WEBINAR SERIES: SMART PLANNING, SMOOTH EXIT

Webinar 2: Maximizing price and avoiding common mistakes

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Host:

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Speakers:

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- **Denis Morante**, Managing Partner, Oaklins Fortezza Partners, Brazil
- **Fabio Pires**, Managing Director, Managing Director & LatAm Practice Leader, Alvarez & Marsal

Peter Gray
Hi everyone, and a very warm welcome to this second Oaklins webinar in a series entitled, Smart Planning, Smooth Exit. I'm Peter Gray, a former president of Oaklins, based here in London with Oaklins Cavendish and I've got the privilege of chairing today's panel session, where we're going to discuss some of the key elements in ensuring a successful sale of your business and, specifically, how do you go about maximizing value, and how do you avoid some of the biggest mistakes business owners make when selling their businesses, which either prevent a sale actually happening or reduce the value of their business in a sale.

Before we kick off, just a couple of brief housekeeping items, just to make you aware, this webinar is being recorded, and you'll all be sent a recording of the webinar following the end of this session, which we expect to last around 45 minutes, depending on the volume of questions. And in that regard, please make use of the Q&A facility at the bottom of your screen to ask any questions you may have of the panelists.

So, by way of introduction to Oaklins, for those of you who don't know us already, we're the world's most experienced M&A advisors in the mid-market. We've got fantastic global reach, with representation in over 40 countries around the world, strong regional representation across Europe, the US and Asia, and of course, LatAm. That international reach enables us to provide a truly global service to our clients, whether that involves sourcing overseas buyers on a sell-side mandate, or assisting clients with finding acquisition targets to meet their global expansion plans. In terms of our track record, we collectively close over 350 deals a year, and on average, over a quarter of those deals are cross-border transactions. In addition to selling companies, we advise our clients on how to prepare their businesses for sale, both to maximize value, but also, and just as importantly, making sure a deal happens.

So, we have a stellar cast of panelists today, from Oaklins members across LatAm, and a special guest, Fabio, from Alvarez & Marsal in Brazil. I'm going to ask each member of the panel to introduce themselves in turn, starting with Andrei.

Andrei Lepiavka: Hi everybody, I´m Andrei Lepiavka, partner here at Oaklins, Mexico.

Mauricio Concha Zegarra: Hi everyone, my name is Mauricio Concha Zegarra, and I'm a partner here at Oaklins Apoyo in Peru.

Denis Morante: Hi everyone, good afternoon, and good morning to some of you. I'm Denis Morante from Oaklins Fortezza Partners in Brazil. I'm the managing partner and founder of our firm here in Sao Paulo.

Peter Gray: And last, but certainly not least, Fabio.

Fabio Pires: Peter and everyone, thank you for inviting me to this excellent webinar. I'm Fabio Perez, I'm a managing director and head up our global transaction advisory group for Latin America. I've been with A&M for 12 years, and prior to that, 17 years with the Big Four. So, I really appreciate the opportunity to be here with you. Thank you.

Peter Gray: Fantastic, thanks very much. So, I'm going to start by asking the panelists a series of questions. I'm going to start with Andrei, and I'm going to talk about positioning.

So, positioning a company in a highly rated sector is one way of maximizing value. Now, it used to be the case that everyone was trying to position themselves as technology companies, you know, edtech, medtech, fintech, every tech under the sun, but more recently, a lot of companies are now looking to position themselves as AI businesses to attract a higher valuation.

Andrei, can you talk a bit about positioning and talk about whether you've collaborated with colleagues from Oaklins in order to position a business in the highest rated market segment to increase value.

Andrei Lepiavka: Sure, Peter. So, roughly here in Mexico, about half of the transactions we close are with international clients from the US, Europe, Latin America. So it's something that we're seeing more of, at least in the Mexican economy, and the potential that it has.

I wanted to share one transaction that happened about two years ago. It was a SaaS, family-owned company in the leasing and origination software for the auto financing sector. It had been in the market for over 25 years. The father incorporated the company, and his wife also worked within the company, along with their two sons who entered a bit later, and one of them was now the CEO of the company, so it was a complex, family-owned company in the tech space when this was growing here in Mexico.

