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LCF ROTHSCHILD GROUP

Banking and finance

Based in Geneva, the LCF Rothschild Group employs more than 3,000 people spread throughout the world in more than 30 strategically located offices.

The whole of the LCF Rothschild Group symbolises the fundamental values of Private Banking — experience, know-how, integrity, trust and confidentiality.

One and the same corporate culture serving one and the same vocation : to apply the experience gained by seven generations of financiers steeped in private or institutional portfolio management.



Our main activities

- ▶ Private Banking
- ▶ Fund Administration
- ▶ Financial and Asset Engineering
 - ▶ Institutional Management
- ▶ Alternative Fund Management
 - ▶ Fund Administration
 - ▶ Corporate Finance



“BPERE serving company directors”

BPERE’s know-how in serving company heads is based on several pillars : Asset engineering, Family Office, Asset management and Advice to companies.

The experience and expertise of the BPERE teams in asset and financial engineering enables all aspects of a company sale to be combined in a coherent manner.

BPERE can rely on the LCF Group’s image as a business banker and the independence and neutrality of BPERE vis-à-vis the purchaser, financial operators and the client’s advisors.

BPERE can act as coordinator, in cooperation with other client advisers (Accountants, tax experts, lawyers...).

In its activities, BPERE surrounds itself with legal and tax related partners selected from among the top professionals in the marketplace.

Our service offer

Support in selling a company usually involves the following phases:



A letter of engagement specifies the scope and form of BPERE's intervention and a schedule is drawn up at the very start.

Throughout every stage of the sale, we offer:

- ▶ Absolute confidentiality.
- ▶ A high-quality analysis.
- ▶ Personalised recommendations.
- ▶ Continuity of monitoring using a dedicated team.





Analysis of the seller's assets

This phase is essential as it enables the seller's priorities to be established upstream during the selling process.

Time/selling price arbitrage

The seller may wish to sell quickly, to secure the best selling price or may favour other considerations (social, emotional).

Exit conditions for the company director and his family

Is it possible for the seller to continue working in the company or does he prefer to cut all ties as soon as the shares have been transferred?

Does any member of the seller's family wish to remain as an employee after the sale?

Is the entrepreneur linked to any key personnel who will leave the company after the sale?

Inheritance related consequences of the sale

Wealth tax problems related to disposal of the business.

Joint shareholding liability.

Specific scheme for the director of an SME.

Organisation of the company before the sale

Several stages are frequently necessary to make the company more attractive:

- ▶ Remove the company's cash assets.
- ▶ Halt unprofitable activities or ones which are not part of the core business.
- ▶ Settle old disputes.
- ▶ Isolate the property assets that the entrepreneur wishes to keep.
- ▶ Rationalise costs.
- ▶ Reorganise the holding by creating a lead holding company.

Preparation of financial documents and company valuation

The supporting banker in the sale must know the company as if it were his own so as to be able to negotiate to the best of his ability with a potential investor.

BPERE carries out due-diligence, after a period of financial, organisational and legal analysis of the company.

BPERE may use outside consultants if the company's area of activity makes this necessary. The report on this aspect of the work takes the form of a due-diligence report containing factual, figured and verifiable information.

Valuation methods:

