The Host Broker
CONNECTING BUYERS AND SELLERS

ONBOARDING PROCESS
FOR SELLERS

1. PRE-LISTING

2. TIMELINESS

3. LISTING

4. DUE DILIGENCE

5. CLOSING

PRE-LISTING

- **Initial Consultation**
  - Understanding your background, motivations for selling, and decision-drivers.
  - Explore business structure and whether partners exist.
  - Operational understanding of the business.
  - Determine preferences for involvement or exit by ownership group.
  - Discuss buyers profiles for compatibility.

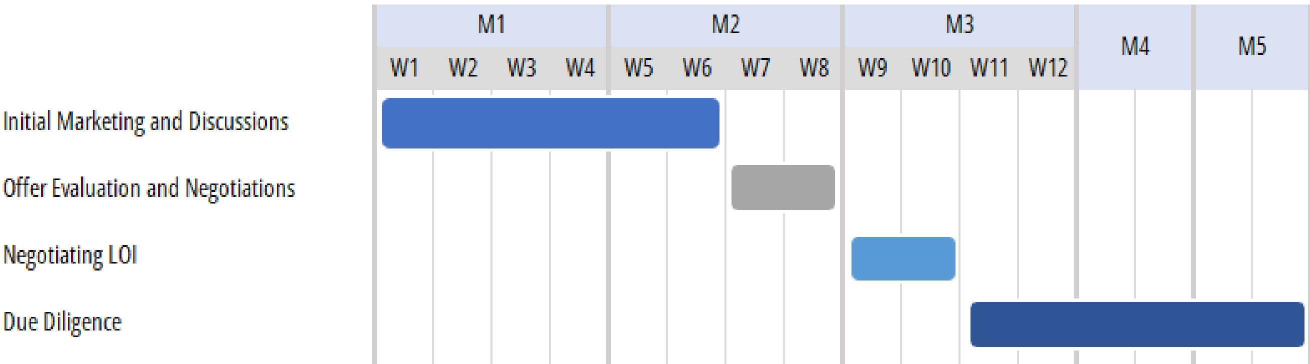
- **Expectation Discussion**
  - Cover valuations and timeliness in detail.
  - Discuss asset vs stock / share sale.
  - Emphasize alignment of valuations to prevent issues.
  - Objective is to avoid changing minds due to misaligned expectations.

- **Tax Implications and Cost Involved:**
  - Importance of consultation with accountants / CPAs.
  - Understand tax implications and transaction costs.
  - Consider accounting fees and potential brokerage fees.
  - Confirm your understanding of tax consequences and fees.

- **Financial Documentation & Analysis**
  - Request P&L statements for at least the previous year.
  - Understand adjustments and normalize financials.
  - Calculate Adjusted EBITDA.
  - Discuss expected valuation multiples based on business size, structure and constraints.
  - Set clear expectations regarding the valuation process.
  - Typically requires at least 2 calls or a detailed email and a call.

ESTIMATED TIMELINES

- Initial marketing, discussions, and answering of questions prior to offers generally takes 4 to 6 weeks, and then you can expect offers to start coming in.
- Allow a couple more weeks for offer evaluation and negotiations.
- Negotiating a letter of intent adds about 2 weeks.
- Due diligence can take an additional 60 to 90 days or more.
- Typically, the entire process takes 4 to 5 months from start to finish.
- The timeline hinges on prompt receipt and review by buyer of necessary materials and bank approvals if relevant.
- Attorneys and their busy schedules can be a potential source of delay.



LISTING THE BUSINESS

PROVIDING DOCUMENTS

- Company overview documents.
- P&L for past 3 years and YTD.
- For hosting companies using WHMCS TBL documents to show annualized and deferred revenue.
- For MSPs, a customer profile / waterfall document.
- Signed MNDA.

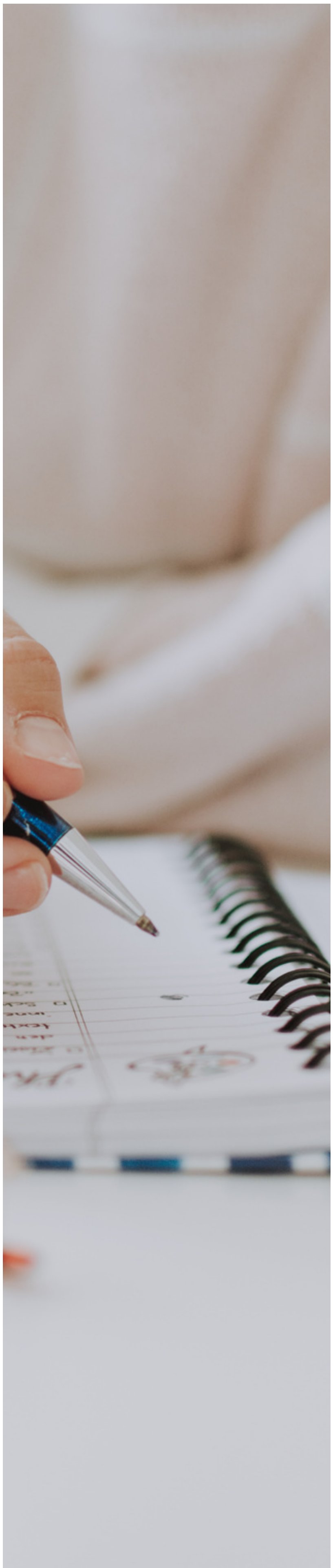
LISTING PREPARATION

- Compile all necessary documentation.
- Draft the listing content with seller approval.

