KEENE ADVISORS

Corporate Sales: Frequently Asked Questions

We hope you find this list of frequently asked questions informative.

If you have additional questions about a sale process, Keene Advisors, or how we can assist you, please do not hesitate to contact us at Info@KeeneAdvisors.com or by calling 617-765-2055.

What outside help will I need to assist me through a sale of my company?
What type of financial advisor should I hire?
How long will the sale process take?
What is the best time to sell my company?.....Page 2

How will my company be valued?
How do I calculate net proceeds from the sale of my company?
How will the sale of my company be taxed?.....Page 3

How much will it cost to sell my company?
What happens to the company's cash, debt, and other assets and liabilities?
What happens if the transaction is not completed?.....Page 4

Do you recommend a broad auction process or targeted outreach to potential buyers?
Will the sale process require significant time from the management team?
Will my employees know I am selling my company?
Will my customers know I am selling my company?
Will my competitors know I am selling my company?.....Page 5

How will I protect my confidential information?
What financial information will I have to provide to potential buyers?
Can I restrict access to competitively sensitive information?
What other factors should I consider before pursuing a sale process?.....Page 6

Corporate Sales: Frequently Asked Questions

What outside help will I need to assist me through a sale of my company?

It is customary for companies to retain a financial advisor and an outside law firm in connection with a sale process. The financial advisor acts as your advocate throughout the transaction - from preparation through to closing. They develop a marketing plan for your company, lead efforts with potential buyers including diligence and negotiation, and assist with closing and funding the transaction. The outside law firm assists in structuring the transaction and drafting and negotiating important legal documentation.

In certain cases, you may also need to retain an accounting firm, tax advisors, personal wealth advisors, a human resources or benefits consultant, a public speaking coach, or other advisors. Your financial advisor will make recommendations about any additional consultants or advisors that you need to engage based on your specific circumstances. Your financial advisor will likely also have relationships with and can help you select a consultant or advisor that fits your needs.

What type of financial advisor should I hire?

The answer depends on the size of your company and the profile of the most likely buyers for your company. Investment banks typically advise on transactions over $10 million in value and where the buyer is another company, an institutional investor, or a family office. Business brokers typically advise on smaller transactions.

How long will the sale process take?

A fully marketed sale process typically takes between 4 and 6 months. However, there are many factors that can impact the length of the process including: market conditions, buyer interest, the availability of the sellers financial and operating information, regulatory approvals, shareholder approvals, financing, among others. Your financial advisor will help you construct a process to maximize your chance for a timely and successful sale process.

What is the best time to sell my company?

The best time to sell your company depends on a number of factors. In our experience, the two most important are: (1) the performance of your company on an absolute and relative basis (compared to your peers) and (2) the current market environment. Other factors that can significantly impact the timing include: key customer wins / losses, timing for important patents, major life events for key management or owners, changes in the competitive landscape, changes in the tax or regulatory environment, the availability of financing, among many others.

Corporate Sales: Frequently Asked Questions

How will my company be valued?

The value of your company can vary significantly depending on your company's financial and operating performance, your industry, and the current market environment. The best way to ensure a full value for your company is to run a broad and effective marketing effort to all of the most likely buyers for your company.

Before launching a sale process, your financial advisor will typically analyze your company, industry and the current market environment and provide you with an estimate for the value that you can expect to achieve from the sale process. In general, there are two approaches that your financial advisor will use to value your company: a relative value approach and an intrinsic value approach.

A relative value approach will reference your company's historic and projected financial metrics: revenue, EBITDA, earnings, book value, etc. and value your company by comparing it to other similar publicly traded companies and/or precedent transactions. Values are derived from multiples of enterprise and equity value for these comparable companies or transactions.

An intrinsic value approach focuses on the cash flow characteristics, asset quality, or other factors for your company to derive the present value of your company on a risk adjusted basis. The most common intrinsic value methodology is a discounted cash flow analysis. Values are derived by calculating the net present value of the projected cash flow of the business. Cash flows are discounted to present values using a discount rate that is appropriate for your company and your industry.

How do I calculate net proceeds from the sale of my company?

The formula below can be used to calculate the net proceeds resulting from the sale:

$$\begin{aligned}&Net\ proceeds\\&= Total\ Value\ of\ the\ Company - Fees\ and\ Expenses\ related\ to\ the\ sale - Outstanding\ Debt\\&- Taxes\ (if\ applicable) + Cash\end{aligned}$$

In private company transactions it is customary to have a holdback or to have a portion of the net proceeds held in an escrow account that is not released until after a certain period of time has elapsed (typically longer than 12 months) and only after certain conditions are met. The holdback or escrow amount can be over 10 percent of the total value of the company. In certain circumstances, there may be some residual liabilities or other obligations that will need to be serviced from the net proceeds to the seller.

How will the sale of my company be taxed?

Your legal structure (C corporation, S corporation, LLC, etc.) and the structure of the sale (e.g. asset vs. stock) will determine how the transaction is taxed. Typically, any gain above the basis in the stock or assets will be taxable. Taxes can be a significant driver of value in a transaction and we recommend discussing tax consequences and strategies with your financial advisor and a tax advisor early in the process.

