

BUYER FAQ INFO SHEET AFTER SELLER INTRODUCTION

1. Q: WHAT HAPPENS AFTER SPEAKING WITH THE SELLER?

A: If you are ready to move forward after your introductory meeting, the next step is to submit a non-binding Letter of Intent (LOI). You can also choose to have a face-to-face meeting to further solidify your decision to purchase. At this stage, the LOI is extremely important as it sets the expectations between the Buyer and Seller by agreeing (or not agreeing) on the main terms and conditions either party is willing to accept. *Example:* If the Seller wants 100% cash up front and is not willing to offer a revenue guarantee, and the Buyer wants to put down 10% and have the seller carry the remaining 90% over 5 years, then a deal is probably not going to be made. Knowing this now will save everyone countless hours of due diligence review, contract preparation and spare any private financial/credit information from being disclosed. There is plenty of time after an accepted LOI to perform Due Diligence while the Purchase Agreement is being prepared. If, at any point, the Due Diligence doesn't meet your standards, you can cancel the LOI, and your good faith deposit will be returned.

2. Q: HOW DOES A REVENUE GUARANTEE WORK?

A: *Example:* The sale price is \$1,000,000 with a 1-year revenue guarantee and the prior year gross revenue was \$775,000, with a 15% maximum adjustment.

This sale is subject to a 1-year Revenue Guarantee with a 15% (\$150,000) maximum adjustment. Therefore, should the actual revenues (including WIP, AR and prior year value of returns on extension) between the date of Closing and the first anniversary of Closing be lower than \$775,000 then the purchase price shall be adjusted downward by the same ratio as the purchase price bore to the prior year collected revenue $\$1,000,000$ (purchase price)/ $\$775,000$ (revenue) or 1.29 dollars for each dollar below the guaranteed revenue of \$775,000. However, under no circumstance shall any adjustment exceed \$150,000. Within 15 days of the first anniversary date of Closing, Buyer will provide Seller with a detailed accounting of all accrued revenue in addition to the prior year fees of any tax returns on extension for all Clients of Seller, new Clients referred by Seller, or Seller's existing Clients.

To the extent that the total sum of such accounting falls below \$775,000, Buyer is entitled to reduce the amount due to Seller up to but not exceeding \$150,000.

Example, if the revenue comes in at \$700,000 then the adjustment would be $\$75,000 * 1.29 = \$96,750$. That \$96,750 would retroactively adjust any notes and therefore also interest paid.

3. Q: HOW MUCH DO I HAVE TO PUT DOWN?

A: This is usually an impossible question to answer. If you are getting a bank loan, the lender will normally require 10%-20% down.

In the case of Seller Financing, most Sellers want enough of a down payment to ensure the Buyer has some skin in the game and will not cherry pick the best clients and let the rest go. Until the Seller meets the Buyer and has seen the offer, an exact percentage is likely unknown. Some Sellers will not consider any seller financing. In this instance, the Practice Profile will specify that the practice needs to be either bank financed, or a cash sale.

4. ***I WANT THE SELLER TO FINANCE. HOW MUCH SHOULD I PUT DOWN?***

A: This will depend on if the Seller is open to financing. The Practice Profile should indicate whether or not the Seller is amiable to this. If so, the Buyers credit, experience, and terms of the offer will play an important role in the determination of down payment. It also depends on what the Seller is looking for. Typically, if the Seller is willing to Seller Finance, they will want to see a *minimum* of 30-50% down with the remainder over a shorter period of time (usually 1-3 years), with the practice price and other offer terms still playing a role as well.

If the Seller is not interested in financing, this does not mean they won't offer a Revenue Guarantee, these are two different things. This could be 80%-90% down from the Buyer, or lender, and 10-20% held as a Seller Note for the purpose of a Revenue Guarantee. Some lenders will allow a certain percentage to remain in escrow for 1 year to act as the Revenue Guarantee funds, at the end of the year those funds are either returned to the lender or disbursed to the Seller.

5. ***Q: DO I HAVE TO PUT A GOOD FAITH DEPOSIT DOWN? HOW MUCH?***

A: The Good Faith Deposit (GFD) is the amount put down upfront to signify you are serious about purchasing the firm. Most commonly, we see the GFD represented as 5% of the purchase price or a flat amount of \$10,000 - \$50,000. The GFD is put into Escrow within 3 business days of an accepted LOI. This is a refundable deposit that can be returned at any time, without delay or questions, until signing the Asset Purchase Agreement (APA). Once signed the deposit will be subject to the terms of the APA and the contingencies that have been agreed to. Deposit of the GFD, along with the NDA, also allows the start of due diligence, which entails revealing private financial information and client demographic information.

6. ***Q: WHO PAYS THE BROKER FEE?***

A: The Broker represents the Seller; therefore, the Seller will pay the commission at closing.

