



The Process of Buying a Business

*An attractive, viable alternative
to Corporate America*



ExecuNet
Connecting Leaders Since 1988SM

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Buying an Existing Business



“It is smarter, faster, cheaper to buy a business than it is to start one.”

- Peter Drucker

(The father of modern management theory)

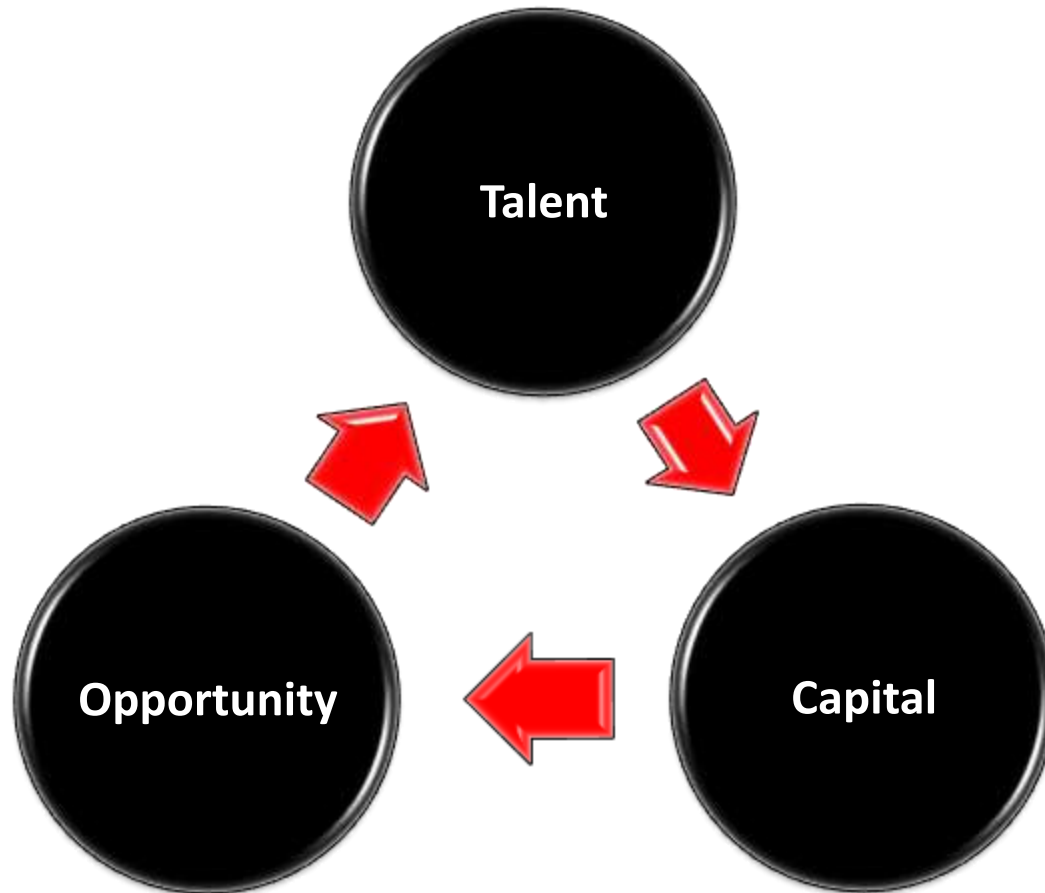
The World of Entrepreneurship



“Entrepreneurship is living a few years of your life like most people won’t, so you can spend the rest of your life like most people can’t.”

- Anonymous

The World of Entrepreneurship



Why Buy a Business?



- ✓ Significantly reduced risk than other entrepreneurial options.
- ✓ Existing cash flow provides opportunity for immediate paycheck and allowing the business to pay for itself.
- ✓ Proven track record
- ✓ SBA financing continues to be very active. