



SELLER CLIENT GUIDELINES

These guidelines have been prepared by NCG for use by clients and prospective clients contemplating a sale of business transaction including the sale of business assets and undertakings, and the sale of equity wholly or partially. As with any set of guidelines, they should be interpreted on the basis of a specific set of circumstances, and may not be entirely applicable to each client situation. NCG will provide advice and assistance to seller clients regarding each specific transaction, based on NCG's developed processes, methodologies and the client's particular circumstances and objectives.

Timing and Environment for a Sale Transaction

- The timing of sell transactions is typically driven by factors including rapid growth which is difficult to fund, a change in strategic direction, health of the proprietor, financial difficulties, business rationalisation and rapid technology changes. There is no particularly "right time" to initiate a sale transaction. Buyers exist for ICT operations, regardless of time of year, the state of the economic cycle or the trading condition of the particular vehicle.

Ideally, a seller client will initiate a transaction when the vehicle has reached the limit of its growth capabilities based on available working capital (viz fully "leveraged"), the vehicle is perceived by the industry as being highly "strategic", and the earnings have been optimised. However, such "perfect timing" is not always possible.

Crucial to most sale transactions is the business tracking during the course of the sale process. Ideally, the business will be tracking positively, and better than the financial plan provided to prospective buyers. Most owners want to sell in poor trading times, and want to keep their asset in good times. The reverse timing should apply.

- Seller clients should recognise that a sale transaction typically takes between 4 and 8 months to complete, from the point of NCG's engagement through to completion. It is not particularly unusual for a transaction to take longer than this, but is very unusual to complete a transaction in less time. NCG's schedules each transaction, and the schedule illustrates and identifies the difficulty of achieving very quick results. In approximate terms, and subject to the client's preparedness, it typically takes 60 days to prepare all of the relevant sale documentation, 60 days to complete "marketing" and then 60 days to complete due diligence, legal documentation and then close the transaction.

It is critical that the seller has established a business plan and budget for the period of the sale transaction, and even more critical that the vehicle is tracking in accordance with the plan - and better still exceeding the budget. Nothing is more destructive to a sale transaction than a wild negative trading fluctuation below the established budget.

- As with any sale process, the sale period is the time for "good housekeeping". It greatly facilitates a sale transaction if sales collateral is "crisp", premises are well presented, personnel are stable, and press and other forms of visibility are heightened. Almost nothing is more persuasive than a very major, strategic order secured and publicised during the sale process.
- While NCG takes most of the load during the sale process, the key executives group is inevitably subject to some additional load as a result of the intended transaction. This

may take the form of further detailed budgeting and planning, through to extra sales focussed efforts and meetings with prospective purchasers. It is wise to schedule leave and travel activities to fit with the sales process.

- It is crucial to every transaction that the client maintains focus on running the business, and allows NCG to run the transaction. A sale engagement is a "partnership" between NCG and the client, and the client's most important contribution is to manage the business for optimum performance during the sale project.
- NCG has established a reputation for sound, ethical and professional business practices. This reputation is an important ingredient that NCG brings to each sale transaction. In order to maintain NCG reputation for fair dealing, NCG uses NCG best reasonable efforts to avoid distortions in presenting a seller's business to prospective purchasers. It is therefore critical that a trusting and frank relationship be established between NCG and seller clients. Quite often, factors perceived by seller clients as negatives, can be turned into positives, providing they are identified early in the sale process. Nothing is more destructive to a buyer's interest than the discovery of a major negative during the process of due diligence. An "up front, warts and all" approach is always the best policy in a sale transaction. Buyers gain confidence, and sellers avoid exposures.

Valuation Parameters

- NCG can provide advice to seller clients, short of formal business valuations, as to the likely achievable value range for an ICT sector business. However, NCG discourages clients from establishing hard and fast expectations regarding price. When asked for price indications by prospective buyers, NCG's typical response will be along the lines that the market sets the value, and NCG seeks to ensure that a market is created in a suitably competitive environment. NCG tries to avoid sale engagements if NCG believes that the client's valuation expectations are unachievable.

Apart from fully and effectively marketing the vehicle to strategically interested parties, and ensuring a competitive environment is created, often the key to pricing is deal structure. By careful and innovative deal structuring, it is often possible to exceed a seller's value objectives, while at the same time meeting the particular needs and comfort of the purchaser.

- The price that a willing purchaser will pay for any business, is based upon the prospective buyers view of the "utility" of that business in the buyers ownership, and under the direction and management of the new owner. Pricing based on earnings multiples can often be misguided, if a purchaser intends to integrate an acquired business with compatible existing operations. The yield to the buyer may be much higher than the yield to the seller, and the final price in this situation is better developed by the buyer than the seller. In the case of organisations which have developed intellectual property ("IP") which has been sold to a customer base in Australia, the value to an internationally based purchaser with substantial distribution channel structures will be conditioned by the level of that the buyer expects to generate from the IP through their established channels. The level of profitability generated by the seller in the Australian market may be largely irrelevant to the determination of a value which is acceptable to a buyer.
- At the time of NCG's engagement by a seller client, price expectations are often raised by the client. NCG will have provided valuation indications during the course of NCG's pre-engagement due diligence analysis. At this stage of the sale process, NCG is least able to comment on achievable pricing as a market has not yet been created. NCG can offer broad comments, but it is not until it has developed a clear sale strategy, and feed back is available during the sale process that reliable pricing guidelines can be

established. However, NCG will tend to provide conservative views of pricing early in the sale process if required.