7. ***Q: WHEN WILL I RECEIVE THE SELLER'S FINANCIALS TO REVIEW?***

A: This is an ongoing process. The Practice Profile provides the prior year's P&L along with a column to adjust for Seller Discretionary Expenses. If, after the introductory meeting, both the Buyer and Seller are interested in moving forward, then we can provide a few additional reports to break down revenue or provide the prior few years P&L's. Any further financial detail, or breakdown of client demographics can be obtained during your due diligence inspection, after the LOI has been accepted.

8. ***Q: WHEN WILL I RECEIVE THE CLIENT LIST TO REVIEW?***

A: A redacted client list can normally be obtained for preliminary or Due Diligence purposes, after the LOI is accepted. This list will not contain any identifying client information as that specific information is only to be provided upon the closing of the sale. Normally, the redacted list will contain fees paid and types of services rendered for each client, but this also depends on how the Seller tracks client fees. During on-site due diligence you may review, under the Sellers' control, a complete and full client list complete with names, but it cannot be removed from the office.

9. Q: WILL I BE ABLE TO REVIEW ANY CLIENT INFORMATION BEFORE THE SALE CLOSSES? I'D LIKE TO SPOT CHECK SOME OF THE PREVIOUS TAX RETURNS AND ACCOUNTING WORK DONE FOR THE CLIENTS.

A: After the Letter of Intent is signed and accepted, a Due Diligence Confidentiality Agreement is sent to both parties for signature, the Good Faith Deposit is wired to Escrow, and then due diligence is scheduled. During the allotted time frame for DD, the Buyer will normally visit the Seller's office and review samples of client information and past work completed. Occasionally a virtual meeting can be in place of an in-person meeting, where the Seller can "screen share" the information that the Buyer is requesting. However you and the Seller decide to accomplish this, DD is the time for you to examine tax returns, bookkeeping files, Audit workpapers, etc. for completeness and accuracy. The Seller also has the ability to request their own DD list from the Buyer. The Buyer and Seller themselves are to decide what type of items are reviewed for DD and how thorough it should be. If you have the ability to redact *all* personal client information from a tax return file, then it is possible to review these while apart from each other. No personal client information is to be taken from the Seller's office or database until the closing of the sale.

10. Q: DO YOU HAVE ANY LENDER REFERRALS I CAN CONTACT TO GET THE PROCESS STARTED?

A: Yes, at your request, we can email you a list of referrals for lenders that we have worked with in the past who have provided financing for both commercial and SBA loans. Contacting them would be a good first step as they will be able to provide valuable information on the process as well as what they will need from you to get started. The sooner you begin the process with a Lender, the better. Depending on the type of loan, this process can take anywhere from 30 days to 3 months.

11. Q: WHAT SHOULD I LOOK FOR DURING DUE DILIGENCE?

A: Once your LOI is accepted by the Seller, the Good Faith Deposit is received in Escrow, and the DD-NDA is signed, Due Diligence can be scheduled. Due Diligence is strictly between the Buyer and Seller, and each should compile a list of items they want to review for due diligence purposes. You can request anything that makes you comfortable with the sale and business, including but not limited to, financials, bank statements, deposit records, client tax return and work product review, client demographics, client lists, or other reporting breakdowns, etc. Basically, items to prove that the clients and revenue are real, and the work is being performed correctly.

The Seller will also be able to request items from the Buyer. These may include a recent credit report, work product review, business financials, personal financial statement; usually items to ensure the Buyer is able to perform both financially as well as technically.

As the Broker we cannot suggest or provide a list of items for due diligence purposes. If you are unsure, just think as the Tax & Accounting professional you are and imagine what you would tell your clients to review if they were buying a business.

12. Q: WHEN DO WE SIGN THE PURCHASE AGREEMENT?

A: Unless you are preparing your own Contract, the Asset Purchase Agreement (APA) will be drafted by us during your Due Diligence period. A draft will be sent to both the Buyer and Seller for review. This is the time for your Attorney to review the Contract and make any suggested changes. Once both parties have reviewed, we will go over the proposed changes with the Buyer and Seller together to make sure everything is agreed upon. Afterwards, the final Contract will be sent for signatures. The APA contains important contingencies (financing, additional due diligence, etc.) and will specify a target closing date. We do not use “sign and close” types of contracts, everything is planned to allow time for escrow to secure any required clearances, payoffs, certificate of release from EDD, etc. Once Escrow is fully funded, and clearances in place, we can close the sale. At closing the Buyer will receive the full client list and the Buyer and Seller should begin to transition the clients.

Please note that every practice is different and some of these things can, and will, be interchanged at different times when agreed upon. Up next, we have another FAQ available that is specific to the closing process, from executing the APA to post-closing.