They started the way we don't usually tell our clients to start — they came to us saying, "We have already signed a non-binding offer with a publicly traded company, and we want you guys to help us in negotiating the SBA and the follow-up documents that we need to document with the buyers." We initially reviewed the offer. We thought that we could get a higher offer based on the numbers that they shared. So, we put that process on hold. We did an evaluation, we ran the numbers, and we said we want to do an international process with you.

Even though we knew that they had a serious buyer. So, we did this process, we opened it up, we brought to the table 63 different companies from Canada, the US, Mexico, European companies as well, all of these were strategics. We also brought private equities and other such funds in LatAm. By doing this process and in the way Oaklins provides, I would say, a ton of value in these processes, we found that our colleagues from Spain, from Madrid, had a company in a space that was very similar to what our client was doing. By doing this, we ended up having a great communication with this company. We were able to increase the initial enterprise value of the company from 2x sales to 3x sales.

This was a huge increase. At the same time, we were able to secure a structure for the current CEO, one of the sons: an earn-out that was structured for the next three years, which depended more on the growth sales and the EBITDA margins that they could obtain here in Mexico. It ended up being a very interesting

transaction where we maximized the value of a company that had a ton of synergies within the process of how they share the SaaS software with these financial institutions. The company increased sales 3x in the following three years just because of the cross-selling. So, this was, I think, an evident example of how we generate value worldwide. By doing this, we maximize the terms that we can achieve from potential interested players.

This is an example that I wanted to share, which is evidence of how we work and how global we are, and that's pretty much our sole objective with our clients.

Peter Gray: Brilliant, thanks, Andrei. It sounds like you do a lot of cross-border transactions in your business, and likewise, in the UK, over 50% of the deals we do involve an overseas acquiror, and the great thing about overseas acquirors, in our case, is they pay more. You know, typically we're seeing 10, 20% more, but I've seen a 50% and a 100% difference between the top UK bidder and the top US bidder, for example.

It sounds Andrei that you see something similar. You're getting premium valuations for your clients by leveraging that international reach that we're so lucky to have.

Andrei Lepiavka: Absolutely, and I think companies that want to enter Latin America, usually they do it from Brazil or Mexico, and that has been an interesting factor in the last couple of years.

Peter Gray: Fantastic. Andrei, thank you very much. We'll come back to you later. Mauricio, I'd like to ask you a couple of questions.

The valuation that a company achieves is going to be determined partly by where it ranks against a set of key value drivers for the sector in which it operates. My question to you is how do you identify those key value drivers that buyers in your industry care about most, and how do you prioritize the business improvements that are going to have the greatest impact on value before going to market?

Mauricio Concha Zegarra: Thanks, Peter. I think this is one of most the common questions we get asked every time we have pitches, and I would like to approach this in three steps.

First is to understand what potential buyers are actually looking for. Not all buyers will value the same thing. A financial buyer will typically focus on sustainable earnings, cash generation or the ability to scale, while strategic buyers may also be willing to pay for synergies or access to new market or a strong brand and distribution capabilities. This is why first understanding the industry and the universe of potential buyers is so important, and you need to identify what makes your business attractive to this specific set of buyers, who are the most likely to acquire it.

Second, we need to translate those expectations into measurable value drivers. And here, there are two dimensions that I want to point to. First is the EBITDA, and then the multiple that we will apply to the EBITDA. On the EBITDA side, we need to look at the profitability of the business, the pricing, all the efficiencies that the company's making, and the opportunities that you have to generate additional revenue. The second point on the multiple, which is equally important, is buyers will generally pay more for businesses that have a sustainable competitive advantage, and this means recurring revenues, a diversified customer base, strong management teams and a credible growth strategy.

Here I want to bring to the table one recent transaction that we closed in which we achieved this. Last year, we advised Soleil, a leading kitchen appliance Peruvian company, in a sale to a Japanese group called Rinai. In that transaction, what made the business very attractive went beyond the financial performance. Here, the buyer placed a significant value on the recurrence of the customer purchases, the quality of the service that it provided, and the strength of the brand that had built a trust and reputation for quality.

Soleil also developed the ability to anticipate consumer demands, and they were able to introduce design innovations that were tailored to the preferences of the Peruvian market. So, these capabilities represented

something that it would be difficult to replicate in the next three months or a year, and they reflected years of investment in the brand, in customer relationships and understanding the local consumer.

