

A Better Pitch: Writing Effective Offering Memorandums

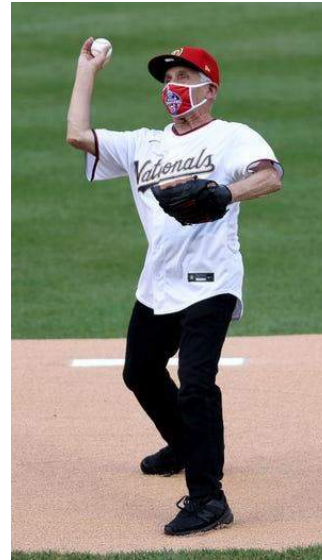
Michael Mensch, CBI, M&AMI

Learning Objectives

- ✓ Benefits of writing an effective offering memorandum
- ✓ Forms of offering memorandums
- ✓ Process and rules for writing
- ✓ Elements of an effective offering memorandum
- ✓ What to avoid in offering memorandums

Overview of Content

1. Introduction
2. The Presentation
3. *A Better Pitch*
4. Elements of a CBR
5. Dos & Don'ts
6. Summary
7. Final Thoughts



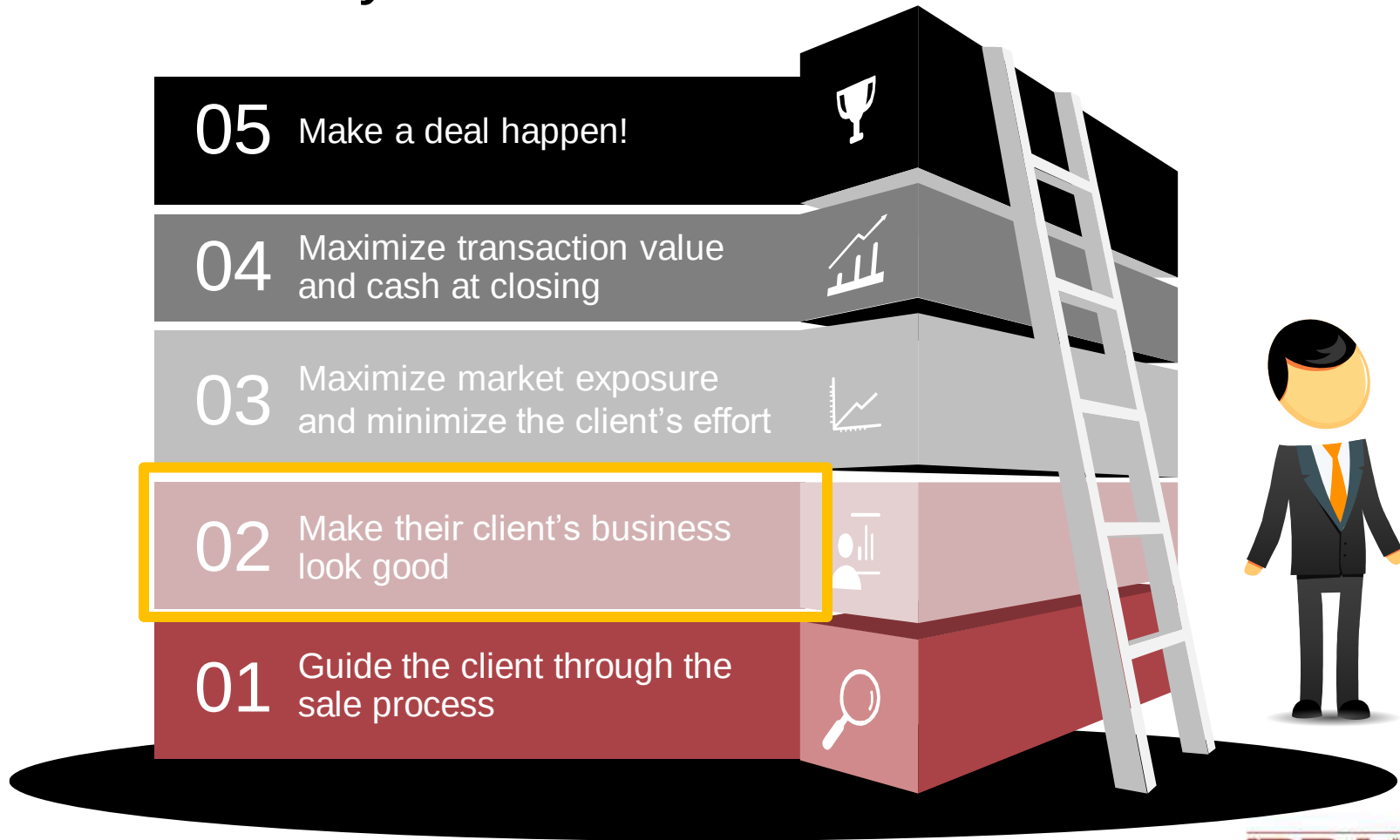
Bad pitch!



Good pitch!

1. Introduction

- Five ways dealmakers earn their fee:



1. Introduction

- Some statistics to ponder:
 1. 90% of people that inquire about a business never buy one.
 2. 80% of businesses on the market with \$10M in revenue or less never sell (i.e. 20% do actually sell).
 3. Roughly 50% of the deals that are agreed to between buyer and seller, never get to closing.
 4. ____% of business brokers close less than \$1M in transactions per year. (About 85% in FL)
 5. ____% of business brokers don't survive beyond 3 years.

*Source for 1-3: "How to buy a good business at a great price", Richard Parker

1. Introduction

- What does such a low success rate mean to:
 - The industry?
 - Your office?
 - You?
- Answer:
 - An unprofessional image
 - A high failure rate
 - Lots of wasted resources



Do I have your attention?

1. Introduction

- How do we *improve* our success rate?



List sellable businesses



Take clients that have realistic expectations



Enhance your buyer marketing strategy



Present the business professionally

- Engage in *high probability selling*!

2. The Presentation

Which of these fine gentlemen would you hire?



- **The selection process is no different for a buyer.**
- Even a good business can be overlooked if it is presented poorly.

2. The Presentation

Step 1

1 - Opportunity Located

Buyer finds an opportunity of interest.

Step 2

2 - Intermediary Contacted

Buyer contacts broker and asks preliminary questions. Broker reciprocates with questions about buyer and makes a pitch. Disclosure forms are sent.

Step 3

3 - Buyer Disclosed

Buyer returns forms, reviews data sent by broker and follows up with additional questions.

Step 4

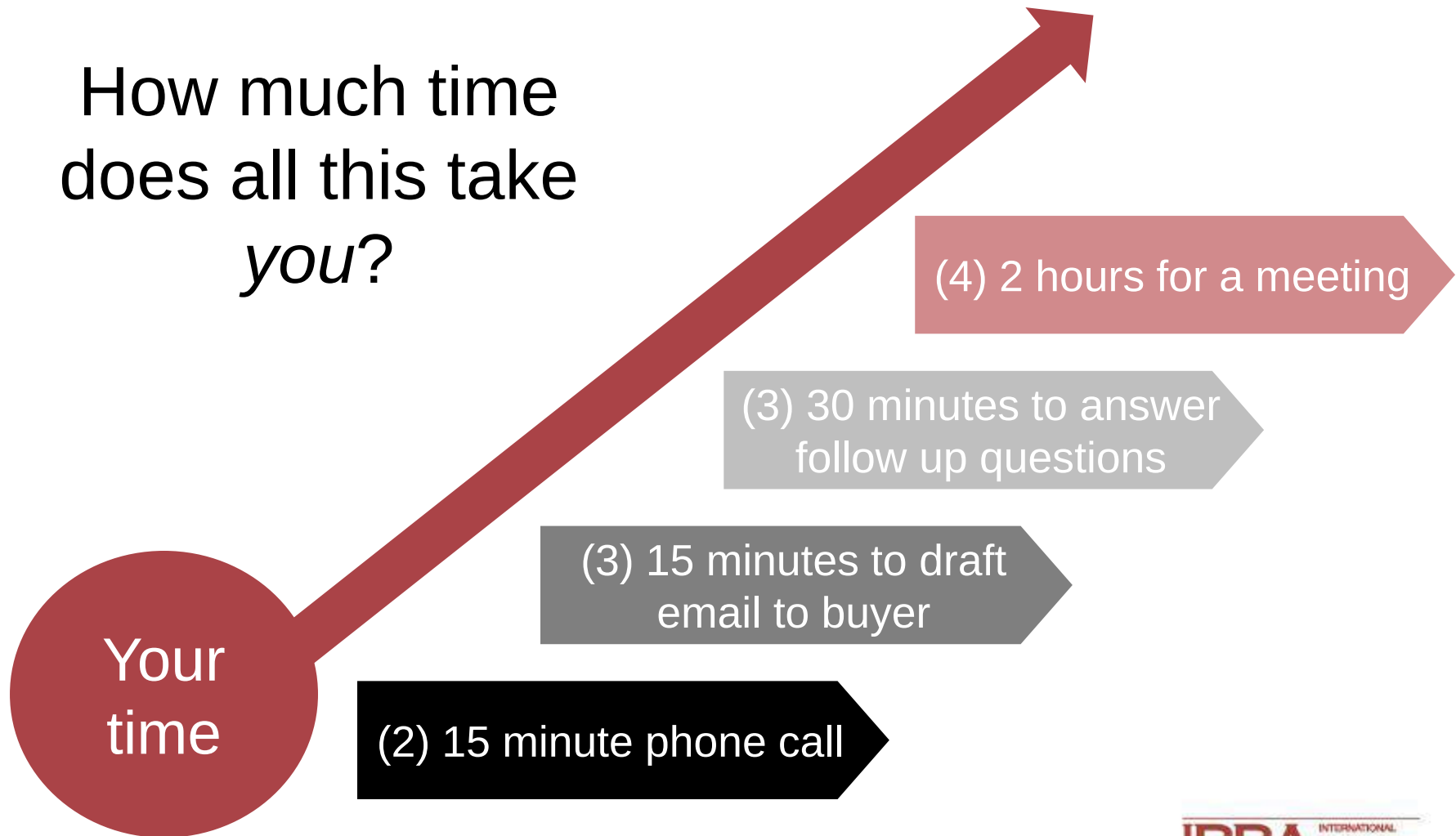
4 - Meeting Set

Buyer requests call or meeting with seller as a next step.

Road to the Offer

2. The Presentation

How much time
does all this take
you?



2. The Presentation

How about all buyers on one listing?

Let's assume a 2/3rds rule...



66% have interest after the initial call.

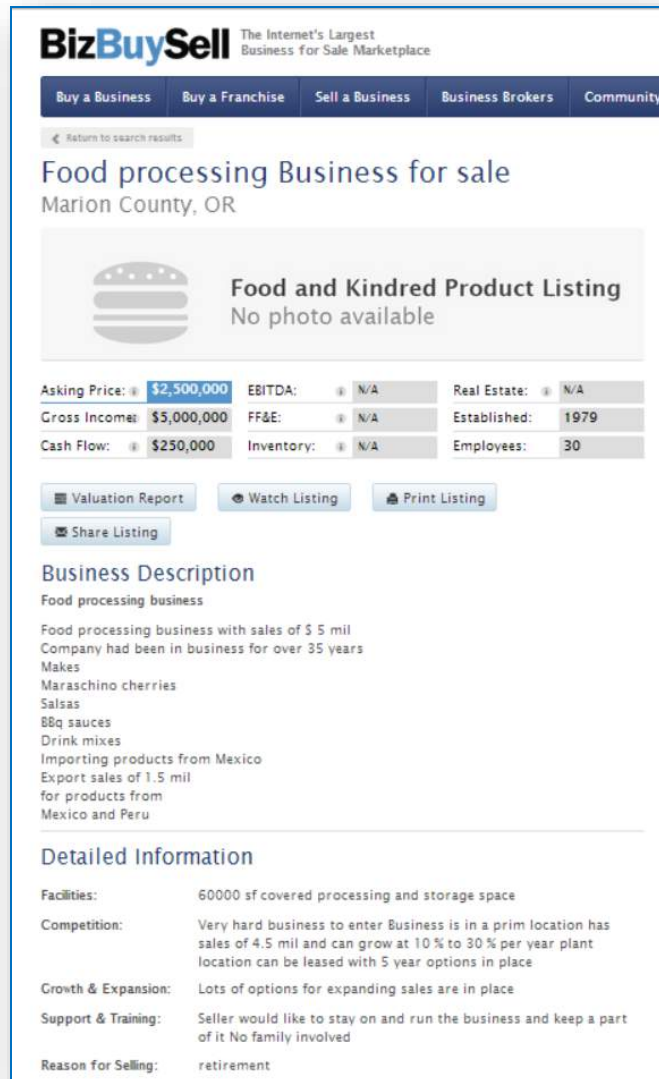
66% are disclosed/qualified.

66% disclosed request a mtg.

→ 29% of the initial buyers request a meeting.

Process requires 11 hours per 10 buyers!

2. The Presentation



BizBuySell The Internet's Largest Business for Sale Marketplace

Buy a Business Buy a Franchise Sell a Business Business Brokers Community

Return to search results

Food processing Business for sale

Marion County, OR

 **Food and Kindred Product Listing**
No photo available

Asking Price: \$2,500,000	EBITDA: N/A	Real Estate: N/A
Gross Income: \$5,000,000	FF&E: N/A	Established: 1979
Cash Flow: \$250,000	Inventory: N/A	Employees: 30

Valuation Report Watch Listing Print Listing Share Listing

Business Description

Food processing business

Food processing business with sales of \$ 5 mil
Company had been in business for over 35 years
Makes
Maraschino cherries
Salsas
BBQ sauces
Drink mixes
Importing products from Mexico
Export sales of 1.5 mil
for products from
Mexico and Peru

Detailed Information

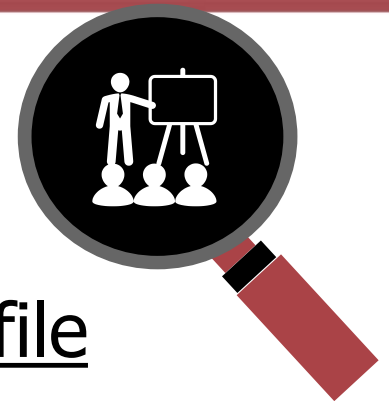
Facilities: 60000 sf covered processing and storage space

Competition: Very hard business to enter Business is in a prim location has sales of 4.5 mil and can grow at 10 % to 30 % per year plant location can be leased with 5 year options in place

Growth & Expansion: Lots of options for expanding sales are in place

Support & Training: Seller would like to stay on and run the business and keep a part of it No family involved

Reason for Selling: retirement



BizBuySell profile

- Very limited information.
- Visually unappealing.
- Does this tell the story you *really* want to tell?

2. The Presentation

Commercial Landscaping Business for Sale

This is rapidly growing and highly profitable commercial lawn maintenance & landscaping business located in Brevard County Florida.

	2010 Jan-Jun P&L	2010 Pro Forma	2009 Tax Return
Sales Revenues	\$ 393,510	\$ 793,542	\$ 663,068
COGS	\$ 221,880	\$ 447,438	\$ 366,652
Expenses	\$ 45,585	\$ 91,926	\$ 68,107
Discretionary Earnings	\$ 126,045	\$ 254,159	\$ 228,309
Adjusted EBITDA	\$108,340	\$216,679	\$190,809

This business has a ten year track record serving primarily commercial clients with multi-year contracts. The business offers the following services to its clients:

- Lawn maintenance
- Professional landscaping, installation & design
- Irrigation
- Fertilization
- Mulch, sod and stone
- Shrubs and flowers
- Tree trimming
- Pool landscaping

Plus New Contracts for 2011 for additional revenue!

For more information contact Lou Vescio at:
Office: (321) 255-1309
Cellular: (321) 446-5170
Email: louisvescio@bellsouth.net

Call Today for More Details

Expand Your Current Business

Expand your current business and yield immediate profits with this opportunity that is priced to sell!

Great Return of Investment

Excellent ROI plus steady monthly income!

Financing Available

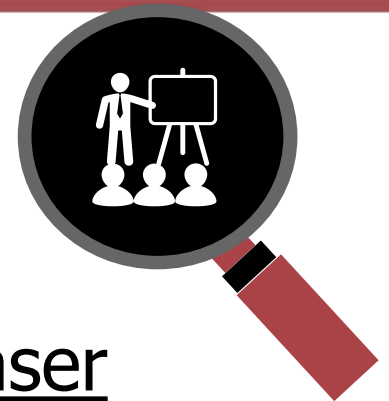
This business has been pre-approved for bank financing for a qualified buyer with as little a 25% down.

Confidential Business Review is Available

A detailed Confidential Business Review is available on request. It will provide you the necessary information you need to make an informed decision on this business.



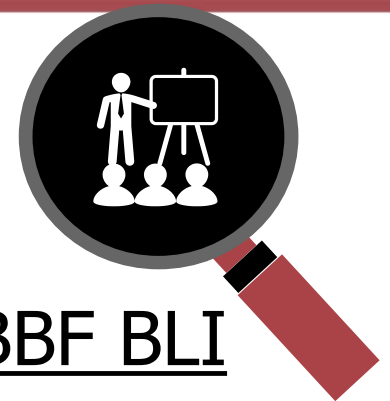
1600 Sarno Road, Suite 113, Melbourne, Florida 32935



1 Page Teaser

- More enticing.
- Limited information.
- Does this tell the story you *really* want to tell?

2. The Presentation



Standard BBF BLI

- Difficult to read.
- Visually unappealing.
- Does this tell the story you *really* want to tell?

Listing No: [BBF-52509525](#)

Category	: Lawn/Landscaping	SIC	: 0782	
Detail	: Lawn Biz Commercial	Price	:	750,000
County	: Brevard	Down	:	187,500
State/Prov	: Florida	Adj Net	:	254,178
Country	: USA	Sales	:	793,542

2010 Sales up 27% over 2009 with new contracts in place! This 11 yr old Space Coast Landscaping Business has experienced tremendous growth in the past few years in spite of a slow economy. This is a fully equipped lawn service and landscaping business with excellent contracts. It features trained staff, in place management, an equipment maintenance and repair facility, and excellent branding. Confidential Business Review available on request to qualified buyers. Lender Pre-Approved with 25% down!

Reason for Sale	: Family Matters & Relocating
General Location	: Brevard County, East Coast Florida
Organization Type	: Corp 'Sub S' Hours Owner Works: 20
Years Established	: 11 Years Owned: 3 Emp FT: 16 Emp PT: 0 Mgrs: 2
Non Compete	: Miles: 50 Years: 3 Weeks Training: 2 Cost: 0
Operating dys/hrs	: Mon-Thurs 7am-6pm, Fri - OFF except for odd jobs & rain mkup
Skills/Licenses	: Managerial - Supervisors have Spray Licenses
Business is	: Relocatable: N Home Based: N Franchise: N Lender P/Q: Y

Data Source	P/L Statement	Tax Return	Tax Return
Year (Cash Flow)	2010 (Y)	2009 (Y)	2008 (Y)
Gross Revenue	793,542	663,068	660,366
Cost of Goods	447,438	391,652	424,650
Gross Profit	346,104	271,416	235,716
Expenses	91,926	152,642	142,602
Net	254,178	118,774	93,114
Owner Salary	0	29,536	15,552
Benefits	0	10,680	701
Interest Expense	0	29,057	34,885
Depreciation	0	23,744	36,352
Other	0	16,538	15,697
Owner Benefit	254,178	228,309	196,301

Accounts Rec	0	*	Real Estate	0	N*
Inventory	1,000	Y*		0	N*
F F & E	145,000	Y*	Total Assets	146,000	Y*
Leasehold	0	N*			

Lease/Month: 1350	Square Footage: 2000	Building Type: Office Warehouse
Terms & Options: Month-month		Expiration Date: 9/30/2010

Loan/Assumable	- Amt: 0	Mos: 0	Rate: 0.00	Mo Pmt: 0.00
Loan/Seller	- Amt: 150,000	Mos: 84	Rate: 7.00	Mo Pmt: 2,263.90
Loan/Other	- Amt: 412,500	Mos: 84	Rate: 7.00	Mo Pmt: 6,225.73

LOUIS VESCIO,CBI	Office	: (321) 255-1309
BROKER	Fax	: (321) 600-2091
COASTAL BUSINESS INTERMEDIARIES	Cell	: (321) 446-5170
1600 SARNO RD #113		
MELBOURNE, FLORIDA 32935	Email	: louvescio@bellsouth.net
USA	Home Page	:

The seller provides all data and financial information on this business for informational purposes only. The broker does not warrant the above information and advises the buyer to seek professional advice when purchasing a business. This offering by the seller is subject to change or withdrawal without notice. This information sheet has been prepared on a confidential basis exclusively for:

Lou Vescio

BBF-628001

2. The Presentation



Business Summary

- Often 10-30 pages in length.
- Can include graphics.
- Tells what ever story you write!

