

Introducing BizWorth's PreQual Process™

How to secure financing for what a business is worth.

February 1, 2024

STRICTLY CONFIDENTIAL

This document is confidential and proprietary. It is not to be distributed without BizWorth's express written permission.

Table of Contents

01	About the Process	page 4
02	About the Report – Part A & B	page 10
03	How to Get Started	page 15
04	Data Privacy & Protection	page 17
05	Frequently Asked Questions	page 20



It's time to close more deals.

Dear Business Broker,

As a business broker or M&A advisor, you know all too well the challenges of accurately valuing a business and navigating the complexities of financing. But what if there was a solution that could help you overcome these obstacles to close more deals? Enter the PreQual Process™ by BizWorth – designed to help you secure financing for what a business is worth.

Gone are the days of guesswork and uncertainty. With the PreQual Process™, you'll have access to accurate valuations and prequalified financing from a national network of lenders, giving you the confidence to set the right asking price and attract the most qualified buyers. Say goodbye to endless negotiations and stalled deals – our process delivers smoother financing, faster closings and higher broker commissions.

Imagine being able to offer your clients a seamless selling experience, from valuation to financing, all in one place. Our innovative two-part process begins with Part A, the PreQualified Valuation Report, empowering business owners and brokers with a loan eligibility range backed by a national network of participating lenders. As the deal progresses,

lenders request Part B from BizWorth to meet the stringent requirements set by underwriting and the SBA, providing a streamlined path to more successful loan closings.

With BizWorth's PreQual Process™, you'll be equipped to provide unparalleled value to your clients while maximizing your own earning potential. Brokers receive a \$1,000 on each PreQualified Valuation Report and 100% of all lender closing commissions.

I invite you to learn more about BizWorth's PreQual Process™ and how it can help you close more deals. Feel free to contact me if you have any questions.

Shelia A. Darby
MBA, CVA, MAFF, ECA
Founder, Managing Director
shelia@bizworth.com

1 About the Process

Executive Summary



BizWorth's PreQual Process™ is designed to help secure financing for what a business is worth.

Introduction

Nearly 50% of all deals fail to close due to valuation and financing issues (Source: IBBA). The prevailing challenges in deal closures, such as unreasonable pricing, unrealistic seller expectations, and buyer financing hurdles, inspired us to create a solution that addresses these pain points head-on.

BizWorth's PreQual Process™ revolutionizes business acquisitions by helping secure financing for what a business is worth. This innovative system aims to help brokers and M&A advisors close more deals, addressing the root causes of the failures.

Purpose

The purpose of BizWorth's PreQual Process™ is to improve the number of successful deal closures by providing a conditionally approved loan amount for creditworthy buyers during the listing phase, coupled with a certified business appraisal required by underwriting and the SBA in the financing phase of a deal.

What sets our process apart is the seamless integration of a two-part valuation report prepared by the same appraisal company, along with exclusive access to an extensive network of participating lenders who accept BizWorth's appraisals when making loan decisions.

Two-Part Valuation Report

BizWorth's PreQual Process™ encompasses a two-part valuation process tailored to meet the requirements of owners, brokers, and lenders. Part A, the Pre-Qualified Valuation Report, is initiated by the broker or owner and delivered early in the listing phase. This not only establishes a realistic asking price but also secures a "conditionally approved" status from participating lenders, enhancing the business's credibility and attractiveness to potential buyers.

“What sets our process apart is the seamless integration of a two-part valuation report prepared by the same appraisal company, along with exclusive access to an extensive network of participating lenders who accept BizWorth's appraisals when making loan decisions.”

As the deal progresses, Part B, the Certified Business Appraisal Report, is ordered by lenders and leverages the data collected in Part A. This report, with a quicker turnaround and lower cost, ensures a smoother journey to financing, progressing the deal from conditional approval to closing.

Why deals fail to close?

Pain Points

Nearly 50% of all deals fail to close due to valuation and financing issues (Source: IBBA). Inspired by these prevailing challenges, BizWorth developed the PreQual Process™ to help business brokers breakthrough the barriers that prevent owners from selling their business:

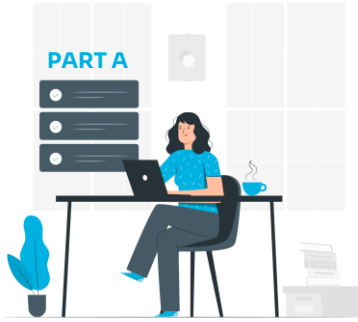
- **Overvaluation:** Sellers often overvalue their businesses, leading to unrealistic asking prices that deter potential buyers. *BizWorth's PreQualified Valuation Report, accepted by a national network of lenders, helps brokers set informed and realistic asking prices based on a price sensitivity analysis of loan eligibility.*
- **Limited access to lenders:** Many brokers are limited to working with only a few lenders they've worked with before. *By obtaining prequalified loan eligibility from a national network of participating lenders, the PreQual Process expands financing options available for buyers.*
- **Loan eligibility uncertainty:** Many buyers and sellers face uncertainty regarding the business's eligibility for financing. *The PreQual Process conducts a thorough analysis of the business's financial health, providing clarity on its loan eligibility.*