Finally, you need to prioritize the improvements that will make the greatest impact before going to market. And this is key, because not every improvement will translate into a higher valuation directive. The way we typically approach this is to start with evaluation. We start with evaluation, and we identify what are the gaps between the current business as it stands today, and what is more relevant for potential buyers. Then we will prioritize which are the initiatives based on the potential that they have on their earnings, we can start developing. This is why we start with this approach, and we strongly also recommend that family owners track all of these measurements through KPIs and run these updates regularly. That would be our approach.

Peter Gray: Brilliant.
A follow-up question: how can a business differentiate itself from competitors and convince potential buyers that the differentiation justifies a premium valuation relative to what competitors are worth?

Mauricio Concha Zegarra: On that, I will start by mentioning that being a good business is not necessarily the same as being a differentiated business. Many family-owned companies are profitable, they have loyal customers, have operated successfully for decades, but when we go to market, we need to explain to the buyer why they should choose them over a competing business and why this business deserves a really premium valuation. We typically approach this with three elements. First we need to identify what makes the business genuinely different, and this doesn't mean that you have the best products or the best service, because every company can make those claims.

The question is whether you have built capabilities that your customers recognize, that your competitor finds difficult to replicate and that can sustain superior performance over time. The way to do this is if you have a trusted brand, proprietary technology, a unique distribution network, a loyal customer base or the ability to anticipate changes in consumer preferences. Going back to the transaction we closed with Soleil, the value proposition was not limited to the products themselves, because everyone can import and produce these kitchen appliances. But what Soleil did was to build a strong brand associated with trust and quality. Consumers value the services they provided, and their behavior was reflected in more recurring sales. The company also demonstrated the ability to innovate and bringing those products to the market successfully. This combination helped differentiate it from other companies and achieve a good value at the very end.

Secondly, I will also mention that we need to turn those advantages into evidence. We need to demonstrate this differentiation through measurable results. For example, if we claim that we have a loyal customer base, then we need to show customer retention or repeated purchases, and have unit economics, such as a customer lifetime value. If we claim that we have a strong brand, then we need to demonstrate our pricing power, our market position, or how we can maintain this despite the competitive pressure. The objective in the end is to transform a qualitative story into a really credible investment thesis. To close, buyers understand the strategic value of those advantages that we claim.

As I mentioned, financial buyers will focus on the company, standalone earnings and growth potential, it will be an exit in five or seven years. But when we target these strategic buyers, they might also recognize the opportunity to leverage the brand, expand distribution and introduce new products. So that's why this positioning matters, and we need to understand who are the more relevant buyers for this business and why they want to acquire it. It's important also to communicate the opportunity in a way that resonates with potential buyers. If you want this premium valuation, this must be supported by the unit economics.

Peter Gray: Brilliant. Thanks, Mauricio. Denis, turning to you now.
In order for us as advisors to maximize value, we need to do two things. We need to maximize the EBITDA multiple that buyers will apply, and maximize the profit figure that they apply that multiple to. When does it make sense to anchor the valuation on a business's current financial year forecast, rather than its profit run rate and vice versa.

And how do you convince a buyer to accept the higher of those two figures?

Denis Morante: Great, very good question, Peter. Just to explain to the audience that when we are dealing with buyers we have several figures on hand. We have the previous year, so let's say we have 2025, we are running 2026, so we have figures from this year, and of course, we're going to have the figures for 2027 as a forecast. These numbers are all provided to potential buyers and investors. They start to analyze these numbers, and then questions come up to us. So, usually, when we are interacting with a buyer, our initial preference would be the current year forecast because we will work with our clients on preparing forecasts for the current year and the coming years in order to prepare a discounted cash flow valuation, etc. The preference would be the current year forecast, but we may have facts that, let's say, drive us to use something else. To give you an example, if we are working with companies that are services companies, they can be in engineering, in technology or outsourcing services, and they have contracts, one- or two-year contracts. Then suddenly, during that forecasted year, it could be 2026, the company comes to us and tell us, "We have five new relevant contracts starting on September 1st."