3. A Better Pitch: The CBR

- Common names for business summary:
 - **Confidential Business Review (CBR)**
 - Selling Memorandum
 - Confidential Information Memoranda (CIM)
 - Offering Memorandum
 - Pitch Book
 - the "Book"
- All are basically the same
- All serve the same purpose

3. A Better Pitch: The CBR

The **CBR** (IBBA approved lingo) should be written so it does a “tap dance” on the prospects dining room table!



3. A Better Pitch: The CBR

- Purpose of the CBR:
 1. Excite the prospect by telling a positive and compelling story.
 2. Educate the prospect on the business history, operations, financials, and deal terms.
 3. Quickly get a “Yes” or “No” response.
 4. Relay the value of the goodwill.
 5. Give the prospect comfort in taking the next step.
 6. Function as a DD reference guide for the buyer.

The CBR should *sell* the business!

3. A Better Pitch: The CBR

- Reality of creating a CBR:
 1. Could be 5-30+ pages in length.
 2. Could take 5-50+ hours of work.
 3. May have to spend 1-3 hours with client interviewing them.
 4. Requires asking and waiting for information.
 5. May take weeks to get the business on the market.

Time, effort and patience required!

3. A Better Pitch: The CBR

- Seven benefits if you create a good CBR:
 1. Learn the ins and outs of the business – enables you to answer questions like a professional.
 2. Gain the respect of your client – builds trust.
 3. Gain the respect and loyalty of buyers – opens up new opportunities.
 4. Obtain offers faster, and often competing, moving the process forward faster – keeps client motivated.
 5. Waste less time answering the same questions - prevents deal fatigue.
 6. Avoid DD landmines – hold a deal together.
 7. Close more deals and get referrals = make more money!

3. A Better Pitch: The CBR

- Rules of writing an effective pitch:
 - ✓ Proper formatting and grammar
 - ✓ Concise, factual and well articulated summary
 - ✓ Accurate and relevant data
 - ✓ Effective charts and clear images

Professionalism matters!

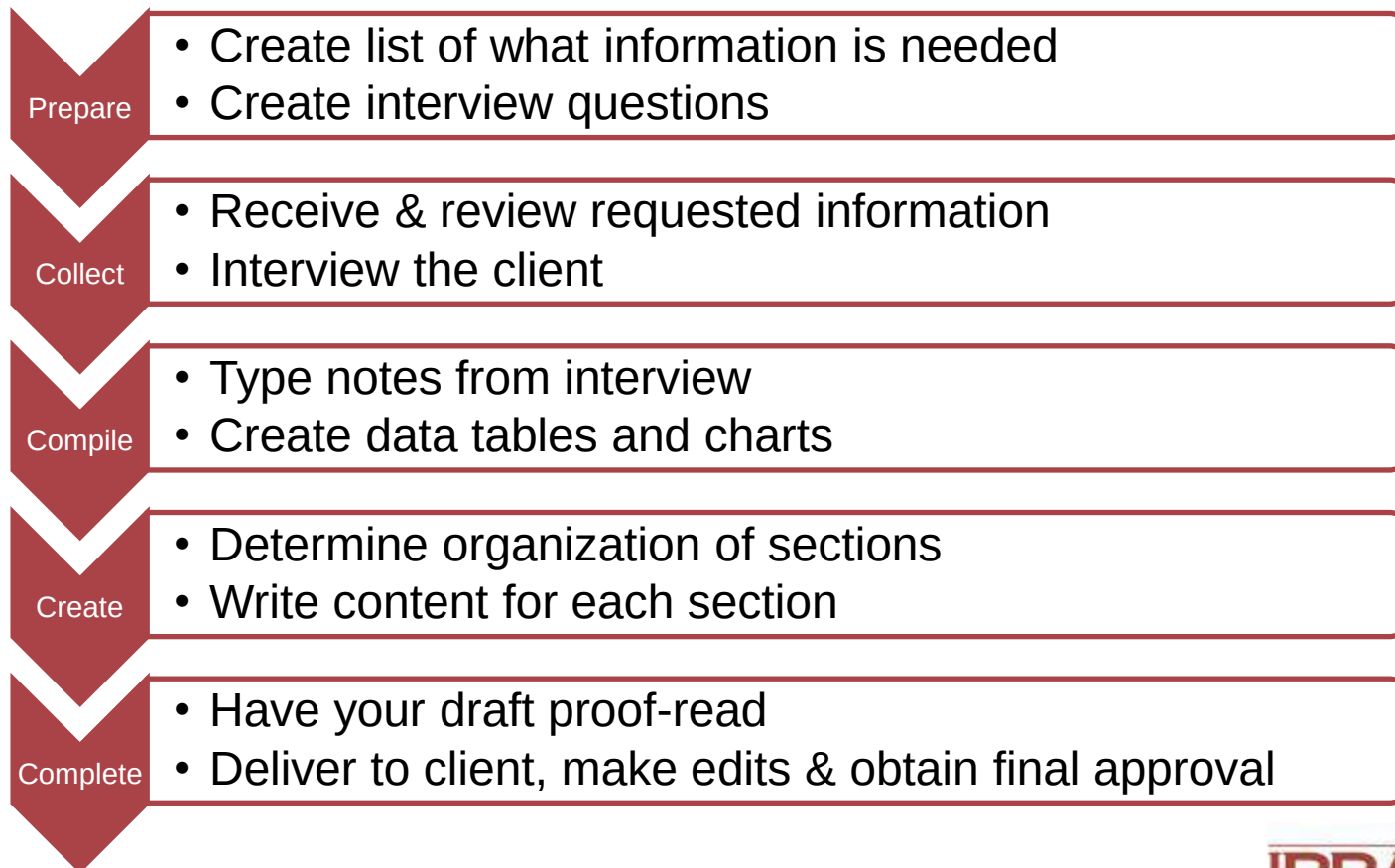
3. A Better Pitch: The CBR

- Rules of writing an effective pitch:
 - ✓ Understand the most probable buyer
 - Owner-operator
 - Vertical or horizontal strategic
 - Investor group (e.g. PEG or family office)
 - ✓ Design the presentation to the most probable buyer
 - Speak in their language
 - Provide relevant information
 - Deliver content in a familiar format

Who you are pitching matters!

