



Fig Garden Financial Center - 5250 North Palm Avenue Fresno, CA 93704

www.cottonfundingandinvestmentgroup.com

BUSINESS ACQUISITION OVERVIEW

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This document is for informational purposes only and does not constitute an offer to lend or a commitment to provide financing. All loan applications are subject to our credit approval process.

1. Pre-Qualification

The first step in our lending process is pre-qualification, where the borrower provides basic information via a short Form about their financial situation, the target company, and the acquisition details. We usually complete our Pre-Qualification via a Live Zoom Meeting.

2. Application

Once pre-qualified, the borrower will need to complete a formal loan application. This application will require more detailed financial information about the borrower and the target company, including income statements, balance sheets, cash flow statements, and tax returns. We will also require information about the acquisition, such as the purchase price, financing structure, and proposed use of funds.

3. Credit Check

Borrower will be required to provide a Credit report. A high credit score and a strong credit history will increase the likelihood of approval, Low Interest rate and may result in better loan terms.

4. Due Diligence

We will conduct due diligence on the target company to assess its financial health, operations, and management team. This may include reviewing financial statements, tax returns, contracts, leases, and other relevant documents. We may also conduct site visits and interviews with key personnel. The goal of due diligence is to ensure that the target company is a sound investment and that the borrower has a realistic plan for operating and growing the business.

5. Financing Structure

The structure for the acquisition. This may include:

- ✓ Leveraged Buyout (LBO) Financing: An LBO involves using a significant amount (up to 80%) of debt to finance an acquisition. The debt is typically secured by the assets of the target company and is repaid over time using cash flow generated by the business.
- ✓ Debt Financing: Debt financing involves borrowing a fixed amount of money and repaying it over time with interest. The loan may be secured by a Real Estate collateral or not, depending on the borrower's creditworthiness and other factors.
- ✓ Mezzanine Debt: Mezzanine debt is a combination of debt and Equity.

6. Loan Amount

We will determine the maximum loan amount based on several factors, including:

The borrower's creditworthiness and financial history;
The cash flow generated by the target company;
The value of collateral (if any);
The proposed use of funds; and
Market conditions and prevailing interest rates.

7. Loan Terms

We will propose loan terms based on several factors, including:
The loan amount, The interest rate, The duration (term) of the loan and
The repayment schedule

8. Cost and Expenses

- ✓ Origination Fee: 1% origination fee for processing the loan application. This Fee will be deducted from the Loan Amount.
- ✓ Due Diligence: A Due Diligence shall be conducted at the expense of the borrower
- ✓ Closing Costs: The acquiring company will be responsible for closing costs, such as legal fees and title insurance.
- ✓ Refund Policy: If we terminates this Agreement due to the Borrower's failure to provide the us with the information and documentation requested within a stipulated time frames specified , We shall refund the Due Diligence cost , less any reasonable expenses incurred in connection with the due diligence process.
- ✓ Waiver of Commitment Fee As an incentive for Completion of Due Diligence process (Which ultimately shows Borrower's Commitment), CFGI agrees to waive the associated commitment fee.

9. **Closing Process** : Once all parties have agreed upon final terms , closing process begins where both parties sign legal documents required to finalize the deal along with transferring funds into the borrowers account .

10. **Post-Closing Obligations**: After closing process , there are certain obligations that needs to be fulfilled such as maintaining certain financial ratios promised during initial approval process , timely payment of EMIs without fail etc . Regular audits might be conducted by us to ensure compliance with these terms & conditions.

11. **Ongoing Relationship Management** : Post closing relationship management plays crucial role in ensuring smooth sailing throughout tenure of loan agreement . There will be Routine communication between us.

12. **Early Repayment Options** : No prepayment penalties

13. **Collateral Valuation & Appraisal** : In cases where collateral has been pledged against loan then it becomes essential for accurate valuation appraisal process ensuring true value being reflected accurately within agreements itself preventing any potential disputes arising later during tenure of loan period itself .
14. **Escrow Account Management** : We will use the service of an escrow company To ensure timely payments, taxes, disbursement and insurances associated with underlying assets/properties serving as collateral.
15. **Financial Covenants Compliance Monitoring** : As part ongoing monitoring responsibility we will conduct regular audits to ensure compliance.
16. **Reporting Requirements Adherence** : Borrowers must adhere strict reporting requirements set forth within agreements outlining regular updates furnishing pertaining performance status related activities undertaken progress made towards achieving milestones set forth initially agreed upon timelines keeping transparency open communication channels active throughout whole process fostering healthy productive relationship between all stakeholders involved directly indirectly impacted one way another
17. **Regulatory Compliance Ensuring** : borrowers must comply with applicable laws and regulations .
18. **Tax Consideration**
- ✓ Tax Structuring: We will work with the acquiring company to structure the transaction in a tax-efficient manner.
 - ✓ Tax Advice: We recommend that the acquiring company obtain independent tax advice.
19. **Risk Assessment**
- ✓ Credit Risk: We will assess the credit risk of the acquiring

company and the target company.

- ✓ Market Risk: We will assess the market risk associated with the target company's industry
- ✓ Operational Risk: We will assess the operational risk associated with the target company's operations.

20. Loan Documentation

- ✓ Loan Agreement: The loan agreement will outline the terms and conditions of the loan, including the loan amount, interest rate, amortization schedule, and covenants.
- ✓ Security Agreement: The security agreement will grant us a security interest in the target company's assets to secure the loan.
- ✓ Personal Guarantees: personal guarantees requirement to be determined on case by case basis from the acquiring company's principals.

DOCUMENT CHECKLIST

The Required document as per your Loan transaction will be determined by the Financing Structure

Documents to be provided by target company

- Business Federal Tax Returns for last 3 years
- Interim business financial statements within last 60 days (balance sheet and income statement)
- Description of the business & Asset List
- DBA, Articles of Incorporation
- Franchise Agreement (If Applicable)
- Management Team Resume

If Real Estate is Included:

- Appraisal and environmental reports
- Survey Report
- Property Insurance Certificate
- Title Deed

Business Assets

- Valuation Report
- Asset Documentation

Financial Information from the Acquiring/ Borrowing Entity

- ✓ Business Federal Tax Returns for last 3 years
- ✓ Interim business financial statements within last 60 days (balance sheet and income statement)
- ✓ Business debt schedule (Request Form)

Financial Information Required for All Owners of the Borrowing Entity Greater Than 20%

- ✓ Personal financial statement dated within the last 60 days
- ✓ Federal Income Tax Returns (last 3 years)
- ✓ K-1's for last 3 years (if applicable)

Below are the required Document associated with Personal Guarantee

- Personal Financial Statement dated within the last 60 days
- Federal Income Tax Returns for the past 3 years
- Personal Bank statement for the past 3 months
- Government-issued ID