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[Search Fund Letterhead]

[DATE]

From: [SEARCH FUND]
[ADDRESS]
[ADDRESS]

To: [TARGET]
[ADDRESS]
[ADDRESS]

RE: Indication of Interest from [Search Fund]

Dear [INSERT NAME],

On behalf of [Search Fund], we are pleased to submit this non-binding indication of interest regarding the potential acquisition of the business of [Target] (the "**Company**"). We have been extremely impressed with what a successful business the team has built and look forward to further engaging with management to learn more about the acquisition opportunity.

Name and Description of Purchaser: [Search Fund] (http://www.[website].com/) is a privately held investment firm, backed by investors and operators who have the experience of building and managing small, medium and large companies. [Search Fund] offers a different kind of exit. We intend to take a direct management role in the business, with a commitment to its ongoing success and to the preservation of the company's legacy. Our goal is to operate the business for the long-term, while sinking our roots into the local community and honoring the Company's commitments to employees, customers, and suppliers. We are committed to the long-term success of the Company.

Our Background: [INSERT BACKGROUND OF SEARCHER AND INTEREST IN INDUSTRY].

Investors Background: The investor group consists of business operators who have the experience of starting, building and managing companies that have generated billions of dollars. They will be committed to the growth of the Company. Our investor group includes [Insert List of Key Investors].

Enterprise Valuation: Our proposal for the enterprise valuation of the Company upon which the various aspects of the Transaction would be based is $[_____] on a cash-free, debt-free basis, which is approximately [_____] times the Company's trailing 12 month EBITDA of $[_____]. Our preliminary valuation is based on the Company's current and historical performance, as well as the following assumptions: (a) the Company will generate approximately $[_____] million of net revenue and $[_____] of EBITDA for the year ending [_____], (b) the Company generated approximately $[_____] of net revenue and $[_____] of EBITDA for the prior year ended, (c) the Company's maintenance and growth capital expenditures are as reflected in the financial data presented to date, and (d) [Insert other assumptions]. The acquisition will be structured as an acquisition of all or substantially all of the Company's assets and certain specified liabilities, and Buyer will receive a full "step up" in the tax basis of the assets in connection with the consummation of the transaction.

Purchase Price; Adjustment to Purchase Price: At closing, Buyer will acquire the business of the Company for a total aggregate purchase price equal to $[_____],[1] as adjusted as described herein and will specifically exclude any unrestricted cash of the business and the amount of any indebtedness of the Company at closing, including loans, capital leases, letters of credit, any payments arising out of the sale of the Company and any transaction fees (the "**Purchase Price**"). The Purchase Price will be adjusted up or down to the extent that the Company's net working capital at closing is greater than or less than a normalized working capital target to be mutually agreed upon in the definitive agreements.

We expect that the Purchase Price would be payable as follows:

a. **Closing Cash Payment**. $[_____] million of the Purchase Price (less any escrow deposit) would be paid in cash at the closing (excluding the amount of any unrestricted cash or cash equivalents and the amount of any indebtedness of the Company outstanding as of the closing) plus the amount in which net working capital of the Company as of the closing exceeds at mutually determined net working capital target (the "**NWC Target**") or minus the amount in which net working capital of the Company as of the closing is less than the NWC Target.

b. [**Seller Note**. $[_____] million of the Purchase Price would be paid in the form of a Note (the "**Note**"). The Note is expected to bear interest at the rate of [5-8]% per year, with interest and principal payable [quarterly in arrears]. The Note would be unsecured, subordinate to senior indebtedness of [Search Fund] and remain subject to approval by [Search Fund]'s senior lenders.][2]

c. [**Rollover Equity**. An aggregate amount of approximately $[_____] of the Purchase Price would be paid in the form of rollover equity issued to the Company at Closing (the "Rollover"). The equity interests issued to the Company in respect of the Rollover will be *pari passu* with the equity interests issued to the [Search Fund's] investors in the transaction. [Search Fund] and its advisors would work in good faith with the Company's advisors in order to structure such equity participation in a tax-efficient manner.][3]

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[1] ***Drafting Consideration***: This IOI does not include reference to any Earn-Out. These terms are complex and ripe for litigation, so please consult with counsel prior to inserting any reference to an Earn-Out at the IOI phase.