3. A Better Pitch: The CBR

- The creation process:



3. A Better Pitch: The CBR

- Helpful tips
 - ✓ Run a pre-due diligence.
 - ✓ Ask the questions buyers and lenders will ask.
 - ✓ Record the interview.
 - ✓ Have a CBR and chart template.
 - ✓ Obtain written approval from the client

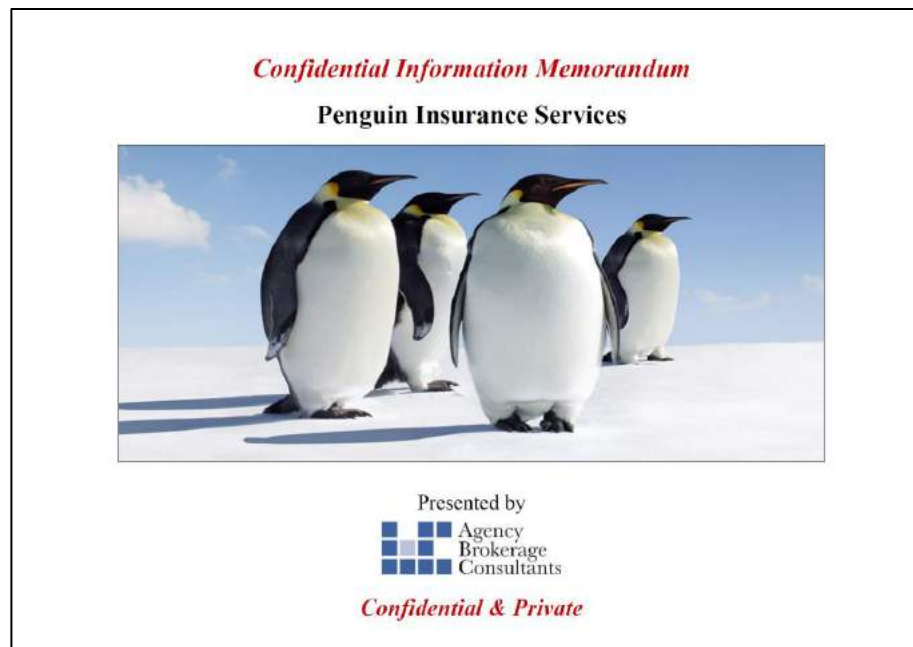
4. Elements of a CBR

- Cover Page
- Table of Contents
- Notices & Disclaimers
- Executive Summary
- Company Strengths
- Company History
- Marketing Strategies
- Processes
- Personnel
- Facilities
- Industry Summary
- Market Demographics
- Vendors
- Customers
- Competition
- Growth Opportunities
- Reason for Sale
- Price & Terms
- Business Financials
- Pro forma
- Other Charts

4. Elements of a CBR

Cover Page

- Document name
- Company name
- Client's logo
- Word "Confidential"
- High resolution photo
- Your company name
- Contact information
- Date last updated



4. Elements of a CBR

Initial Pages

- Table of Contents
 - Demonstrates organization
 - Helps reader find specific information
 - Microsoft Word has an automatic TOC creator.
- Notices
 - Confidentiality
 - Assumptions
 - Purpose
 - Disclaimers
- Contact information

4. Elements of a CBR

Notices & Disclaimers

Purpose, Assumptions, Confidentiality, Disclaimers

Purpose

This Confidential Information Memorandum (CIM) is intended to acquaint a prospective purchaser with relevant information regarding Penguin Insurance Services, Inc. and Emperor Penguin Insurance Services, Inc. (Seller), whose business is currently available through Agency Brokerage Consultants (ABC) for acquisition, sale or merger.

Assumptions

The CIM will be furnished only to parties (Prospective Purchasers) who have signed a confidentiality and non-disclosure agreement (NDA) on behalf of Seller and ABC. It is understood that Prospective Purchaser has made the specific request for information for the sole purpose of determining an interest in a potential acquisition or merger of Seller's business. Prospective Purchaser shall rely on its own professional counsel to assist with preparing a contract to purchase, conducting due diligence and performing all other aspects of this acquisition and shall be responsible for all of its expenses accrued in pursuing this opportunity.

Confidentiality

This CIM and related discussions between Prospective Purchaser, Seller and ABC shall be treated as secret and confidential, and shall not be disclosed to others, except as provided in the NDA. All individuals receiving this CIM shall be held liable under the terms of the NDA and shall not share any information with a third party except under direct written permission from ABC. This CIM shall not be reproduced, duplicated, or revealed, in whole or in part, or used in any other manner without prior written permission. Additional copies for qualified recipients are available upon request to intermediary. Should Prospective Purchaser have no interest in pursuing an acquisition, all copies of the CIM and other information related to Seller and its business shall be promptly returned or destroyed, as directed.

Disclaimers

Seller has provided the information that was used by ABC to create this CIM. ABC shall in no way be responsible for the content, accuracy, and truthfulness of such information. Any and all representations of Seller shall be set forth in a purchase agreement to be executed at or prior to the closing of a transaction. Parties evaluating this opportunity are responsible for conducting their own due diligence.

Point of Contact:

Michael Mensch, CBI, M&AMI

mmensch@agencybrokerage.com

Office: (321) 255-1309; Cellular: (321) 693-0091

4. Elements of a CBR

Executive Summary

- Components:
 - Name
 - Location
 - Ownership
 - # Employees
 - Hours of operation
 - Reason for sale
 - Financial snapshot
 - Brief summary
- The brief summary may address:
 - Longevity of company in market area
 - Products/services the company provide
 - Some unique aspects of the company
 - Seller's motivation and objective

4. Elements of a CBR

Executive Summary

Business Summary



General Business Information	
Name of Business:	The Melting Pot
Address:	
Type of Business:	Fondue Restaurant
Type of Entity:	Corporation
State of Incorporation:	
Organization:	
Owners:	
Employees:	4 Full Time, 55 Part Time
Business Hours:	Mon-Thurs: 3:30 pm - 10 pm, Fri: 12 pm - 12 am, Sat: 12 pm - 12 am, Sun: 12 pm - 9 pm
Reason for Selling:	Other Business Interests

Financial Information ¹		
Year	2011	2012 Pro Forma
Last Full Year Revenue:	\$1,981,842	\$2,021,480
Sellers Discretionary Earnings (SDE):	\$322,133	\$373,974
EBITDA (Adjusted)	\$275,874	\$323,974

The Company

The Melting Pot is a chain of 134 franchised fondue restaurants located across the United States and Canada. Its menu contains various cheese fondues, wines, salads, entrees of meat and seafood served with dipping sauces and oil or broth to be cooked in, and chocolate fondues.

