies

In most cases, these sources will not provide favorable terms for financing the purchase of a business. The typical business acquisition involves the following elements:

- Buyer's cash (always)
- Seller financing
- Institutional financing

Buyer's Cash – Typically 20% - 50% of the purchase price comes from the buyer's cash reserves. The seller and/or banks are usually unwilling to finance any portion of the purchase if the buyer's commitment is not significant. The buyer must also consider reserves to be used for operating capital.

Seller Financing – Sellers will consider financing as a way to receive the full value of the business. Seller financing supports the idea of confidence in the business as well as a continued commitment to success – both of which are appealing to buyers. Such financing is usually structured as a term loan, consulting agreement, earn out, or non-compete agreement.

Institutional Financing – Alamo Corporate Group provides assistance in securing such financing. Government secured loans are available in some cases and will include a review of the buyer and the business to be financed. Institutional financing usually requires the buyers' personal guarantees and subordination of any loans made by the seller.

Regardless of the approach used, service businesses are very difficult to finance. Financial Buyers rarely pay for potential. The final sales price must be based on the ability of the business to generate cash.



WHAT ARE THE COMPONENTS OF AN OFFER TO PURCHASE ?

An Offer to Purchase specifies how the sale is to be structured:

- **Asset Sale** – Involves the sale of specific assets including equipment, trade names and inventory but may or may not include cash, accounts receivable or accounts payable
- **Stock Sale** – Involves the transfer of stock in the company and effectively includes all assets and liabilities of the company

An Offer to Purchase specifies Price, Terms and Payment:

- Cash due at closing
- Assumption of debt (if any)
- Seller financing terms – term, interest, security
- Non-compete compensation
- Consulting income or earn-outs

The Offer to Purchase is usually subject to certain contingencies that are satisfied prior to the final transfer:

- Due diligence (confidential information disclosed by the seller that the buyer still needs to review)
- Confirmation of financials, books and records
- Financing arrangements
- Lease assignment or negotiations of new lease
- EPA compliance
- Licensing requirements
- Franchise / Branding / Supplier approval

Other issues that are addressed in the Offer to Purchase:

- Buyer and Seller warranties
- Training
- Covenant not to compete
- Allocation of purchase price
- Desired closing date
- Date by which seller must respond
- Earnest money



OFFER TO PURCHASE

Once an Offer to Purchase is written, Alamo Corporate Group is obligated to present it to the seller.

The seller has three options:

- Accept the offer as presented
- Respond with a counter offer
- Let the offer expire with no action taken (rejection)



THE ROLE OF THE ESCROW ATTORNEY

The services of an experienced Escrow Attorney are recommended for the effective transfer of ownership of the business. Escrow attorneys are specialists in the practice of business transfer and perform their services at very competitive rates – typically 1/2 of 1% of the purchase price.

An Escrow Attorney avoids creating an expensive and time consuming adversarial relationship between attorneys retained by the buyer and seller who try to sway the transaction in a lopsided manner, sometimes renegotiating terms and conditions already agreed to.

The Escrow Attorney is completely neutral. His purpose is to prepare documents which reflect the interest of both parties as described in the Offer to Purchase. He does not represent either party and does not represent the broker.

The Escrow Attorney:

- Creates all the necessary closing documents including the Bill of Sale, loan documents, etc.;
- Performs a lien search on the business to make sure clear title can be conveyed;
- Out of the proceeds, pro-rates and pays the rent, deposits, taxes, and other expenses as required;
- Insures that secured creditors are satisfied;
- Files and records documents with the appropriate authorities;
- Complies with the Bulk Sale provisions of the Uniform Commercial Code;
- Keeps copies of all sales documents at least 3 years.

If desired, the buyer and seller may have their own attorney review all documents prior to closing.



NEGOTIATING THE FINAL PRICE

When a house goes on the market, most people add something to the price for negotiating purposes. Buyers and sellers expect this. The same thing has been said about car prices. It sometimes takes several rounds of negotiations to get buyers and sellers to agree on a final price and terms. And, if the transaction is not completed, it is not the end of the world – there are always more buyers and more houses or cars to buy.

