

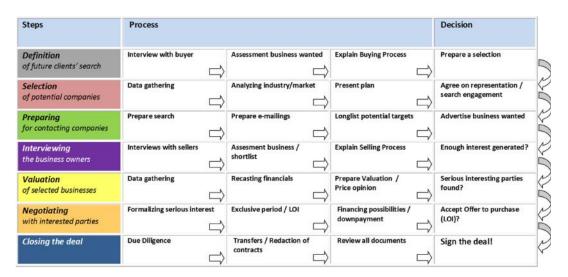


Elucidation Search Engagement CLIENT-Broker

Process

A search engagement means that a broker pro-actively looks for companies and business activities, which may be of interest to our client.

The first step is setting up a company profile that meets the requirements of the client. This profile should be specific enough to focus our search, but it should also be flexible enough not to overlook unexpected opportunities that could be of interest of the client. It should also specify what the critical specifications are and what the desired but non-critical characteristics, what are the margins and limits.



Brokers search and find businesses using their own databases, trade registers and connections with other professional services providers (lawyers, auditors, brokers, etc.).

Next they approach the owners of companies, both currently for sale and those that are not (at that time, at least) or those companies that might want to divest or sell part of their activities.

For each candidate that they think could be of interest, they should/we will prepare an outline presenting the key elements of this candidate. If the client indicates that such a candidate indeed could be of interest, they will create a dossier for that candidate.





When there have been identified a number (at least three) of candidates of interest, a comparison is made between those candidates. The candidates will be approached in a certain order and if the current owners show interest, the next step would be to proceed to the subsequent process of negotiations, pricing etc.

Why working with a professional broker will benefit a buying/investing party?

Most buying parties will benefit by keeping a low profile about their identity and intentions, until a good acquisition target has been found. Brokers provide confidentiality up to the moment that it is really necessary to disclose their clients' identity.

Most selling parties, especially the better companies, will have professional assistance in the selling process. Brokers provide the buyers with the same experience in the industry, the region/country and the process itself to counter the selling party's advantage in those fields.

Brokers know how to find good target companies, how to approach them without creating too much illusions, how to negotiate, how to structure a proposal and how to convince a selling party.

Brokers keep a client on track in their search for the right candidate; prevent them from losing time investigating the wrong propositions and becoming distracted.

Brokers know where to look for in a certain industry (opportunities and threats), in the sellers' books (hidden liabilities), in their organization (strengths and weaknesses) and what contingencies/risks there might be involved in a specific industry or business/company.

Brokers calculate what would be a fair price, what would be fair terms and what the additional costs, when acquiring an existing business, are.

Engagement Fees

In consultation with the client brokers will look for candidates that match the requirements and the profile outline as accurately as possible or propose specific opportunities that they feel would be of interest. The client will then have the final responsibility to select the candidates before contacting them.





Over time, changes can occur in the requirements (progressive insight, altered business situation or resources, unexpected possibilities), making it necessary to adjust the search process, to put a hold on it or even to stop to it all together.

As brokers work on clients' instructions with relation to every step in the Engagement Process, it is only fair that the costs (time spent as well as out-of-the-pocket expenses for travel, advertising, databases and information retrieval, etc.) are shared.

Brokers should keep their charges transparent towards the client. Typically, their fees will be described/divided as follows:

The Retainer Fee:

The retainer fee for the search helps to cover the fixed costs to perform the search;

The Search Fee:

For each profile that meets the specified criteria and is appealing to the client, a dossier is created before direct contact is made with the prospect. The search fee per prospect covers part of their time spent and the expenses made in preparing these dossiers, comparing the candidates and establishing contact.

The Acquisition Fee:

If a specific prospect has shown interest and there are sufficient matches in terms with the client conditions, brokers will proceed to the negotiation process. Their work during this phase should/will be covered by a success fee or commission on the transaction, if the actual transaction takes place.

Guidance during the negotiation process:

Some clients prefer to conduct the negotiations themselves. In such cases brokers can act as an advisor to the client. Other professionals can also be hired for specific phases or issues during the process. In these cases normally they will charge a daily, weekly or monthly fee to cover the time spent and direct expenses.

Valuation of Prospect:

It is strongly recommended that clients demand an independent valuation report or a price opinion of the prospects, during the course of the negotiations. This makes it possible to agree on a pricing formula (e.g. 4.5 times the average annual EBITDA for the last 3 years, for example). The exact calculation of the EBITDA by an expert (f.e. an accountant) will then result in the final price, previously agreed upon through the definition of that calculation.





Negotiation clause:

If a professional broker is involved with the price negotiations while at the same time their income (the success fee or commission) depends on the purchase price, there is a "conflict of interest": a lower price is obviously of the clients' interest, while a higher price would benefit the broker, as it will receive a commission over that price.

That is why it is strongly recommended that a special clause in which brokers agree with the client on a bonus for the negotiated price reductions. Hence the financial interests of client and negotiator will be parallel.

Due Diligence Process and Coordination:

Brokers can also be contracted to conduct or supervise (part of) the Due Diligence process once a Letter of Intent has been signed. Since they are normally not an accounting or law firm, they should always work with independent auditors and lawyers to conduct the specific financial and legal screening of a target company, as well as other professionals in specific areas as real estate, equipment valuators, IT experts etc.

Brokers will keep the general coordination and leadership in the process to make sure all necessary checks are performed and offers an all-inclusive due diligence reporting.

Expenses:

If there are real out-of-pocket expenses involved (travelling and accommodation, enabling research firms, other professional consults, etc.), and after consultation with the client, such expenses normally will be charged directly and independently of any other fees or commissions.