- **Broker opinions not accepted:** Broker opinion of value reports used to price the business rarely if ever match the appraisal prepared for underwriting or the SBA. *BizWorth's two-part report is accepted by participating lenders and designed for use throughout the entire transaction process.*
- **Unexpected financing gaps:** Sellers often face unexpected gaps between the lender's loan amount and the sale price of the business. *The PreQual Process empowers brokers and their clients to anticipate gaps and make informed decisions regarding listing price strategy, required cash amount, seller financing, and other considerations.*

BizWorth's PreQual Process™ revolutionizes business acquisitions by helping secure financing for what a business is worth. This innovative system aims to help brokers and M&A advisors close more deals, breaking through the root causes of the failures.

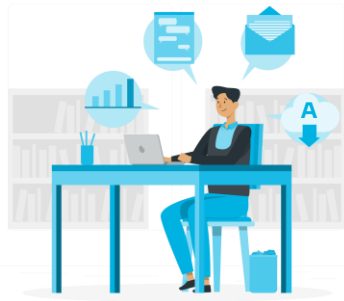


The “PreQual Process”



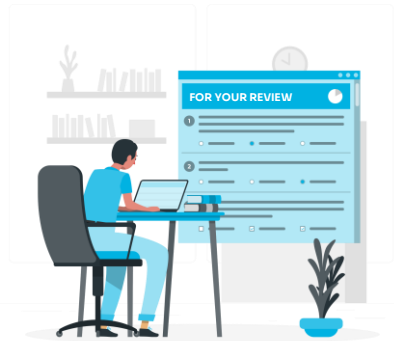
1. ----->

Broker orders Part A – PreQualified Valuation Report from BizWorth.



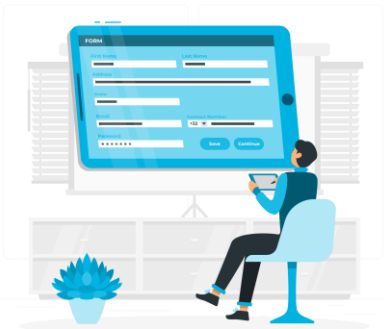
2. ----->

BizWorth’s Certified Appraiser prepares Part A and uploads to BizWorth’s Portal.



3. ----->

Lender receives Part A, tax returns & financials, makes conditional approval decision in BizWorth’s Portal.



6. -----<

Lender orders Part B from BizWorth.



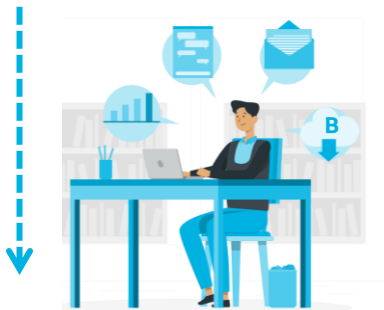
5. -----<

Broker negotiates deal with creditworthy buyer; requests loan approval from a PreQual Participating Lender.



4. -----<

Broker receives “lender financing available” badge to promote loan eligibility to potential buyers.



7. ----->

BizWorth’s Certified Appraiser prepares Part B and uploads to BizWorth’s Portal.



8. ----->

Lender downloads Part B from BizWorth’s Portal and reviews loan request with underwriting.



9. ----->

Congratulations...you’ve closed another transaction!

Benefits to Brokers

Streamline Access to Financing

Part A and Part B of the PreQual Process™ work together to streamline access to financing through our extensive network of participating lenders. Because both parts are prepared by the same appraisal company, brokers can confidently guide their clients through a seamless and efficient transaction experience with our network of trusted lenders who accept BizWorth's appraisals.

Part A, ordered by the broker or owner, provides a comprehensive analysis of the business's loan eligibility, giving insights into the buyer's ability to secure financing. As the deal progresses, Part B, ordered by the lender, comes into play, aiding banks in meeting the stringent requirements set by underwriting and the SBA for extending a loan.

Asking Price Confidence

Part A of BizWorth's PreQual Process™ plays a pivotal role in instilling confidence in the asking price by leveraging a valuation report, prepared by a NACVA certified appraiser, that includes a meticulous analysis of loan eligibility. Through a detailed sensitivity analysis of different selling prices and the resulting Debt Service Coverage Ratio (DSCR), the process determines the business's potential for securing loans. This comprehensive assessment empowers brokers to establish more accurate pricing expectations with their clients, enhancing transparency and trust in the negotiation process. By leveraging these insights, brokers can navigate discussions more effectively, leading to smoother negotiations and an increased likelihood of successfully closing deals.