The first Melting Pot opened in April 1975 in Maitland, Florida, – a suburban city of the Orlando Metropolitan Area – and served only three items on its menu. With permission

¹ Detailed recast financial statements can be found in Appendix A.



from the original owners, Mark, Mike and Bob Johnston opened The Melting Pot of Tallahassee in 1979. As the restaurant expanded its franchise, the menu grew larger. In 1985, the Johnston brothers purchased all rights to the Melting Pot brand. The restaurants' interiors are designed using dark red and black colors. They are dimly lit, all seating is mostly in booths, with private booths away from the main room. A complete meal features a cheese fondue, a salad, main course and a chocolate fondue for dessert. This

four-course meal called *The Big Night Out* features a creamy cheese fondue, fresh salad, succulent entrée and decadent chocolate fondue dessert. The franchise also produces "special-occasion" packages for anniversaries, weddings and other events.

Financial Statement Highlights

	2010	2011	2012 Jan- Aug	2012 Pro Forma
Sales	\$1,851,580	\$1,961,842	\$1,173,460	\$2,021,480
COGS	\$490,381	\$576,128	\$325,663	\$576,121
Expenses	\$1,070,587	\$1,083,581	\$602,146	\$1,071,384
Discretionary Earnings	\$290,612	\$322,133	\$245,651	\$373,974

Business Highlights

The Melting Pot provides a unique dining experience for its customers. From the moment the customer calls in to make a reservation to their final bite of dessert, the well trained staff offers service with style. A dining experience at the Melting Pot means never having to wait to be seated or for a drink! It is a place where the customer is treated like royalty! It is a place that can make a birthday, anniversary, or first date a most memorable event!

The Melting Pot, opened in 2004 in a prime location at The upscale open air shopping mall that features a collection of great

4. Elements of a CBR

Company Strengths or Investment Highlights

- Points to draw attention to:
 - Longevity
 - Niche markets
 - Level of brand recognition or customer loyalty
 - Proprietary products, services or IP
 - Unique contracts or certifications
 - Internal procedures and management structure
 - Growth trends (geographical, industry or specific only to the business)

Pick a few strengths to feature!

4. Elements of a CBR

Company History

- Background on owner
- The company's founding and founder's vision
- The company's evolution
- Some of the growth milestones (e.g. # of employees, sales revenue, or # office locations)
- Current position of the company

Tell a compelling story!

4. Elements of a CBR

Marketing Strategies

- Discuss how the business generates sales:
 - Advertising
 - Marketing
 - Sales staff
 - Referrals
- Go into detail on each source (if relevant).
- Discuss % of revenue as a factor of each.
- Are there unexplored opportunities?

Buyers need to know these details!

4. Elements of a CBR

Operations

- Discuss daily internal operations:
 - Product and service pricing
 - Processing of sales leads
 - Manufacturing of products (if applicable)
 - Shipping/receiving products, inventory or raw materials
 - Compliance procedures
 - Entry of data and bookkeeping

Walk the buyer through work flow!

4. Elements of a CBR

Personnel

- Discuss jobs, individuals and compensation:
 - Who manages what
 - How are they compensated
 - What is the experience/education requirement
 - What benefits are provided
- Create an organizational chart
- Identify key positions including owner(s)

Buyer needs to know these details!

4. Elements of a CBR

Facilities

- Might include:
 - Location & key points about location
 - Size and # of offices or workspaces
 - % utilization of space
 - Terms of lease agreement – Side note: If the seller owns the real estate, have them set terms and create a lease.

Take good pictures!

4. Elements of a CBR

Customers

- What the prospect buyer might want to know:
 - Who are the customers (age, location, income)?
 - Is there any concentration of revenue with a few customers?
 - Are they repeat or new?
 - How relationship-driven is the revenue?
 - Are the customers being referred from someone?
 - What are customers buying?

Address risks but in a positive light!

4. Elements of a CBR

Growth Opportunities

- Buyers pay for the history, but they are buying the future performance.
- Help them visualize opportunities:
 - New markets to go after, marketing strategies, unrealized current opportunities.
 - Highlight any relevant demographic, economic, or industry changes that might help the business.
 - What would the seller do with more time & money?

Be optimistic, but realistic too!

4. Elements of a CBR

Financial History

- Do include 3-5 yrs of recast statements:
 - Detail the reasons for add backs or adjustments
 - Make sure the buyer understands them
- Do not include the actual financial statements:
 - The buyer will not know the add backs
 - May reveal unintended information (e.g. sellers SS#)
- Also consider:
 - Charts or graphs of revenue trends, unit sales, etc.
 - Highlighting seasonality (if applicable).

Make sure the recasting is accurate!