So, we have to add those numbers to the forecast that we had initially. We will probably move into the run rate — this is basically when we look at the current month, and decide we should be using this month instead of the entire forecast for the year, and multiplying this month by 12, because the coming year is going to be much larger than the forecast for the current year, and then we would move to the run rate methodology.

As advisors, what we have to do is keep on track with our clients regarding numbers and their evolution month by month in order to judge which one is best. Sometimes we have to move the approach as we go. We have to show everything because transparency is the base of a solid negotiation. But at the end of the day, we have to convince them that the profitability or profit per year they are going to acquire has to be used for the valuation, whether it's the run rate or the forecast for the year, and sometimes buyers come to us and say, "I'm going to calculate it based on an average of the last three years." I've had transactions like this, where the buyer looks at 2023, 2024, 2025 and makes an average of the three, which is the number they're going to use.

So, we also have to be able to rationalize about this base and try to convince them that another base should be used, because that's the profit they are buying. We have to make sure they pay for the actual profit that they will buy from our client, the sellers.

Peter Gray: Spot on, Denis.
It's the profit that they are acquiring that will be the profit under their ownership, and that's what you've got to get them focused on. In that regard, buyers are naturally skeptical about forecasts. What evidence does a business owner need to produce so that the current forecasts are credible: year-to-date performance, the order book, the pipeline track record of hitting budget. Can you tell us a bit more about that?

Denis Morante: I would start answering this question with the easy motivation, that when working with a sell-side advisor such as ourselves, any seller has to be very optimistic on projections. Every time we start talking to a company owner, and I believe this happens in all countries, the seller is optimistic. They look at the future, and it's going to be bright — it's not going to rain, it's going to be sunny every day, no wars, no political damage or whatever. Most of you probably read this Sunday and Monday that in Brazil we are going through a lot of shaky moments here because of the election — so things do not happen as we plan, right?

We have to create a story of very credible projections, because usually, when a buyer looks at us and says, "This is optimistic. This company's growing much more than it grew in the last three years. Now that I'm going to buy it, it's going to explode in growth." So we have to show the buyer that we have a good track record, for example. Since we are talking about exit planning, maybe the company can do this for some years: forecasting and then comparing forecasts to reality every year. So if they have a very good track record for the last few years, let's say 2023, 2024, 2025 and 2026, in which their forecasts are very close to their actuals, that helps us build a story. This company owner, this CEO, they tell the truth and they are very

accurate on their forecasts. Then there is visibility. We need to show the buyer that the company is going as we

forecasted for the beginning of the year with year-to-date actuals, monthly trading and, if the company is based on contracts, how is our order of contracts? Are we signing the contracts we are planning to sign? Are the recurring revenues stable and not decreasing? We have to show buyers that the story we wrote at the beginning of that year is actually happening every month, and show them we're not going to miss the target.

When we're interacting with a potential buyer, that takes months. It doesn't take days or weeks, it takes months. We have to make sure that our forecasts, when we prepare them to go to a sale process, are achievable, because buyers will ask us, "How is the actual compared with the forecast?" They want to see how much we are able to deliver every month compared to our forecast. They will ask us at the end of every month, five days afterwards, "How are sales? How is your profitability? How is the company going?" Because buyers are always very concerned about that. They are concerned that the day they come in, the company's going to go down. They are always scared, so we need to make them very comfortable and safe that the numbers we forecasted should happen. That's where we can build a credible story.

Peter Gray: Brilliant. Thank you very much, Denis. So, Fabio, over to you.
In your experience in advising on company sales, you've had lots of experience in that regard, what are the most common mistakes that you see family-owned businesses making when they go to market? And of those mistakes, which do you see as the most costly, in terms of value or deal certainty?

Fabio Pires: Good question, and I think this ties in nicely with what Denis, Mauricio and everyone has been articulating. In my experience, surprises not problems drive purchase price discounts. I typically bucket this into four different areas.

First of all, financial reporting and the general framework. We continue to see non-compliant IFRS financial statements, and unreliable accounting records with cash basis accounting, invoice basis accounting, unreconciled numbers. We continue to see rarely audited accounts and we see a lot of value from a good stamp, two to three years audit, especially in a deal process. Accounting records, books and records, they're typically billed for tax purposes, and not necessarily billed for management to make decisions over it.