Navigate Financing Hurdles

The PreQual Process™ assists brokers in navigating financing gaps with their clients by providing valuable insights into the loan eligibility of the business. Part A of the process conducts a comprehensive analysis of the business's financial health and determines its ability to secure financing. If there is a gap between the lender's loan amount and the sale

price, brokers are equipped with the necessary information to devise financing strategies to bridge this divide. By understanding the loan eligibility of the business upfront, brokers can proactively address financing challenges and explore alternative financing options, such as seller financing or negotiating with lenders for higher loan amounts. This proactive approach not only facilitates smoother negotiations but also increases the likelihood of closing the deal successfully. Ultimately, the PreQual Process™ empowers brokers and owners to navigate the financing process with confidence.

Earn More Commissions

Brokers can earn enhanced commissions through the PreQual Process™ in two ways: First, by placing Part A orders, brokers receive either a \$1,000 discount or \$1,000 commission. Additionally, when buyers secure financing through participating lenders, brokers can maximize commissions on the loan amount with lenders who compete for your business. Brokers receive 100% of any loan commissions from lenders, maximizing earning potential with each successful transaction. BizWorth has negotiated the highest broker commissions with a national network of lenders, ensuring brokers can capitalize on every opportunity.

Differentiate Yourself

By incorporating the PreQual Process™ into their services, brokers elevate the value they offer to clients across the entire spectrum of the sales journey, from listing to financing. This comprehensive approach extends beyond traditional listing services by helping business owners secure financing for what their business is worth.

Earned Badges

Brokers can obtain badges at each step of the PreQual Process, enhancing their credibility and marketing efforts. Upon completion of Part A, brokers receive the "Independent Appraisal" badge, signifying that the business has undergone a thorough valuation process by an independent appraiser. Additionally, brokers receive the "Lender Financing Available" badge, indicating that financing options are accessible to potential buyers. Upon completion of Part B, brokers are awarded the "Certified Appraised Business" badge, highlighting that the business has received a certified SBA-compliant appraisal. These badges can be prominently displayed on marketing collateral, including pitch books, confidential information memorandums, and listing sites, boosting the visibility and credibility of the listings.

Independent Appraisal Badge

This badge signifies that the business has undergone a rigorous valuation process conducted by an independent, certified appraiser as part of BizWorth's PreQual Process. It assures potential buyers and lenders that the asking price of the business is based on a professional assessment of its value, enhancing transparency and trust in the sales process.

Lender Financing Available Badge

The presence of this badge indicates that financing options are readily accessible for potential buyers interested in acquiring the business. It assures buyers that lenders within BizWorth's network have prequalified the business for financing, streamlining the financing process and increasing the likelihood of successful deal closures.

Certified Appraised Business Badge

This badge is awarded upon completion of Part B of the PreQual Process, where the business receives a certified appraisal report. It signifies that the business valuation has met the stringent standards set by underwriting of most lenders, providing buyers with added confidence in the accuracy and reliability of the valuation. Displaying this badge reinforces the credibility of the business listing and instills trust in potential buyers and lenders alike.

Available Badges



2 **About the Report**

Part A & B

Part A & Part B

Overview

BizWorth's PreQual Process consists of two parts, "Part A" and "Part B", designed for use throughout the entire transaction process.

Part A, the PreQualified Valuation Report, includes a loan eligibility range used by lenders to conditionally approve a loan amount within the range for creditworthy buyers. The loan eligibility range is determined based on a lender's perspective of the company's EBITDA, incorporating more conservative adjustments compared to those used for determining list price.

This report informs buyers and advisors with valuation information, aiding them in setting

an informed asking price, attracting more qualified buyers, and expediting negotiation and due diligence. Additionally, a national network of participating lenders receives the report to grant conditional approval for a loan amount within a loan eligibility range.

Part B, the Certified Business Appraisal, is ordered by lenders and designed to meet all requirements set by underwriting and the Small Business Administration (SBA), if applicable, for extending a loan.

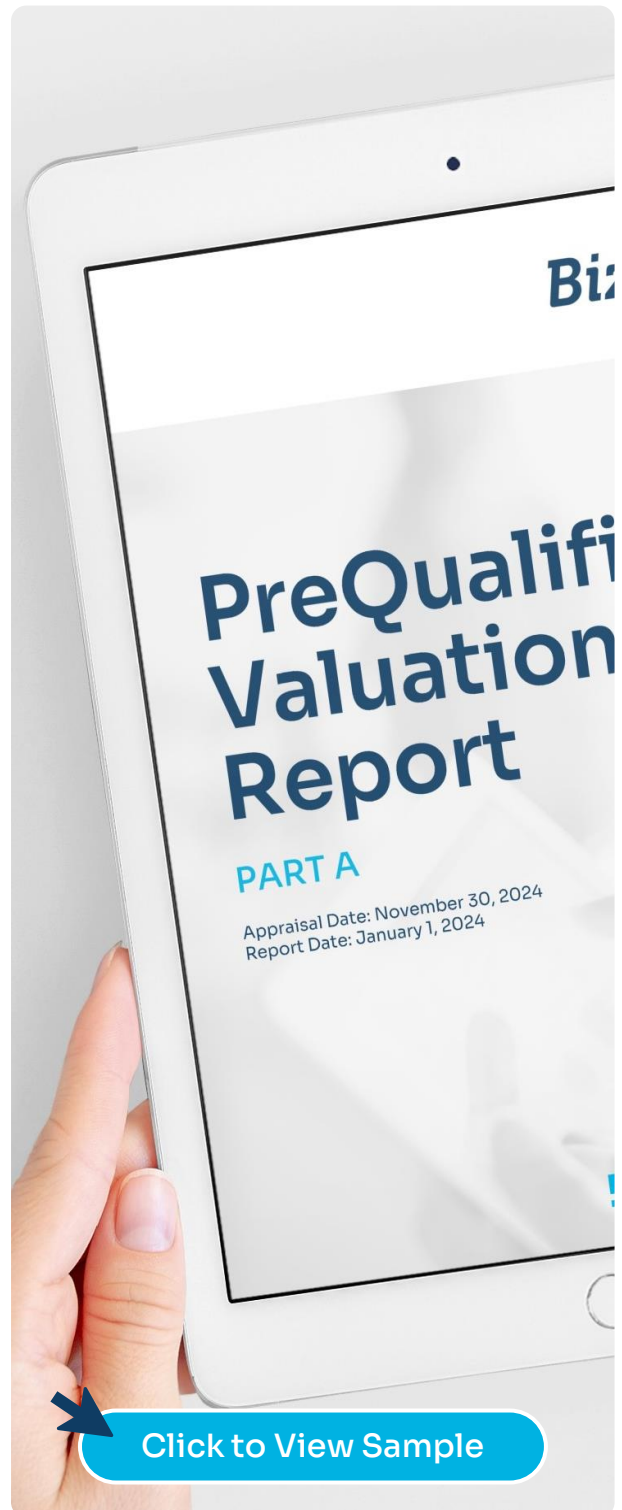


Part A

PreQualified Valuation Report

Part A, the PreQualified Valuation Report, serves as a dynamic tool used during the early stage of listing a business for sale. This report, conducted by a certified appraiser, furnishes business owners, advisors, and lenders with a detailed valuation range based on market, income, and asset approaches. Additionally, it provides key ratios benchmarked to industry standards, ensuring a comprehensive understanding of the business's financial health. A unique feature is the inclusion of a section on loan eligibility, featuring a sensitivity analysis of different selling prices and the resulting Debt Service Coverage Ratio (DSCR). Part A not only aids in establishing a realistic asking price but also assists lenders with providing a "conditional approval" to business owners and their advisors, instilling confidence in the business's credibility.

- **Conducted by a certified appraiser** with specialized knowledge and experience in business valuations, ensuring the highest standards of accuracy and reliability.
- Provides a **thorough valuation range** based on three fundamental approaches: Income, Market, and Asset.
- Features a **dedicated section on loan eligibility**, offering valuable insights for both sellers, advisors and lenders.
- Includes a **sensitivity analysis of different selling prices**, allowing for a nuanced understanding of financing scenarios.
- Provides a detailed examination of **loan payment affordability** to help brokers gauge a business's financial health and its ability to handle loan repayments
- Includes **key financial ratios** benchmarked to the industry, offering insights into the business's performance relative to its peers.



Loan Eligibility Analysis

Part A

BizWorth simplifies the assessment of a business's creditworthiness for lenders through a specialized loan eligibility section in the valuation report of Part A. Lenders are not required to conditionally approve a particular loan amount but are asked to confirm that their conditionally approved sum falls within the specified loan eligibility range. This approach acknowledges the diverse criteria lenders may have, including financial adjustments, money down, etc.

Conservative Adjustments for Lenders

BizWorth's loan eligibility range integrates conservative adjustments commonly applied by lenders. Noteworthy adjustments commonly *excluded* are discretionary expenses, non-cash items, owner's compensation, etc.

Discrepancies between the loan eligibility range and the valuation summary used for listing purposes are highlighted in the report, empowering brokers and their clients to make informed decisions regarding listing price strategy, required cash amount, seller financing, and other considerations.

Data Provided to Lenders

To assist lenders in evaluating the financial health and creditworthiness of the business, access to the seller's profile, valuation report, financials, and business tax returns is provided through BizWorth's secure portal.

Participating lenders are required to respond with a conditional approval within 10 business days.

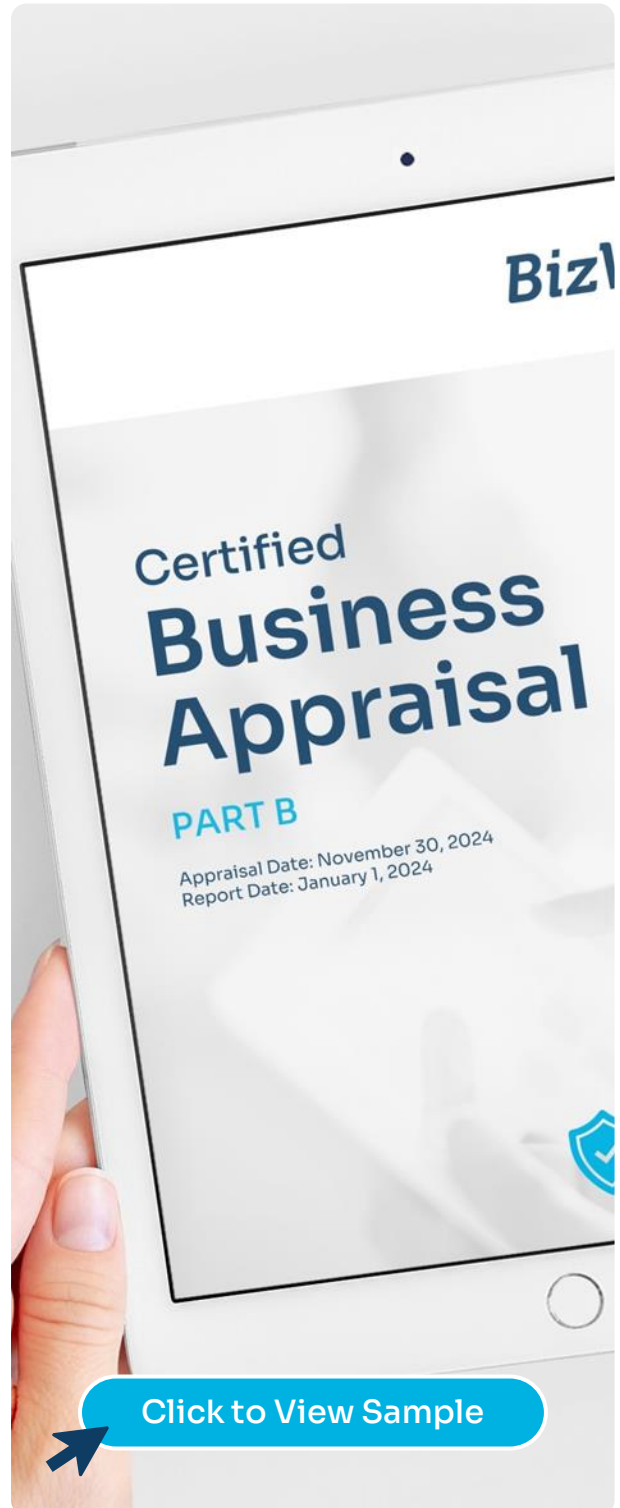


Part B

Certified Business Appraisal

Part B, the Certified Business Appraisal, seamlessly continues the valuation journey once an offer is accepted by the seller. Building on the foundation laid by Part A, this report is ordered by BizWorth's participating lender and includes all information required to meet the stringent requirements set by the lender's underwriting and the Small Business Administration (SBA), if applicable. Its precision and compliance ensure a smooth transition during the financing phase, providing participating lenders with a detailed analysis for informed lending decisions.

- Specifically tailored to meet lender underwriting and the **Small Business Administration's (SBA) loan requirements**, ensuring alignment with standard operating procedures.
- Leverages data previously collected from Part A and **provides consistency** of certified appraiser conducting both valuations.
- Incorporates the **latest financial statements** to reflect the most recent performance and financial health of the business.
- Offers a **detailed analysis** that aids lenders in making informed lending decisions.
- Fully **complies with the highest industry standards**, including the Uniform Standards of Professional Appraisal Practice (USPAP) and National Association of Certified Valuators and Analysts (NACVA) standards.



3

How to Get Started

How to Get Started

Step 1



Signup to Join BizWorth's Valuation Partner Program (Free!)

- Register to join the Valuation Partner Program on BizWorth's website at <https://www.bizworth.com/advisors>. Select the "Sign Up" button.

Establish a Member Code

- You will establish a six-digit member code for you and your brokerage firm.

Step 2



- Your six-digit member code is needed when you initiate the order of the PreQual Process (and reports). The code will provide you with access to discounted report rates and payments options.

Start the PreQual Process

- When you're ready to request conditional approval for a client's business, you will select the green "Get Started" button anywhere on BizWorth's website (www.bizworth.com).
- You will select the "PreQual Process" tile, then Order Part A.
- On the "Information We Need from You" page, submit the required details about the company. Subsequently, you'll receive an email inviting you to the Data Collection Portal.

Step 3



Step 4



Check Your Email

- Check your email for an invitation from officeadmin@datacollectionportal.com to the secure Data Collection Portal. Accept the invite to create your account.
- Navigate through the portal, filling out required forms and carefully following instructions. Save your progress if needed. Once finished, click "I've finished" to notify BizWorth that your valuation application is ready to commence. This initiates the appraisal, starting the countdown for delivery within the specified turnaround time. Check your email for updates.

4 Data Privacy

and Protection

Data Privacy and Protection

BizWorth's Data Collection Portal, in partnership with our portal partner, places a strong emphasis on data privacy and protection to support secure data collection and confidential report downloads. Robust measures have been implemented to ensure the confidentiality, integrity, and availability of client data. Here are the key aspects:

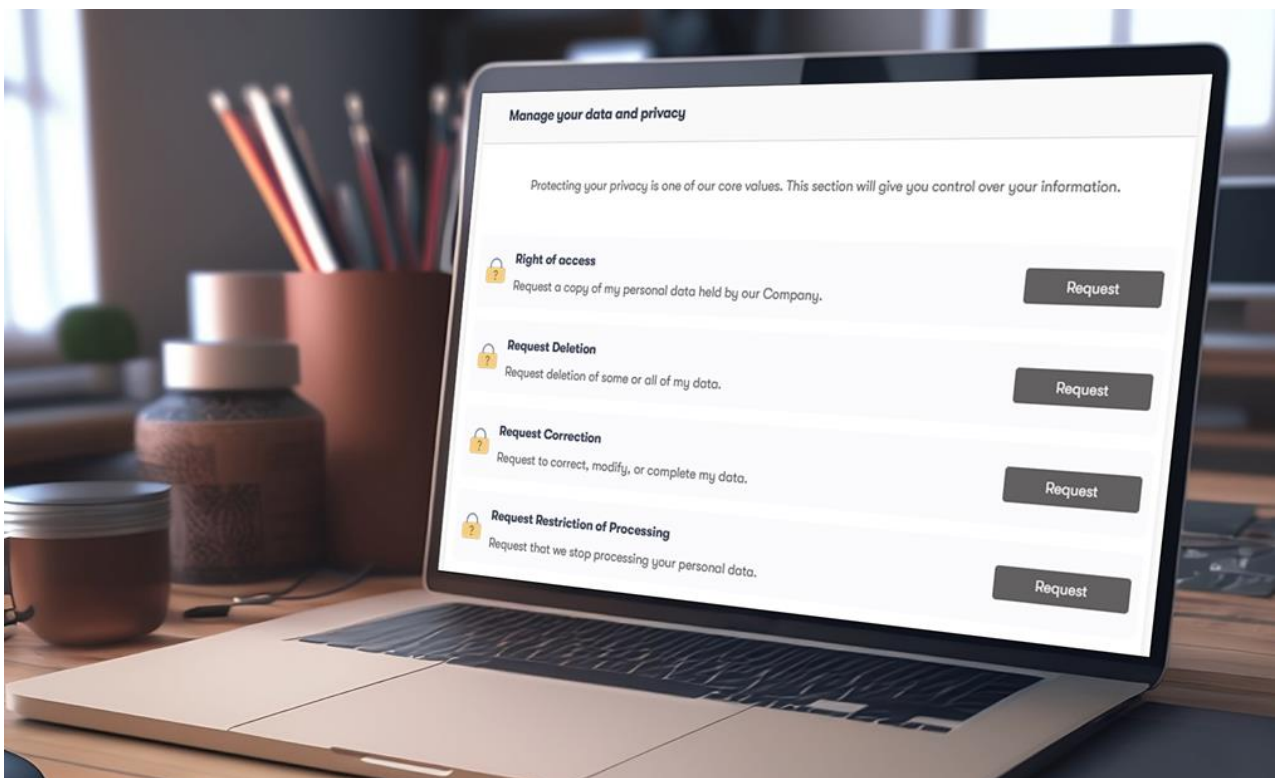
Encryption

Industry-standard encryption protocols, including Secure Sockets Layer (SSL)/Transport Layer Security (TLS), are used to protect client data both at rest and in transit. SSL/TLS protocols establish secure connections between users and our servers, encrypting data during transit to prevent interception or tampering by attackers. This ensures the confidentiality and integrity of data during transmission.

Access Control

Strict access controls are in place to ensure that only authorized personnel can access client data. This includes strong authentication mechanisms, such as passwords and multi-factor authentication, to prevent unauthorized access to data at rest and during transmission.

- **Passwords:** Secure password mechanisms are employed to authenticate users and restrict access. This ensures that only individuals with the correct credentials can access client data.
- **Multi-Factor Authentication (MFA):** In addition to passwords, multi-factor authentication is implemented to add an extra layer of security. Users are required to provide multiple forms of



identification before accessing the portal, further preventing unauthorized access.

Data Backups

Regular backups are performed to prevent data loss in unforeseen events. These backups are securely stored and can be restored if needed.

Secure Infrastructure

Our infrastructure, hosted on secure servers and data centers complying with industry best practices, includes physical security measures, firewalls, and intrusion detection systems.