4. Elements of a CBR

Trailing Twelve Month Ending October 31, 2020

Source:	P&L	%	Adjustment	Recasted	%	#	Comments
Revenues							
Com. Income Agency Bill	\$ 1,392,548	56.6%		\$ 1,392,548	56.8%		
Com. Income Direct Bill	\$ 103,052			\$ 103,052	4.2%		
Risk Management Fee	\$ 75,259	3.1%		\$ 75,259	3.1%		
Finance Company	\$ 44,124	1.8%		\$ 44,124	1.8%		
Agency Fee	\$ 41,162	1.7%		\$ 41,162	1.7%		
Member Fee	\$ 75,944	3.1%		\$ 75,944	3.1%		
Policy Processing	\$ 261,150	10.6%		\$ 261,150	10.6%		
Life & Health Commission	\$ 2,519	0.1%		\$ 2,519	0.1%		
Contingency Income	\$ 7,988	0.3%		\$ 7,988	0.3%		
Underwriting Fee	\$ 449,101	18.2%		\$ 449,101	18.3%		
Other Income	\$ 9,284	0.4%	\$ (9,320)	\$ (36)	0.0%		Non-recurring income
Total Revenues	\$ 2,462,131	96%	\$ (9,320)	\$ 2,452,810	100%		
Expenses							
Finders/Referral Fee	\$ 800	0.0%		\$ 800	0.0%		
Commission to Brokers	\$ 292,224	11.9%		\$ 292,224	11.9%		
Computer	\$ 29,102	1.2%		\$ 29,102	1.2%		
Employee Recruitment	\$ 7,603	0.3%		\$ 7,603	0.3%		
Contract Labor	\$ 19,540	0.8%	\$ (19,540)	\$ -	0.0%	(1)	One-time expense
Employee Bonus	\$ 8,000	0.3%	\$ (8,000)	\$ -	0.0%		Owner's discretionary
Pension	\$ 11,392	0.5%	\$ (2,194)	\$ 9,198	0.4%	(2)	Owner's portion
Marketing Expense-New	\$ 87,659	3.6%	\$ (9,711)	\$ 77,948	3.2%	(3)	One-time expenses
Marketing Expense-Retain	\$ 11,004	0.4%		\$ 11,004	0.4%		
Office Equipment & Furniture	\$ 27,434	1.1%	\$ (25,361)	\$ 2,073	0.1%	(4)	One-time expenses
Retreat	\$ 28,009	1.1%	\$ (28,009)	\$ -	0.0%		Owner's discretionary
Software & Computer Programs	\$ 91,373	3.7%	\$ (10,973)	\$ 80,400	3.3%	(5)	Non-recurring expense
Travel	\$ 30,172	1.2%		\$ 30,172	1.2%		
Depreciation	\$ 11,074	0.4%	\$ (11,074)	\$ -	0.0%		Non-cash expense
Dues, Fees, & Subscriptions	\$ 27,016	1.1%	\$ (7,339)	\$ 19,677	0.8%	(6)	Annual condo fee, moved to rent amount
Insurance	\$ 40,963	1.7%	\$ (1,000)	\$ 39,963	1.6%	(6)	Property insurance, moved to rent amount
Interest	\$ 19,166	0.8%	\$ (19,166)	\$ -	0.0%		Debt free basis
Licenses & Permits	\$ 38,729	1.6%	\$ (24,000)	\$ 14,729	0.6%	(7)	One-time expense
Postage & Delivery	\$ 3,181	0.1%		\$ 3,181	0.1%		
Legal & Professional	\$ 32,065	1.3%	\$ (10,596)	\$ 21,469	0.9%	(8)	One-time expenses
Rent	\$ 35,785	1.5%	\$ 15,815	\$ 51,600	2.1%	(6)	Rent adjustment
Repairs	\$ 2,786	0.1%	\$ (2,786)	\$ -	0.0%		Non-recurring expenses
Telephone	\$ 21,447	0.9%	\$ (2,204)	\$ 19,243	0.8%		Owner's cell phone expense
Meals & Entertainment	\$ 6,216	0.3%	\$ (6,216)	\$ -	0.0%		Owner's discretionary expense
Utilities	\$ 3,469	0.1%		\$ 3,469	0.1%		
Office Supplies	\$ 13,020	0.5%		\$ 13,020	0.5%		
Payroll - Tax	\$ 65,551	2.7%		\$ 65,551	2.7%	(9)	Employee adjustment
Payroll - Wages	\$ 709,562	28.8%	\$ 98,777	\$ 808,339	33.0%		
Payroll - Com.	\$ 90,604	3.7%	\$ (90,604)	\$ -	0.0%		
Payroll - Employee Health Ins	\$ 26,207	1.1%		\$ 26,207	1.1%		
Taxes	\$ 20,798	0.8%	\$ (7,472)	\$ 13,326	0.5%	(6)	Property, moved to rent amount
	\$ -	0.0%		\$ -	0.0%		
Total Expenses	\$ 1,822,612	74.0%	\$ (177,160)	\$ 1,645,452	67.1%		
Net Operating Income	\$ 639,518	26.0%		\$ 807,358	32.9%		Adj. EBITDA

Recast statement

- Income & expenses on left.
- Adjustments in middle.
- Explanation on right.
- SDE on the bottom.
- Add footnotes as needed.

4. Elements of a CBR

Pro Forma Income Statement						
	TTM	%	Adjustments	Pro Forma	%	Notes
Revenues						
P&C Income - Direct Bill	\$ 103,052	4.2%	\$ -	\$ 103,052	4.2%	
P&C Income - Agency Bill	\$ 1,392,548	56.6%	\$ -	\$ 1,392,548	56.8%	
L&H Income	\$ 2,519	0.1%	\$ -	\$ 2,519	0.1%	
Fee Income	\$ 902,616	36.7%	\$ -	\$ 902,616	36.8%	1
Finance Income	\$ 44,124	1.8%	\$ -	\$ 44,124	1.8%	
Contingency Income	\$ 7,988	0.3%	\$ -	\$ 7,988	0.3%	
Other Income	\$ 9,284	0.4%	\$ (9,320)	\$ (36)	0.0%	2
Total Revenues	\$ 2,462,131		\$ (9,320)	\$ 2,452,810		
Expenses						
Wages & Payroll Taxes	\$ 873,716	35.5%	\$ 173	\$ 873,890	35.6%	3
Com Exp. - Outside Brokers	\$ 292,224	11.9%	\$ -	\$ 292,224	11.9%	
Advertising & Marketing	\$ 99,648	4.0%	\$ (10,696)	\$ 88,952	3.6%	4
Computers & Software	\$ 120,475	4.9%	\$ (10,973)	\$ 109,502	4.5%	5
Depreciation	\$ 11,074	0.4%	\$ (11,074)	\$ -	0.0%	
Dues, Subscriptions & Education	\$ 28,741	1.2%	\$ (7,339)	\$ 21,402	0.9%	6
Employee Benefits	\$ 37,599	1.5%	\$ (2,194)	\$ 35,405	1.4%	7
Employee Retreat	\$ 28,009	1.1%	\$ (28,009)	\$ -	0.0%	8
Insurance	\$ 40,963	1.7%	\$ (1,000)	\$ 39,963	1.6%	
Interest	\$ 19,166	0.8%	\$ (19,166)	\$ -	0.0%	
Legal & Professional	\$ 32,065	1.3%	\$ (10,596)	\$ 21,469	0.9%	9
Licenses & Permits	\$ 38,729	1.6%	\$ (24,000)	\$ 14,729	0.6%	10
Office Supplies & Equipment	\$ 43,730	1.8%	\$ (25,361)	\$ 18,369	0.7%	11
Rent & Utilities	\$ 39,254	1.6%	\$ 15,815	\$ 55,069	2.2%	12
Repairs & Maintenance	\$ 2,786	0.1%	\$ (2,786)	\$ -	0.0%	13
Taxes & Licenses	\$ 20,798	0.8%	\$ (7,472)	\$ 13,326	0.5%	14
Telephone	\$ 21,447	0.9%	\$ (2,204)	\$ 19,243	0.8%	15
Travel, Meals & Entertainment	\$ 36,388	1.5%	\$ (6,216)	\$ 30,172	1.2%	16
Other Expenses	\$ 35,799	1.5%	\$ (24,062)	\$ 11,737	0.5%	17
Total Expenses	\$ 1,822,612	74.0%	\$ (177,160)	\$ 1,645,452	67.1%	
Net Income	\$ 639,518	26.0%	EBITDA	\$ 807,358	32.9%	