Corporate Sales: Frequently Asked Questions

How much will it cost to sell my company?

Costs vary significantly from transaction to transaction. Transaction fees and expenses can include, in no particular order:

- Legal fees and expenses
- Financial advisor fees and expenses
- Consulting fees and expenses
- Accountant fees and expenses (for audit and tax related services)
- Out of pocket costs for management travel, as necessary
- Retention bonuses and severance costs for key employees, as necessary
- Financing, as necessary

These costs vary based on time (legal), the size of the transaction (financial advisor), specific diligence / data requirements (consulting, tax and audit), management requirements (retention bonuses or change of control payouts) and capital structure (prepayment penalties). For small transactions, the fees can be over 10 percent of the total transaction value. For larger transactions the fees represent a smaller percentage of the total transaction value.

What happens to the company's cash, debt, and other assets and liabilities?

The structure of the sale will determine what happens with cash, debt, and other assets and liabilities. In a stock sale, the buyer assumes all assets and liabilities. In an asset sale, the buyer acquires or assumes only those items that have been negotiated between the buyer and the seller. We recommend that you consult with an experienced transaction attorney to understand any potential risks to you and to selling shareholders from residual liabilities, if any.

What happens if the transaction is not completed?

Sale processes do not always result in a completed transaction. Reasons for this vary significantly and can include: a sudden change in the business, the loss of a key customer or management team member, a decline in industry demand, or a change in the acquisition environment. If at any point in time it appears that the sale process will not result an acceptable outcome you can terminate the process. You can always revisit a sale transaction in the future once the timing or circumstances have improved. Your financial advisor and outside legal counsel will help you to manage your information throughout the sale process to minimize any business risk from a terminated sale process.

Corporate Sales: Frequently Asked Questions

Do you recommend a broad auction process or targeted outreach to potential buyers?

Both approaches can be effective. The best approach depends on your objectives and the priorities you hope to achieve from the sale process. A broad auction process typically results in a more competitive process and can yield a higher sale price. Targeted processes can also yield favorable terms, especially when the pool of potential buyers is well defined, and they allow you to maintain a higher degree of confidentiality throughout the process.

Will the sale process require significant time from the management team?

Yes. A sale process requires a deep commitment from the management team. Early in the process, management be involved in gathering information to be used by the buyers during their due diligence and will also help to position the company for a successful marketing effort. Throughout the transaction, management will need to be available to answer buyers diligence questions, meet with prospective buyers and assist in the negotiation and execution of the transaction, including closing and funding (as needed).

Will my employees know I am selling my company?

Most likely. Your management team and key employees will play an important role in preparing the company for the sale process and will help buyers complete their due diligence throughout the process. Most companies choose to keep the group of employees with knowledge of the potential transaction to only the management team and those key employees. However, you should be prepared with a communication strategy to your employees (and to other stakeholders) in the event that your employees learn of the sale process directly from buyers, from news reports, or rumors in industry publications.

If you want to minimize the number of employees with knowledge of the transaction, your financial advisor can recommend strategies to maintain maximum confidentiality throughout the process. In addition, your financial advisor and outside legal counsel will work with you to minimize any potential leaks from buyers or the buyers agents during the process.

Will my customers know I am selling my company?

It is unlikely that your customers will know that you are selling your company, unless there is a leak in a news report or industry publication. Your financial advisor and legal counsel will work with you to minimize the risk of a leak. However, you should be prepared with a communication strategy to key customers if you have any concerns in the event that they do become aware of the transaction.

Will my competitors know I am selling my company?

Most likely. If they are included as potential buyers in the process they will be required to sign a non-disclosure agreement (see the following page).

Corporate Sales: Frequently Asked Questions

How will I protect my confidential information?

All potential buyers will have to sign non-disclosure agreements that govern how they can use confidential information and the terms under which they must return or destroy it at the conclusion of the process.

What financial information will I have to provide to potential buyers?

Buyers will want to see all the reports that management uses to run the business. This includes historic monthly, quarterly and annual audited or reviewed financials, as well as current and historic budgets, and a three or five-year projection model.

Can I restrict access to competitively sensitive information?

Yes. This is common in situations where granting access to customer lists, supplier contracts, profit margins or other details to a direct competitor could create significant competitive issues. However, limiting information to a potential buyer can have implications on their ability to complete their diligence and provide you with an unconditional proposal.

What other factors should I consider before pursuing a sale process?

There are a broad range of considerations that can arise before and during a sale process depending on the type of transaction, the nature of the buyer, the priorities and preferences of the seller, etc. These can include:

- Alternatives to a sale (initial public offering, recapitalization, special dividend, merger, etc.)
- Non-competition and non-solicitation agreement(s)
- Employment contracts and benefits for existing employees
- Retention of an equity stake in the business
- Receipt of stock consideration from the buyer
- Maintenance of the company name
- Location of the company headquarters
- Among many others

Disclaimer

Securities related services are provided through Burch & Company, member FINRA / SIPC.
Keene Advisors, Inc. and Burch & Company are not affiliated entities.

Keene Advisors, Inc. does not provide legal, tax, or accounting advice.