It is not the same with the sale of a business. The supply of businesses for sale is limited. If the price and terms of a business are reasonable according to accepted valuation formulas, bargaining only for the sake of bargaining is counter-productive. The cost of a lost opportunity, lost time and lost effort may outweigh the benefits of a slightly higher price.



THE BUYER MEETING

A successful buyer-seller meeting is very important to a business sale. It gives the buyer a chance to get comfortable with the seller and with the business. It also gives the seller a chance to evaluate the buyer.

- **Do not** meet with a prospective buyer without an experienced intermediary like an Alamo Corporate Group broker present.
- **Do not** discuss price and terms with the prospective buyer – this could seriously damage the seller’s negotiating position.
- **Do not** discuss the brokerage fee.
- **Do not** hand over financial records unless the meeting was set for that purpose.
- **Do not** give the impression that only you can run the business – it will significantly reduce your price if it doesn’t scare off the purchaser.
- **Do not** overload the buyer with more information than he or she wants or can understand.
- **Do** clean things up and eliminate clutter. A new coat of paint never hurts.
- **Do** discuss the good points of the business and its potential.
- **Do** explain the operation of the business and concentrate on its unique features.
- **Do** allow the buyer to ask questions. They usually have several.
- **Do** ask the buyer to call your intermediary if they contact you with more questions. We will get the answers for them.
- **Do** explain the reason for sale in a positive manner.

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QUESTIONS AND ANSWERS

When is the best time to sell my business?

- The best time to sell is when the business is doing well. Currently, the economy is reflective of strong buyer interest for businesses of all types. Even if the business has peaked, it may very well command an excellent price if handled correctly.

How much is my business worth?

- A company's value depends on many factors – cash flow, assets values, financial history, condition of equipment and premises, lease attractiveness, competition, potential for improvement, location, industry and economy. Most importantly, the value of the business is determined by its ability to provide the buyer an adequate wage to live on and cash to retire the debt.

Can a real estate agent sell my business?

- It may be difficult. Business brokers are licensed to sell real estate, but most real estate agents do not know how to sell businesses. The techniques of pricing, selling, and putting together the business transaction are altogether different from selling houses or commercial property. It is virtually impossible for a real estate agent to get the confidential exposure to qualified buyers that a business brokerage firm can get.

What about the success fee?

- Alamo Corporate Group collects most of the fee when the business is sold. Most of the costs involved with advertising the business, qualifying buyers and bringing the buyer to the closing table are initially paid by us. Most sellers have found that the cost of using our services are more than offset by the value to be gained from taking advantage of our expertise and access to qualified buyers. Sellers have found that because Alamo Corporate Group buyers historically offer more for business, the net proceeds to the seller after fees are paid are usually more than what a seller could have negotiated on his or her own.

Remember, your business is in competition with other business opportunities and investments the prospective buyer may be considering.



DO'S and DON'TS OF SELLING YOUR BUSINESS

Do keep good records.

Do allow sufficient time to advertise and sell your business.

Do offer terms.

























Do consult a knowledgeable business broker.

Do not wait too long to sell.

Do not underestimate the value of your business.

Do not overprice your business.

Managing the Selling Process

PLANNING	SEARCHING	DEAL MAKING	CLOSING
Desire for Information on Selling Process 	Activate Buyer Search Plan 	Buyer First Meeting/CBR Presented 	Coordinate Due Diligence 
Gather Data/ Owner Interview 	Screen Responses 	Probe Buyer Interest 	Loan Request Package 
Recast Financial Statements 	Financially Qualify Buyer 	Tour 	Lender Introductions 
Prepare Valuations Report 	Present 1-Page Business Summary 	Motivate Buyer to Act – Offer to Purchase 	Assist in Resolving All Issues 
Obtain Listing Agreement 	Determine Buyer Interest 	Facilitate Negotiations 	Definitive Purchase Agreement 
Prepare CBR/ Data Package 	Obtain CA/Nondisclosure Agrmt. 	Agreement in Principle 	Review Final Documents 
			Close!