*TTM = Trailing 12 month period ending October 31, 2020

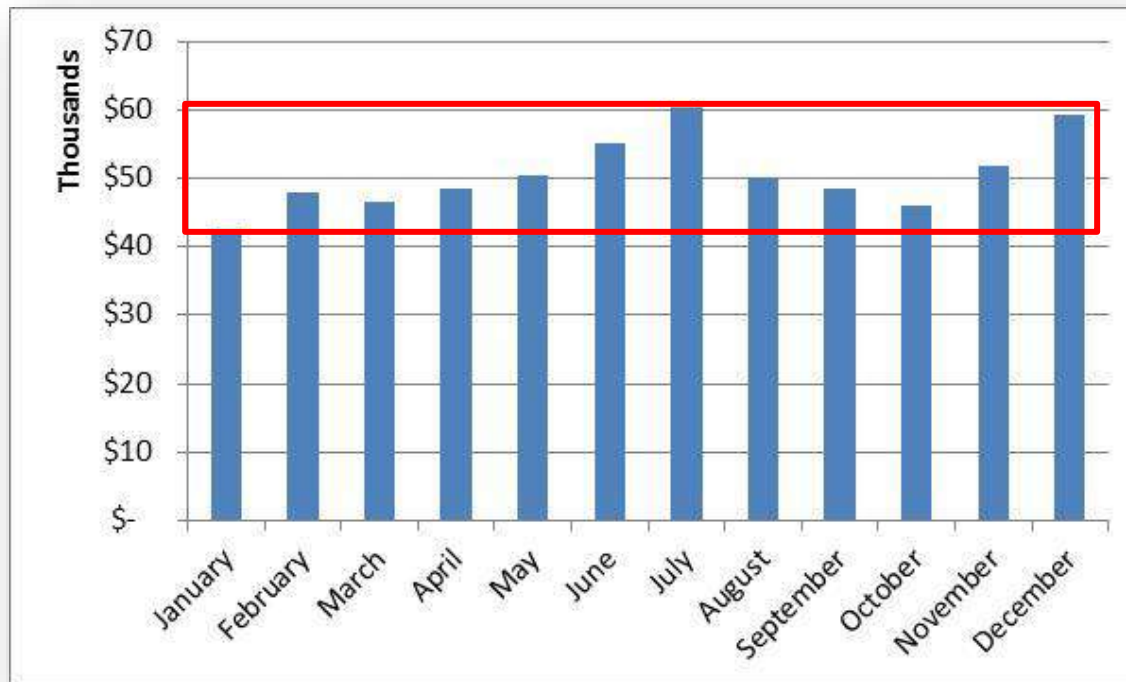
Recast statement

- May want to reclassify income & expense categories.
- Helpful if P&L is messy and if dealing with strategic buyers.
- Relatively easy to do using a SumIf formula in Excel.

4. Elements of a CBR

Monthly revenues

- Important if business is seasonal.
- Can become a DD issue if unknown by the buyer, particularly when there will be loan payments.



4. Elements of a CBR

Projections

- Optional section that should be considered if:
 - Business is growing
 - Selling a company with revenue > \$2-3M
- Do
 - Have the seller provide data and sign off on it
 - Be conservative and provide explanations for assumptions.
- Don't
 - Make pie in the sky projections - can ruin your credibility or come back to bite you in diligence.
 - Use the word "Guarantee" - can get you sued.

4. Elements of a CBR

Price & Terms

- Stating price and terms:
 - Main Street buyer – yes
 - Strategic buyer – no
- State financing options:
 - Get an SBA pre-qualification letter if possible.
 - Discuss seller financing
- Regarding stating how price was determined:
 - Shows competency if you understand valuation
 - BUT can open a door to negotiating

Set the expectation!

4. Elements of a CBR

- Can even add an investment analysis for the buyer.
 - Cash flow after debt service
 - ROI
 - ROIC
- Good when the deal is leveraged.

The estimated Return on Investment (ROI) at the asking price is as follows:

Sellers Discretionary Earnings	\$435,446
Less Equivalent Salary for Replacement Manager	\$70,000
(This assumes the cost to replace the owner if the owner chose not to manage his own business.)	
Cash Flow Before Debt Service	\$365,446
Price of Business	\$1,100,000
Down Payment of 20%	\$220,000
Loan Amount	\$880,000
Monthly PMT on SBA Loan	\$11,266.88
@ 9.25% for 10 years.	
Annual Debt Service	\$135,203

Cash Flow after Debt Service	\$230,243
ROI on initial down payment of \$198K	104.66%
Total Cash Flow to Buyer-Owner/Manager	\$300,243
Total Cash Flow return on initial down payment	136%
(includes managers equivalent salary)	

All calculations are estimated on actual figures from the Recast FY 2004 Income Statement.

4. Elements of a CBR

Appendix

- Refer to specific appendix in narrative
- May include:
 - Additional photographs, charts, etc.
 - Equipment list
 - Marketing materials
 - Industry trends & research
 - Letters of praise from customers
 - Press clippings
 - Awards & commendations
 - Licensing requirements
 - Franchise literature (if applicable)

5. Some Additional “Do’s”

- Take the time to understand the business.
- Make the seller provide you with what you need.
- In the CBR:
 - Make it look professional
 - Tell a compelling story
 - Give the buyer the information they’ll want
 - Set expectations on price and terms
 - Address any potential land mines (more on this)

You’ll save more time in the long run

5. Some “Don’ts”

- Don’t go to market with missing details.
- Don’t over-exaggerate or make false statements.
- Don’t include proprietary or sensitive information of your client:
 - Trade secrets
 - Customer, supplier or employee names, contacts, etc
(Use Client A, B, C, etc or Employee 1, 2, 3, etc)
 - Unique lead generating strategies

Work in the client’s best interest

5. A Big “Don’t” – Don’t Miss the Land Mines

- Land mines are issues that may blow up a deal:
 - Recent changes that are not yet apparent
 - Outstanding or prior lawsuits or claims
 - Internal breach of confidentiality or loss of employee
 - Importance of the owner in the daily operation
- ✓ Ask enough questions to uncover them.
- Address any possible buyer concerns:
 - Skills and workload needed to run the business
 - Training and support (seller, franchise, etc)

6. In Conclusion...

- A good “pitch book” or CBR:
 - Takes time to prepare
 - Excites, educates and motivates prospects
 - Builds credibility to sell the business
 - Becomes a reference guide for due diligence
 - Moves the deal forward faster
 - Helps prevent deals from falling apart

Improves our success rate!

7. Additional Thoughts

- In your practice, always consider “How do can I do better?”
 1. Do I have enough training to be an effective advisor?
 2. Do I have enough seller leads?
 3. Am I presenting myself in a way that establishes credibility?
 4. Am I marketing my client’s business to the right buyers and in a professional manner that maximizes success?
 5. What are competitors doing more effectively?



Effectiveness Meter

7. Additional Thoughts

- Some indicators of our success:
 - Most seller clients hear compliments from buyers on the quality of our CIMs (aka CBRs).
 - Lenders and buyers use our CIMs for underwriting.
 - Competitors have stolen the content and layout.
 - Some buyers are ready to make offers sight-unseen.
 - Most buyer/seller meetings are short (< 15 minutes of questions).
 - Repeat buyers do less diligence because they know we've already done it.
 - Buyers hire us for diligence help on deals we're not representing.
 - Numerous buyers have hired us to sell their business.
 - Average deal size has increased steadily.
 - Frequently receive client testimonial letters and referrals.
 - Won M&A Source "Top Firm" in 2020 and numerous other awards.

Any Questions?

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