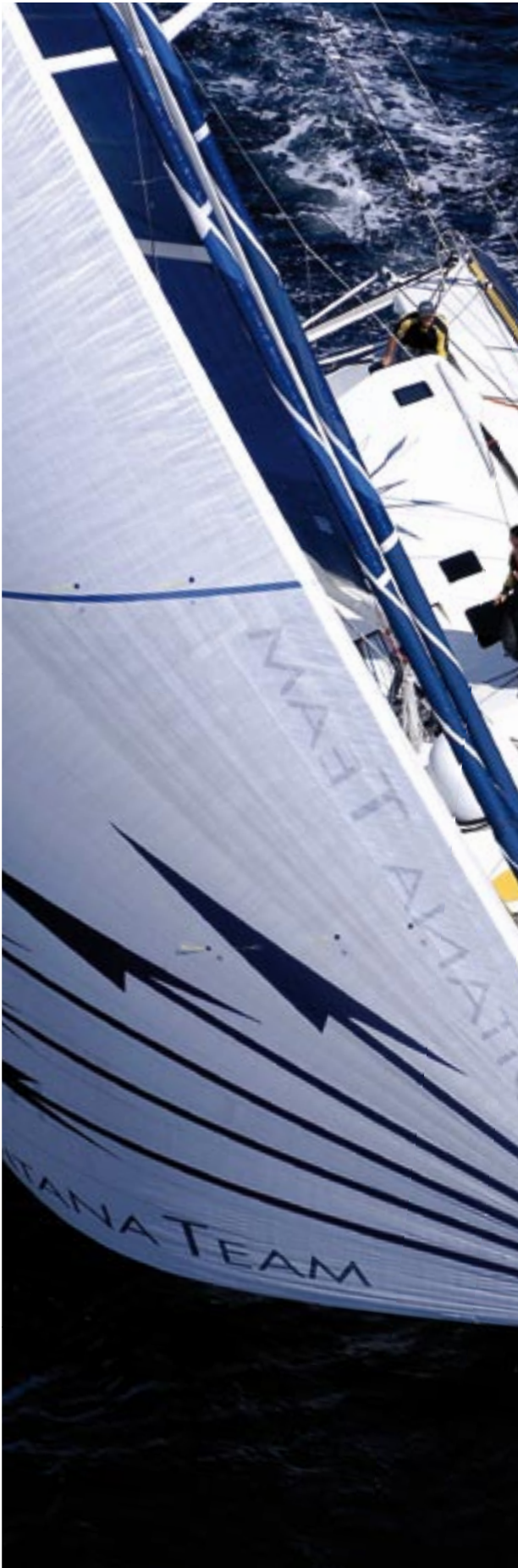
There are a multitude of methods which can be classed in three groups:

- ▶ **asset method:** this is a fairly static, accounting method which is suitable for highly capitalised, mature companies. It assumes a prior restatement of the annual accounts in order to calculate the company's revalued net assets.
- ▶ **free-cash-flow method:** this is the method preferred by the profession because it takes the company's growth prospects into account. It requires substantial preparatory work and the justification of a business plan over several years. The business plan must be realistic and justifiable to future purchasers.

In practice, the cash-flow is discounted to the cost of debt and capital. Determining the cost of capital entails knowing various parameters such as the sector's Beta and the risk premium.

- ▶ **multiples method:** this method cannot be ignored. It involves identifying the mean multipliers observed in comparable markets and sectors. The multipliers are applied to earnings, EBIT and net profit.

These methods frequently give a significantly different valuation. The banker establishes a range of values and the market price is determined within the negotiating arena.



Selection of and approach to investors

Thanks to its network of partners, BPERE prepares a list of potential purchasers and sends out a “Blind profile” in total confidentiality to arouse interest.

The list of potential purchasers is given to the seller who will draw up a short-list according to its own criteria : competitors, operational or financial investors, objectives of the potential purchasers.

After confidentiality agreements have been signed, BPERE sends the due-diligence report to the short list. The report is often accompanied by an initial procedural letter inviting potential purchasers to submit a non-binding offer.

There follows a period of due-diligence by the potential purchasers (visit to the company, management presentation...). It is common for the purchaser to carry out its own due-diligence, involving outside auditors.

BPERE plays a coordinating role in this sensitive phase in cooperation with business lawyers. The amount of logistics makes this period a difficult one but an electronic data-room organisation can make the whole process easier.

Negotiating the price and exit conditions

In this phase, BPERE can facilitate relations with potential purchasers. As well as negotiating the price, the parties can negotiate the legal clauses:

- ▶ Price supplement received pursuant to an indexation clause (earn-out)

The price supplement is indexed to profit or earnings. This clause may make provision for the seller to remain in the company.

- ▶ Liabilities guarantee

The seller undertakes to pay the purchaser all or part of the selling price if the accounts of the company whose securities are the subject of the contract reveal a debt originating before the sale or an over-estimation of asset values.

- ▶ Price adjustment clause: makes provision for a price review if the assets, net assets or liabilities change.