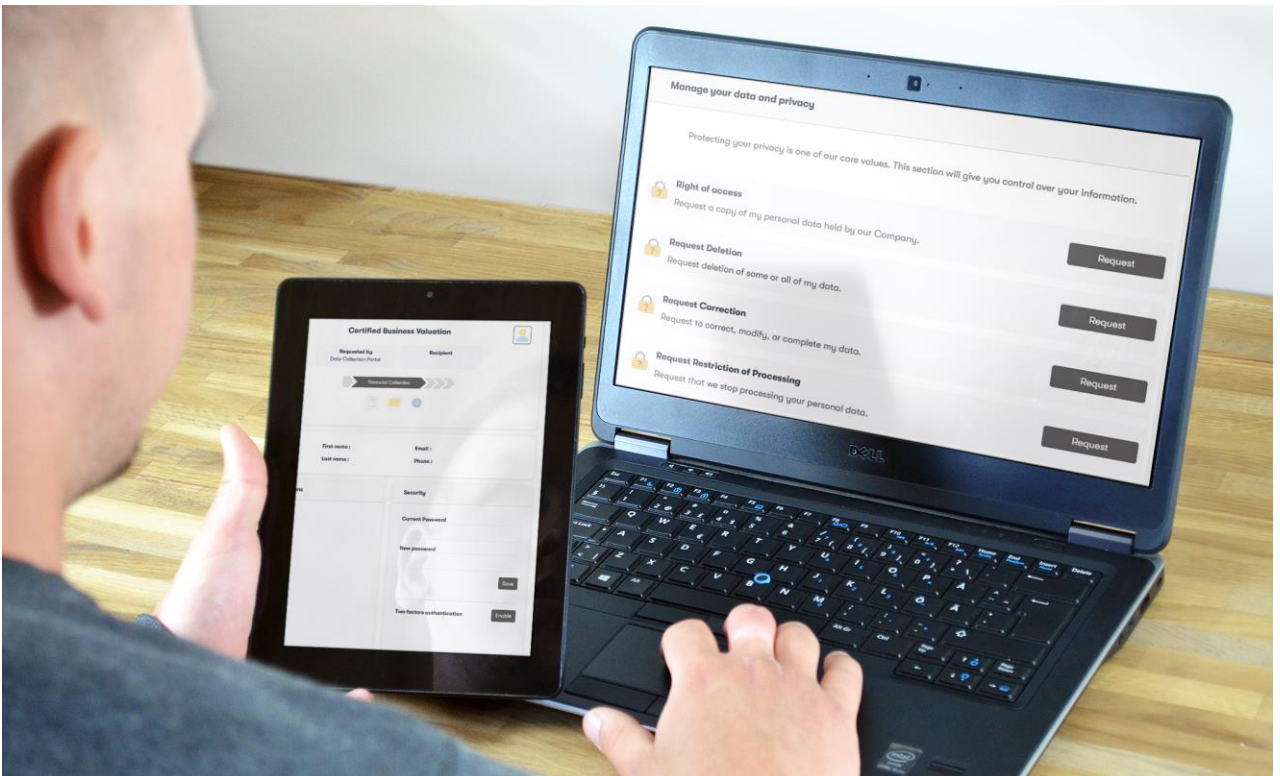
Regular Audits and Testing

Regular security audits and testing are conducted to identify and address vulnerabilities or weaknesses in our systems, maintaining a proactive approach to security.

Data Privacy

Client privacy is respected, and data is only collected and used for intended purposes. Privacy controls are implemented, providing transparent information about how client data is handled.

To simplify, BizWorth's Data Collection Portal, in partnership with our portal partner, prioritizes client data security, supporting secure data collection and confidential report download. Access controls include strong authentication mechanisms such as passwords and multi-factor authentication, ensuring secure access to data at rest and during transmission. Utilizing SSL/TLS protocols ensures secure data transmission during connections between users and our servers.



5 Frequently Asked Questions

FAQs

FAQs (1 of 3)

Q. What distinguishes the PreQual Process from traditional business valuation services?

A. Unlike traditional valuation services, BizWorth’s process is strategically divided into two parts – Part A and Part B. Part A, the PreQualification Valuation Report, provides early insights during the listing phase, establishing a realistic asking price and earning a “conditional approval” status from participating lenders. Part B, the Certified Business Appraisal Report, seamlessly continues the valuation journey with updated financials and compliance with SBA requirements, ensuring a smooth transition during the financing phase.

Today, an appraiser delivers only one report at the later financing stage. By providing a valuation upfront with Part A, sellers and brokers have a better understanding of the company’s worth, reducing the number of deals that fail due to unrealistic seller expectations, but will also allow them to receive a “conditionally approved” loan eligibility range from a lender – leading to a more credible listing. Additionally, having an upfront valuation helps in decreasing the likelihood of deals not closing. This is because the appraisal received during financing might fall short of expectations and the agreed-upon sales price. When everyone involved has a clearer understanding of the company's loan eligibility from the beginning, it can prevent such issues.