Finally, very slow manual close processes. When Denis says everything takes months, if your accounting records take months to close, Denis will never get updated, reliable financial information on a monthly basis to get a view of what's happening to the business. The next bucket is control systems. We continue to see, over and over, the typical accounting and tax functions outsourced to a third-party services provider. While I've seen a few quality third-party services providers, that is typically challenging in a deal environment, as that particular person is likely not dedicated to you, doesn't have the answers quickly and readily available, and drives a lot of stress to the deal process. We see a lot of Microsoft Excel spreadsheets, a lot of manual inputs. You often have one person that the business is dependent on, whether it's the owner or the controller. But, everybody else is lacking that depth and that knowledge of the business that we can rely on.

The third bucket is classic tax and labor. We continue to see some pretty aggressive tax positions, informal practices, two sets of books or sometimes not everything is really focused or appropriately reflected in the accounting records. The accounting for contingencies in LatAm particularly and around the world, is not necessarily always consistent. On a cash basis, sometimes you don't have visibility of what's happening.

Massive tax reforms, both in Mexico and Brazil, are coming on board. Those are difficult things, they bring uncertainty, and you want to bring transparency to the process and address it head on.

If you are a family-owned business, make sure that if you have personal costs in the P&L, what are they, can you identify them? If you have related party transactions, are they at arm's length or not? Do you have family on payroll? What do they do? And, commingle assets. Typically, we see that a lot in our markets. So, what's the cost of all this? Each unsupported EBITDA adjustment equals a price negotiation. Late surprises

especially will cause purchase price adjustments, generate bigger escrows and holdbacks, cause special indemnifications and, in the worst-case scenario, probably a dead deal.

So, in closing, buyers will find these issues. The only choice Is whether you find them first, on your timeline or you let buyers find them first.

Peter Gray: Excellent, thank you very much.
Here in the UK, we see sell-side due diligence or vendor due diligence on the majority of deals that we do, and certainly, when we know private equity is going to be involved as a potential buyer, it's almost mandatory here. Can you explain what's involved in sell-side due diligence, when should a seller start it? How does it increase or protect value? And how do you convince a family owner it's worth the investment? Because there is a cost attached to it, obviously.

Fabio Pires: Indeed. That's a tough question, but it's something we can address head on, and you're right, sell-side due diligence is different in different markets. But here's a simple way of looking at this. What is sell-side due diligence? It's an independent buyer-style review of your own business before you go to market. You're going to look at quality of earnings, what's your adjusted EBITDA? What is your normalized level of working capital? What's your debt structure like? Are there any significant debt or cash-like items? And most importantly, what are your tax and labor compliance status at the moment? What exposures may you have out there?

And you're right to point out, Peter, that it's potentially different in certain markets. In LatAm, really, depending on the country, it's often not the case that we see sell-side due diligence. It's unfortunate, and we'll go through that in a second, but the minority of the deals will have a sell-side due diligence process going. But, in the US, and I do a lot of deals there as well, it's really rare not to see a sell-side due diligence product embedded into the M&A process. And you're absolutely right, in the UK, it's pretty much part of every single transaction, with one caveat — in the UK or Europe in general, there is a model of a reliance product, where in the Americas, we typically work on a non-reliance basis. That means that my relationship is with my client, I have responsibility to my client, and if anyone outside that relationship gains access to my report they will not gain any rights over it, nor do they contract any responsibilities with me, and therefore, we have them sign the classic non-reliance letter.

So, what is the value of this? To my mind, it's that you control the numbers and you control the narrative around the numbers. When you do sell-side due diligence, you typically find issues early and you either fix them or you price them in the valuation on your own terms. You have a defensible EBITDA and a working capital level that you're going to deliver at closing that is in your favor or, at best, neutral to you. And the bankers like this, Oaklins likes this, because you drive a faster process. You have less retrading, less valuation negotiations, you have comparable bids, you drive tension to the M&A process, which is potentially healthy for the process.

And what's the timing? I would love to get in there 12 months before, at least, so I can have enough time to look at the business, see how it progresses, find the issues and try to fix any issues that are potential or critical. But at a minimum, we understand what we are dealing with, we can normalize the business from an accounting and tax perspective, then help reflect all of those issues into your valuation model as you go along, and you're driving the M&A process forward.