- An important part of NCG's sale methodology is the preparation of two forms of "aids" to price negotiation. While the "market sets the price", on larger or more complex transactions, NCG prepares valuation collateral, for use in negotiations, when required and appropriate. Market comparable transactions are researched and prepared to show the valuation range applicable to a particular type of business. Market comparables are useful, but to a degree subjective, as no two businesses are identical. Secondly, NCG has developed a sophisticated valuation model, which is used to arrive at a present value of future free cash flows, and taking into account the weighted average cost of capital. Both comparables and valuation models are useful, but the "buyer's appetite" is can more significant driver of valuation, particularly when the transaction is competitive. Of major relevance is the projected future valuation of the investee at an exit (trade sale, sale of equity into the market in a listed entity, or initial public offering – "IPO").

Sale Transaction Targeting and Strategic Fit

- The process of formulating a clear understanding of the potential best fit of the client's business to the various classes of prospective purchasers is one of the most critical aspects of a sale transaction. Where the strategic fit is best conceptualised, an optimum transaction can be more quickly and effectively delivered.
- Sale transactions occur when the investor believes that the investment will achieve a targeted and satisfactory rate of return ("IRR", yield etc).
- In order to achieve the best strategic fit between a seller client and a prospective purchaser, it is important that NCG has a detailed understanding not only of the client's operations and the client's business sector, but of the potential buyers' operations and objectives. Knowledge of the buyer must include knowledge of timing issues impacting prospective buyers, and knowledge of the buyers' financial assessment methodologies and goals. Clients can at times feel that NCG has close relationships with prospective buyers, even bordering on potential conflict. This is never the case. NCG acts at all times in the best interests of it's client. The more current knowledge that NCG has of a prospective buyer, the more effectively NCG can discharge NCG responsibilities to NCG's seller client.

Intermediaries Positioning

- As the intermediary between the seller client and prospective purchasers, NCG seeks to be fully involved in all aspect of the sale process, including attendance at all meetings with targets, and all relevant meetings held with the clients professional advisers (legal and accounting). NCG can only effectively manage the sale process, if NCG is fully informed and aware of all nuances and inflections.
- At all times during the sale process, NCG seeks to keep the client fully informed, and the client remains in full control of the sale process. NCG values and encourages clear client directions, and will provide advice and counsel when and as appropriate.
- In most sale processes, NCG will be dealing with at least some targets which are well known to NCG. This is a positive situation from the seller client's perspective. NCG will work closely, in a consultative manner, with targets with a view to maximising perceived value of the vehicle for NCG's client.
- In some situations, targets will be hostile to NCG's involvement in the sale process, and seek to establish direct communications with the seller client - particularly where the parties are known to each other. Based on experience, such situations are

invariably conditioned by a target's desire to "cut out the competition", and establish an inside running position with a view to achieving a "bargain". Such attempts need to be met with resolve by the seller client. A motivated purchaser can almost always be brought into the process of the agreed project plan.

- It is critical to the optimisation of each seller engagement that NCG be fully informed on all aspects of the client's business plans and opportunities. The full scope of the future potential of the client's business determines the strategic fit with prospective purchasers organisations. Most transactions are based on close strategic fit. NCG's executives have the industry background and understanding to absorb the financial, technical and operational aspects of clients' businesses. NCG wants to understand the vision of the seller client, in order that this vision can be communicated to prospective purchasers.

The List of "Don't Do" Items

Don't :

- Set an early price or deal structure expectation that becomes inflexible.
- Expect that advertising will make any contribution to a sale transaction - apart from normal course of business advertising and other publicity.
- Allow lawyers to "high-jack" and/or kill a transaction.
- Hold back the negatives to the end of the sale process, when they will do the most damage.
- Stop researching and targeting before a transaction is complete. NCG will continue to identify new targets throughout the engagement.
- Set early expectations of "ideal purchasers".
- Discard targets because they may be competitors.
- Tell no one within the vehicle's management structure that a transaction is in process. Much better, explain early in the cycle that an advisory firm has been engaged to assist in "funds raising" for expansion and growth.
- Respond to targets invitations to hold in camera meetings to "cut to the chase".
- Grant exclusivity to a target - unless the terms regarding exclusivity to complete are compelling. Some buyers will secure exclusivity by offering a high valuation, which sinks once exclusivity is provided, and they are well armed with "issues" from due diligence. Break fees, agreed scope and timing of due diligence, loss of exclusivity on variation of terms and other devices will be introduced by NCG at the appropriate time.
- Set performance expectations that are not delivered during the course of the sale process.
- Deal with a single prospective purchaser, unless all options have been exhausted.
- Over-sell the opportunity. Prospective purchasers are demotivated by extraordinary claims and expectations. Unsustainable claims represent weapons for use by a buyer after due diligence.

- Divert operational resources away from operational responsibilities during the sale process. Every effort should be focussed on operating performance.

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