Q. How does BizWorth ensure the accuracy and reliability of its valuation reports?

A. BizWorth maintains a rigorous process led by certified appraisers with specialized expertise in business valuations. Our team adheres strictly to industry standards, including USPAP and NACVA guidelines. The commitment to accuracy is further reinforced through continuous training, quality control measures, and a dedication to refining our processes based on feedback and market dynamics.

Q. What measures are in place to ensure the confidentiality of the valuation reports and sensitive financial information?

A. BizWorth prioritizes the confidentiality and security of all information shared during the valuation process. Our secure online portal ensures encrypted data transmission, and access is strictly controlled with two-factor sign in for all stakeholders. Valuation reports are treated with the utmost confidentiality, and sharing or distribution requires explicit consent. Continuous monitoring and updates to our security protocols ensure a robust and safeguarded environment for all sensitive information.

FAQs (2 of 3)

Q. What does "prequalified loan eligibility range" mean?

A. The prequalified loan eligibility range signifies the potential amount a creditworthy buyer could secure from a participating lender to acquire a company. This range indicates the spectrum within which the lender may conditionally approve the loan, but it does not imply that the conditionally approved amount will necessarily be at the high or low end—it could fall anywhere within the specified range. The actual approved amount is contingent on the buyer's creditworthiness, the lender's underwriting approval and other relevant factors.

Q. Why does the "prequalified loan eligibility range" matter for participating lenders?

A. For lenders, this section of the report is important. It, along with the Company's tax returns and financial statements, helps determine how much loan the business's cash flows can support, assuming the buyer is creditworthy. The detailed breakdown assists lenders in confirming that their proposed loan amount falls appropriately within the calculated eligibility range.

While lenders are not obligated to conditionally approve a specific loan amount, recognizing the unique and diverse criteria set by each bank, confirmation serves to: (1) conditionally approve a sum within the specified loan eligibility range, (2) affirm that the business has sufficient cash flows to support a loan amount within the eligibility range, and (3) demonstrate their financial institution's interest in providing a loan. Upon confirming a conditional approval, participating lenders convey their decision through BizWorth's secure portal, initiating an automated email notification to the business owner and/or advisor.

Q. Can the Company's value be higher or lower than the loan eligibility range, and what does that mean?

A. Yes, the value of the business can fall either above or below the loan eligibility range, but it's more common for the value to be higher than the range. When the business value exceeds the loan eligibility range and a seller considers an offer surpassing this range, there may be a gap between the amount available through a traditional bank loan and the buyer's potential needs. In such cases, it's crucial to set early expectations that a strategy will likely be necessary to bridge this gap. This strategy might involve exploring alternative financing options, such as seller financing, additional cash down, or contingency payments, among others.

FAQs (3 of 3)

Q. Is "conditional approval" a guarantee that a buyer will secure a loan to purchase the Company?

A. Receiving a conditional approval does not guarantee that the buyer will ultimately secure a loan to purchase the Company. Several factors may influence the final approval decision, such as the buyer's creditworthiness, the bank's underwriting process, changes in the business's cash flows, shifts in the industry outlook, alterations in economic conditions, and various other considerations. Nevertheless, obtaining a conditional approval from a participating lender is a significant step toward the buyer securing a bank loan for the purchase of the company.

Q. Why does the "prequalified loan eligibility range" matter for business owners and their advisors?

A. The significance of the "prequalified loan eligibility range" for business owners and their advisors lies in three key aspects.

First, it serves as a crucial tool to pinpoint any disparities between the assessed value of the business and its loan potential, emphasizing that these are distinct considerations. This identification of a gap prompts astute advisors to recognize the need for strategic planning to bridge the divide, involving alternative financing options beyond traditional bank loans. Such strategies may include exploring seller financing, considering additional cash down, contingency payments, and other creative financial solutions.

Second, this understanding of a potential gap enables proactive business advisors to develop effective strategies aimed at aligning the business's value and its loan potential. By recognizing the divergence, they can tailor alternative financing approaches to ensure a more seamless and successful transaction.

Third, the act of securing a "conditional approval" from a lender holds significant weight. Beyond the financial aspect, it elevates the business's credibility and enhances its overall appeal to potential buyers. This not only instills confidence in the business's financial standing but also signals to prospective buyers that the business is a secure and viable investment.

In essence, the "prequalified loan eligibility range" becomes a strategic compass for business owners and advisors, guiding them through the intricate terrain of valuation, financing, and market appeal.

What We Do

With a national partnership of over 1,500 business brokers nationwide, BizWorth helps business owners and professionals across industries to value ownership interests. From business acquisitions and divestitures to partner buyouts and litigation, we provide certified valuation reports that deliver the insight and credibility needed to facilitate deal making and successful resolutions. Our certified appraisals are conducted by certified valuers who adhere to the high standards set forth by well-recognized, accredited organizations.

Our Mission

Our mission is to exceed client expectations by delivering reliable reports that are easy to understand, adhere to professional standards, build credibility and minimize financial risk to our clients.

Our Vision

To help business owners, professionals and partners value, protect and preserve ownership interests and assets of privately held businesses.

BizWorth