The million-dollar question that Denis asks me all the time is, "How do you convince the business owner to hire?" In my view, our fees are immaterial and I know it's easier said than done, but in the grand scheme of things, one EBITDA adjustment that I can support times the multiple on that transaction, you pay me multiple times. It is the cheapest insurance you can get on the biggest asset you own: your business. Let's be honest, buyers will do their due diligence. The goal here is to minimize surprises, not eliminate them, but eliminate the majority and material surprises. Our angle here is diagnose, quantify and help you fix those errors before you go to market. Start with a low-cost readiness diagnostic. It's super fee-friendly, and you gain a lot of value from it.

Peter Gray: Fantastic. Next question. So, in terms of the diligence requirements of the different buyer categories, private equity, strategics and then local versus foreign buyers, can you tell us how they differ and how should a business owner prepare for each?

Fabio Pires: It's a good question because there are a lot of differences, and the way I look at these differences is that you must prepare to the highest standard In your buyer universe. With that in mind, let's break it down a little bit. Private equity: no doubt in my mind, you will do the deepest financial work and deep dive in quality of earnings. What is your adjusted EBITDA? Run rate performance? All of that will go to bat, to the pennies, every time. Working capital. I spend so much time on working capital with private equities, because they know there's value to be had in the closing purchase price mechanisms. Debt-like items, what's your EBITDA-to-cash conversions? Can you reliably forecast, to Denis's points? All that comes from a deep understanding of your historical numbers that you can then anchor and bridge to your forecast. At the end of the day, private equity needs financeable, bankable numbers. Therefore, there is a big push on financial work when you're dealing with private equities — expect escrows, indemnities and a pretty tight, robust, very heavily documented completion accounts or a lockbox, depending on the sector.

Strategics in my experience are very compliance-heavy. Very focused in the US on the foreign corrupt practices at the FCPA, in the UK on the UK Bribery Act. If you have transactions with government entities, have those under control. Have it documented that you are within the boundaries of those policies, right? What are your tax and labor policies? What are the unique accounting aspects of your business that I'm going to bring into my business because I'm going to consolidate this thing? Systems — what do you have? Are they compliant with mine? I think it was Mauricio that said, what are your synergies in a very focused integration mindset when you're dealing with the strategics. I'm working on a strategic deal right now, and I'm going through SKU by product and by supplier. Which suppliers do I have in the UK? Do I have it here? What can I do to make those prices a little bit better? And therefore, it's a synergy for me. Likewise, this synergy, and so on and so forth.

Lastly, on foreign strategics, definitely slow approval here. There's a lot of people signing that check, a lot of people going through the motions, and therefore it takes longer to get things done. Local buyers bring local knowledge. They move faster, diligence may be lighter but very relationship-based, so you want to make sure you know them, that the relationship is strong there. Don't read this as a license to skip preparation, because bad accounting, bad tax, aggressive tax will generate purchase price adjustments, so watch out.

Foreigners in general, I think, have the least tolerance for informality. The heaviest documentation, for sure. And, to me, the most likely to walk away when they face late surprises. So in closing, if you're preparing a business for a local buyer only, you have narrowed your world significantly. Make sure you're prepared as best as you can, so you can widen that angle.

Peter Gray: Brilliant, thanks, Fabio. We've got time for a few questions from the floor, which I've got in front of me here.

Denis Morante: Can I make an addition to Fabio's reply?

Peter Gray: Yes, go for it, Denis, absolutely.

Denis Morante: On the sell-side due diligence that Fabio was commenting on — I learned about sell-side due diligence in 2012, when I first met Fabio. He was at Ernst&Young, and he was teaching me about it. And on your several points regarding sell-side, I would summarize another one, which is negotiation leverage. A negotiation is full of leverages for both sides. But when we don't do a sell-side diligence, and we simply go into the process in an eyes-shut way, we never looked at our numbers deeply, we don't know our contingencies, we don't know our potential EBITDA adjustments, or working capital adjustments, etc., and then we give all this information to the buyer in a data room, and then they hire Fabio who does all the diligence, you give an enormous negotiation leverage to the other side, and you go to the discussion almost unprepared.