- ▶ Peaceful possession guarantee: guarantees the purchaser proper and peaceful possession against de facto and de jure disturbances from the vendor or third parties.

From signing to closing

Transitional provision

The phase between signing the agreement (signing) and transfer of ownership (closing) is frequently neglected although it can take a while, due to the time required to realise all the suspensive conditions : agreement of the Board of Directors, need to obtain the consent of other shareholders, consent of third parties, consent of the competition authorities, ruling requested by the purchaser, setting up the finance...

There are several risks during this period : market risks, management related risks, risks related to the decisions that the shareholders might take.

It is common for the vendor to be restricted in taking certain decisions before the closing.

Closing and securing payment of the price

BPERE is involved by opening an escrow account in order to secure payment of the selling price.

In order to describe how the escrow account is to be operated and BPERE's role as custodian, an escrow agreement is signed between the bank, the purchaser and the vendor.

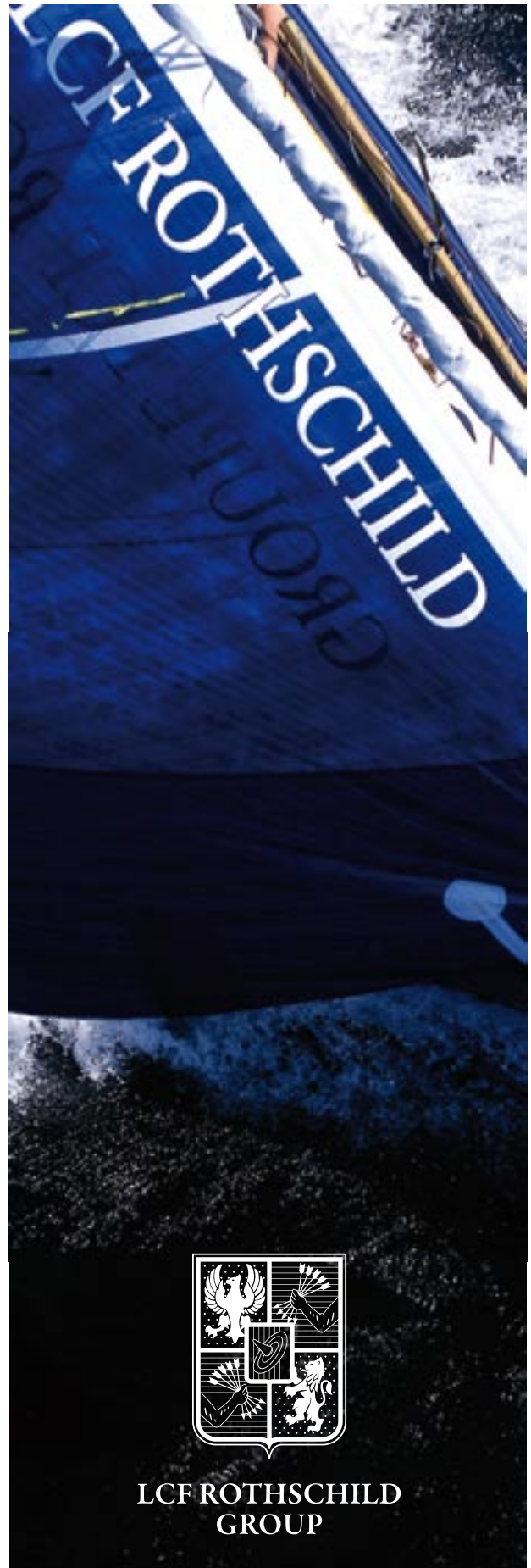
The escrow agreement can include specific conditions such as a liabilities guarantee clause.

Conclusion

An entrepreneur who has put his whole being into building his company, often finds himself alone when facing the complex challenge of selling it.

In a constant desire to gear itself towards its customers' needs and relying on its expertise in asset and financial engineering, BPERE offers its services throughout every stage of selling a company.

The company director can count on the relational network of the LCF Rothschild Group and its expertise in business banking in order to make the sale of his company a success.





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Non-contractual document.

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