[2] ***Drafting Consideration***: Alternatively, you may want to consider structuring this as Deferred Purchase Price (holdback) instead of a Seller Note. Some Sellers in the search space are more comfortable with a "deferred purchase price" concept vs. holding subordinated debt through a Seller Note. If you decide to structure this as "deferred purchase price", you should discuss with counsel the differences and implications of this approach.

"**Deferred Purchase Price**. An aggregate amount of $[_____] of the Purchase Price will be payable following the Closing in [_____] equal installments. These deferred purchase price payments will be made on each [_____] anniversary of the Closing over the course of [_____] years."

[3] ***Drafting Consideration:*** These sections may be deleted for the IOI phase if you do not have an idea of whether a rollover or note would be included as part of the discussions. Alternatively, considering something more generic:

"[Search Fund] expects that (i) a portion of the Purchase Price would be made in the form of a subordinated, unsecured promissory note for a period of [____] years at an interest rate of between [____]% and [____]%, and (ii) a portion of the Purchase Price would be deposited into escrow to satisfy indemnification obligations and purchase price adjustments owed to [Search Fund] post-closing. In addition, subject to ongoing conversations with my investors, [Search Fund] is willing to consider allowing certain key equityholders of the Company to "roll" a portion of their equity into [Search Fund] in exchange for equity that will be economically on a pari passu basis as [Search Fund]'s other equity investors."

Escrow: Subject to ongoing due diligence, a customary escrow account will be established pursuant to which a portion of the cash proceeds will be deposited into escrow at the closing in order to satisfy and adjustments to the purchase price and the indemnification obligations in the definitive agreement.

Financing: We would envision financing the acquisition through a prudent combination of debt, and equity. [Search Fund] maintains relationships with a number of banks and providers of long-term capital, many of whom have completed transactions with our partners in the past. Given these resources, we are extremely confident in our ability to raise any necessary financing at the most competitive levels.

List of Potential Debt Sources:

Firm	Website
[Insert]	[Insert]

Management: [Search Fund] expects to enter into a mutually-agreeable [transition services agreement] with [Founder]/[Other Management] for a to-be-determined period post-closing in order to ensure a seamless transfer of the business to [Searchers], who will assume the role of [CEO]/[Other Title] of the Company. Subject to approval of the [Search Fund] board, [Search Fund] expects to provide the opportunity for key employees to participate in [Search Fund]'s equity incentive plan for key employees. Any equity incentive plan would be established within 1-year post-closing and [Search Fund] would allocate 5% of the equity of [Search Fund] for prospective equity awards. [Search Fund] expects to offer continued employment to all of [Search Fund]'s employees. All employees who remain with the Company post-closing would execute standard restrictive covenant agreements (including confidentiality and inventions assignments) if satisfactory arrangements are not currently in place.

Standard Terms and Conditions: The purchase agreement will include representations, warranties, covenants and related indemnification provisions that are consistent with the market for transactions of this size and type.

Organizational Consents and Approvals:

a. **Internal Approvals**. The signing of any definitive agreement is subject the ability of [Search Fund] to obtain sufficient financing from its debt and equity investors to fund the cash portion of the Purchase Price payable at the closing.

b. **External Approvals**. Subject to ongoing due diligence, [Search Fund] does not anticipate any antitrust approvals to be required as a condition to closing. Subject to ongoing due diligence, [Search Fund] expects that closing could be conditioned upon receipt of (i) a subset of third-party consents required under the Company's existing commercial arrangements, (ii) regulatory approvals, if any, required to be made pre-closing under applicable law, (iii) payoff documentation and lien releases with respect to the Company's third-party indebtedness sources, and (v) certain other customary closing deliverables within the control of the Company and its equityholders.

Due Diligence Requirements: [Search Fund] is committed to conduct its due diligence on an expedited basis. [Search Fund] has already entered into discussions with its legal, tax and financial advisors, who stand ready to jump in after [Search Fund]'s preliminary assessment of the Company.

Timing: The goal is to conduct the due diligence, sign a definitive acquisition agreement, and complete the transaction [by INSERT DATE]/[within approximately [_____] days after the execution of a detailed letter of intent].

We look forward to hearing your thoughts on appropriate next steps. If we can clarify any points made in this letter or provide additional information, please do not hesitate to contact [Searcher] at your convenience.

Sincerely,

[Search Fund]

[Signature]

Name: [Insert]

Title: [Insert]

For more information or questions about this document, any related documents or search funds in general, please reach out to any of the following members of Holland & Knight's Search Fund Team:

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