At the end of the day, you have given your information to the buyer, so you are building an enormous negotiation leverage for the buyer, which should be yours. It's your property. But all you need to do to make this a negotiation leverage for yourself is with sell-side due diligence. You have to buy this report. So, to Fabio's point, it is a very cheap insurance for your largest asset. And it's also a negotiation leverage that you avoid building only for the buyer, and going to the negotiation table without a tool or a weapon that is yours, and that you have given to the buyer. You go to the fight without that weapon. I think the negotiation leverage that you lose when you do not prepare a sell-side due diligence is very relevant, and I'm speaking to the entire audience — I've been at tables without that weapon and given that weapon to the buyer, and it hurts, my friends. If you're selling your business, and you're preparing the sale, give us that weapon so that we can fight better for your company and for your valuation.

Peter Gray: Good point.

Fabio Pires: I agree.

Peter Gray: Very much.

Fabio Pires: You and I have been on the buy side and the sell side together, and I've been against you and with you, and I can honestly tell you that having been on the sell side with you as a technical advisor, we're that much stronger and more prepared to deal with buyers. Every year buy-side diligence is getting more and more stringent, deeper and deeper. So, you want to be as deep and prepared on the sell-side, because the troops are coming, that's for sure.

Peter Gray: Brilliant, yeah. And Denis, while you've got the floor, and you're talking about negotiations, and fights with buyers, I've got a good question from the floor here. Which EBITDA profit adjustments do buyers typically accept without much of a struggle, and which ones do you usually have a negotiation over, or the starting point of the buyer is, "No way, I'm going to accept that."?

Denis Morante: Peter, I'm going to answer with some Brazilian flavor, so our audience can learn what happens here when we are discussing EBITDA adjustments. One of the most common ones we have in Brazil is owners of companies who are not paid a salary, they are paid as dividends. We have a tax condition whereby when you are the owner of a company and you work at your company, you are the CEO, you're much better off receiving your earnings, salary, bonus as a dividend instead of as a salary or something else. And people do it. We have to do this adjustment, otherwise your EBITDA will not show how much you cost your company every year.

Another one which is very common in Brazil is having employees that are not registered as employees. They are registered as small, individual companies. We call them PJs, pejotas, because it's a corporate person, and not a natural person. So, this is another adjustment we have to make, because usually companies, mainly foreign buyers or large local buyers, even the private equities, will not go into your company and live with that situation. They want everybody to be a formal employee and not a small, individual company issuing a monthly invoice. So that's another typical adjustment we have. We may have related party transactions — that affects everybody in this audience. If an owner has any relationship with his company, let's say through the rental of a property, so the main plant of the company belongs to the family, and they decided to have a rental that's lower than market average, that should also be adjusted. If you have any informality, you have to adjust for it. And for example, in Brazil, as Fabio mentioned, and Mexico, we are going through a tax reform, which in our case is going to be very relevant — it's going to be transitioning between 2027 and 2032. We have to make this adjustment, in terms of showing a company that's paying full tax after the transition, while the transition is in place.

So that gives you some ideas of the adjustments we would be discussing here in Brazil and maybe elsewhere.

Peter Gray: Fantastic, thank you. A really good question from the floor here. As a business owner, why should I invest time and money in improving my business? Before a sale, there's no guarantee that a buyer's going to recognize those improvements or pay a higher price for them —I'll put that one to Mauricio.

Mauricio Concha Zegarra: Thank you, Peter. Again, this is a common question, and this goes back to what Fabio and Denis were mentioning, and my answer here is, you should not invest in every improvement, but you should invest in the right ones. For us, the key is to focus on improvements that strengthen the business fundamentally, rather than simply make it look better for a transaction. For example, improving the margins, reducing your customer concentration, strengthening your management team or developing more recurring revenues through contracts can make a business more valuable for the buyer. But they can also make it more profitable, resilient and easier to manage while you still own it. I look at these investments that the owners do from two perspectives. First is to consider the direct economic return, which is, if you can improve the profitability and cash generation, you are already creating value, regardless of whether you sell the business or not. If the improvement also reduces the perceived risk of the business, it may help support a higher valuation multiple.