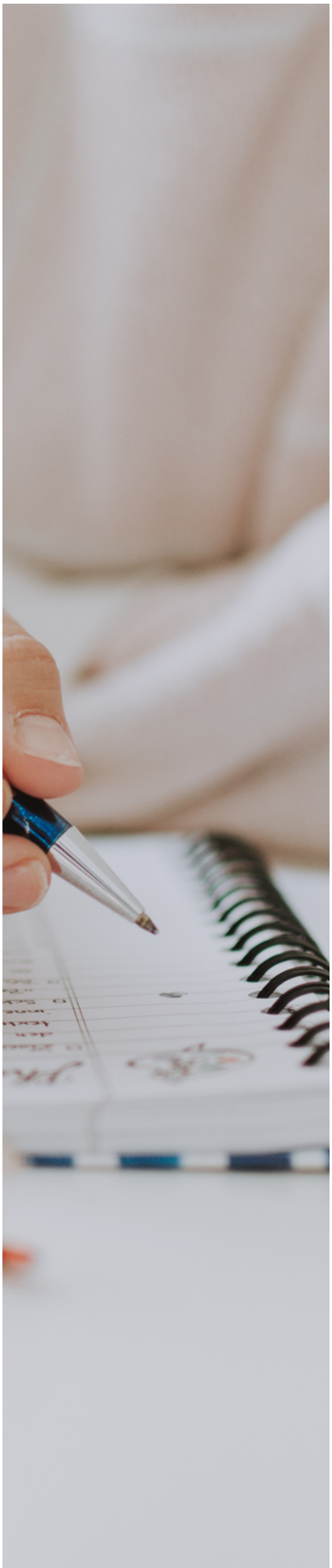
CALLS WITH INTERESTED BUYERS

- **Time Requirements** - expect questions to come via email and calls to be scheduled. Please allow time in your schedule to accommodate. What to expect on the calls:
  - Typical Agenda
    - Buyer Introduction
    - Seller Introduction
    - Q&A
  - Normally Discussed
    - Overview and history
    - Financials
    - Employees
    - Tech stack
    - Transition Plan
    - Role(s) post-close
  - What not to discuss:
    - Specific deal terms
    - Names of employees
    - Names of clients
    - Specifics of other offers
  - Calls generally last approximately an hour.

- **Requests for additional documents / reports etc.**
  - Buyers will follow up after calls to request additional information or documentation that will inform their offer.
  - Buyers may also request an additional call to seek clarification or to loop in other members of their team.



OFFERS



RECEIVING OFFERS AND NEGOTIATING LOIs

- As buyer interest progresses, offers are presented either as informal offers or Letters of Intent (LOIs).
- Offers are non-binding but once signed, should require justifiable reasons for termination or change.
- Expect an exclusivity clause, limiting discussions with other buyers.

OFFER EVALUATION

- The highest offer isn't usually the sole determining factor.
- Fit with the buyer's business and customer base is crucial.
- Technology alignment, deal terms, earnout components, payment periods, and seller involvement are key.
- Trust and rapport with the buyer also play a significant role.
- Understand the buyer’s funding source (e.g., cash, lender, investor).
- Consider the timeline and requirements for debt financing.
- Debt financing from a bank is common but is usually slow and can be painful.
- Attractive rates in the United States and Canada from SBA or BDC financing.

DUE DILIGENCE

POST-LOI DUE DILIGENCE:

- Typically lasts 60 to 90 days.
- Focus is initially on financial and operational aspects.
- Request documents like vendor contracts and service level agreements.
- Understand the employee team, culture, and customer base.

DISCLOSURE OF EMPLOYEE AND CUSTOMER NAMES:

- Initially, avoid disclosing employee and customer names.
- Disclosure may occur after goodwill investment such as a draft purchase agreement.
- Disclose customer names to allow buyer review for compatibility.

LEGAL REPRESENTATION:

- Both sides will need an attorney & a CPA.
- Notify the attorney early about the potential sale.
- Attorneys should be familiar with mergers and acquisitions and ideally IT as well.
- Attorney should be notified about when to expect a purchase agreement to review.

SELLER'S INVOLVEMENT AND TRANSITION SUPPORT:

- Discuss the seller's role post-sale, compensation, and availability.
- Establish terms for the transition support period.

CLOSING

PAYMENT ALLOCATION AT CLOSING:

- Sellers receive typically 30% to 70% at closing.
- Seller financing is common over a specified period.
- Earnout possibilities depending on nature of contracts, customer history & concentration.
- The more risk you as the seller take with seller financing, the higher the valuation you should expect to receive and vice versa.

CLOSING PROCESS:

- Cash is received or proof of transfer before final handover.
- Transfer of keys, passwords, and introductions to employees.

CLOSING TIMING CONSIDERATIONS:

- Often set for the 1st of the month to coincide with billing cycles of both customers and vendors.
- Adjustments for prepaid or deferred expenses may be needed.

MAINTAINING STABILITY DURING TRANSITION:

- Avoid changing employees' hours, salaries, and benefits.
- Consider supporting work-from-home arrangements.
- Minimize disruptions for customers, including support and billing.

CUSTOMER AND EMPLOYEE SATISFACTION:

- Happy employees and customers reduce the risk of churn.
- Churn can impact earnout payments and the overall transaction.