TYPES OF POTENTIAL BUYERS

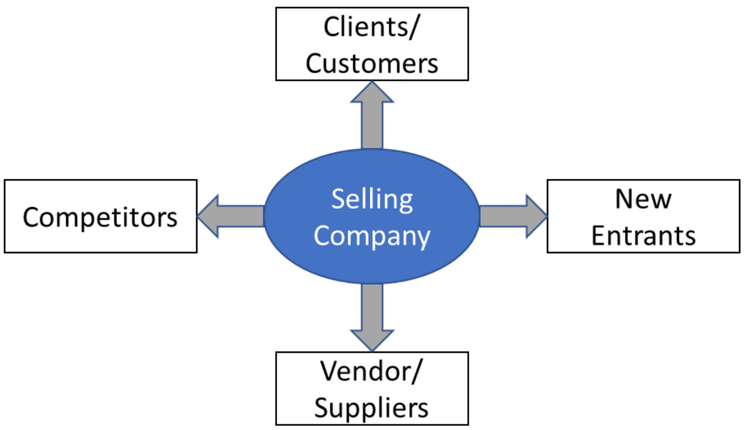
INDIVIDUAL BUYER

Typically high-net-worth individuals who have taken either early retirement from an executive position or successful entrepreneurs who previously built and sold a business. In both cases these individuals are looking for their next challenge.

Generally speaking, individual buyers purchase companies with market values between $100,000 and $5 million.

STRATEGIC OR INDUSTRY BUYER

Strategic buyers are usually large companies looking to grow by acquiring smaller companies in the same industry or in related industries. Strategic buyers usually follow either a vertical growth strategy or a horizontal growth strategy.



Because this buyer is likely to be purchasing the selling company for strategic reasons, the benefit to this buyer may be greater than just the income currently generated by the selling company. Perhaps the strategic buyer has a sales channel that can increase the sales of the selling company or can combine facilities or personnel to achieve even more savings. Perhaps, if the buyer purchases a company, they can secure better pricing and purchasing terms. Perhaps the selling company has intellectual property, technology or proven processes that can be used to benefit the purchasing company.

FINANCIAL BUYER

Financial buyers are professional buyers that are generally funded by institutional investors such as public or private pension funds, insurance companies, or ultra-high-net-worth individuals. The federal government even funds some private equity groups called Small Business Investment Corporations (SBICs) through the Small Business Administration. A recent entrant into this market is the Family Office.

Private Equity Group

Private Equity Groups typically look for a 20% to 25% rate of return on the money they invest. Because private equity groups typically use bank debt to increase the rate of return on their investments, the price they are willing to pay for a company is usually a function of how much of the transaction can be financed by debt. Typically, these groups want to invest $1 or less in equity for every $2 in debt they can raise. Private equity groups typically look to grow the acquired company and cash out their investment within five years or less of the purchase. Historically private equity groups only bought companies when they could purchase all or a controlling interest of the company's shares or assets. This has changed recently, and more and more private equity groups will consider minority investments.

Family Office

The Family Office is an entity funded by a wealthy individual or family that is created to acquire and manage companies. The Family Office often focuses on a limited number of industries due to their limited expertise. It is more likely that one can find a Family Office with a longer timeline for sale than a private equity group. Some Family Offices are willing to take minority interests in a selling company.

Pension Funds and Insurance Companies

These investors manage large funds designed to generate returns for the pension or for the insurance company to generate income for their policyholders. These investors can be approached directly, but they are typically only interested in the investment in larger companies.

USING BUSINESS BROKERS AND INVESTMENT BANKERS TO APPROACH POTENTIAL BUYERS

Investment bankers and business brokers provide similar services, but there are some important differences to consider when selecting which to work with. One difference is the level of education, training, and expertise of the individuals and the organizations involved. Most investment bankers have MBA's or other advanced business degrees. Some also may be former attorneys or CPA's. Business brokers less often have these qualifications.

Another difference between business brokers and investment bankers is the size of the clients they represent. Business brokers, usually work with and are very good at selling smaller companies. They often specialize in specific industries that they serve. Business brokers typically handle companies with revenues of five million or less and those companies with earnings before interest and taxes of less than $500,000. Business brokers tend to present their sell side clients to individual buyers and local entrepreneurs. Business brokers typically use a real estate brokerage model. They advertise companies for sale and act as a multiple listing service, similar to real estate brokers. As a result, they typically sell companies using a negotiated sales approach by dealing with buyers on a first come, first served basis.

Investment bankers concentrate on the acquisition or sale of larger companies. Investment bankers use a controlled auction process that proactively solicits a targeted group of hundreds of previously identified buyers. Interested buyers are dealt with simultaneously rather than sequentially. This often creates a competitive market that drives up the price buyers are willing to pay for a company.