The second perspective is considering the cost of not doing anything. If your company depends entirely on you, has weak financial reporting, as Fabio mentioned, or relies on a few customers, all these things will limit the universe of potential buyers and will weaken your negotiation position. Of course, timing matters and you should prioritize initiatives based on the expected impact, cost and time required to deliver results. But the objective should be to build a stronger business that generates value today, and is better positioned for a future transaction.

Peter Gray: Thanks Mauricio. There are a couple of really good questions I want to try and get through before we finish, and one is for Fabio. So, warranty and indemnity insurance is very common here in the UK. Can you tell me about its availability in LatAm and usage in LatAm currently, its benefits and limitations?

Fabio Pires: The good news is that I think this is on the rise, and we're seeing it more and more often. In particular I have seen it in transactions, in cross-border transactions. As you know, in the UK and the US it's very typical, very common, and there's competition in the market for that product, and therefore the cost is typically acceptable, carveouts are a minimum, and therefore it works.

The challenge we have seen over the years is that the level of carveouts in our market was so massive that we really couldn't make it work. You basically were not insuring anything, because everything was falling off the policy. But I think the market has matured. I think the market has evolved. I've seen this in Brazil and Mexico a few times.

I'm sure that this will be deployed going forward, but I'll be frank that I think the local market doesn't quite understand yet the product. I think there's going to be some heavy lifting from the lawyers, the insurance providers and the brokers in bringing that to market and explaining that the cost is actually doable. I think we have some way to go here, but it's definitely something that is improving and coming online. The costs are coming down, and we'll see where it goes. But, I can't say we see it a lot, but a handful of transactions are coming online.

Peter Gray: Great, thank you. So one last question before I wrap up, and Fabio, while you've got the floor, this one looks like a question for you. So, I'm an owner of a business I want to sell in between 12 and 24 months.

Fabio Pires: There you go.

Peter Gray: What would you say should be the top priorities for me, and what does "sale ready" actually look like?

Fabio Pires: I think 12 to 24 months is a fantastic way to look at this, and I will anchor my answers to what I articulated earlier on regarding mistakes. I would love to see consistent accounting records being

produced month in, month out. If you can get as close to IFRS or US GAAP, better. If you can get an audit done, I'm personally of the opinion that that stamp is important, and at least two years of an audit will be very helpful.

Make sure you have a good financial statement close process, and you can deliver monthly financials within the first week of the following month. Mauricio talked about the KPIs and the good-quality financial metrics that you're presenting to the client. Are those diligence-able? Do they reconcile with the accounting records or is it just a bunch of numbers that you don't know where they come from?

Have a clear revenue recognition policy. If you have cut-off issues, develop a program for it, adjust it and document it. It will make a difference when we're on the buy side. If you are in a family-owned business, take away your personal expenses from the business. If you have related party transactions, document those. Make sure they're at arm's length. If you have family in the business, what do they do? What don't they do? Formalize the family roles.

Tax and labor — I think this is where you bring specialists in. What positions are you taking in taxes, in VAT, in income taxes, in labor? You have a bunch of third-party consultants, or as you call them in Brazil, PJs — does that make sense? What's the risk with those? Remediate when feasible. Bring in a legal counsel for legal opinions when possible. Build a management team that is horizontal, that you can rely on, that doesn't make you the only person in the business that you can rely on. Build a board. Have reliable ERP systems that reconcile accounting data monthly. Bring your advisors in early, and 12 to 24 months is fantastic. If I could be there, 12 months early on the sell-side, it would be joyful.

Finally here is the closing — run your business as though a skeptical stranger is going to audit it in 12 months' time. Make this tight. And know that preparation is the cheapest source of value in an exit. Not a lot of people take advantage of that.

Peter Gray: Brilliant, Fabio, thank you very much. So, we're pretty much out of time. To wrap things up, a very big thank you to each of our panelists, and thanks for everyone who's attended the webinar today.

I hope there have been some good takeaways for everyone. Hope to see you at future seminars. At Oaklins we hold regular seminars, so keep an eye out for them. I didn't get through all the questions today, unfortunately, but if you've got specific questions regarding your own business, please don't hesitate to reach out to one of the panelists.

Thanks, everyone.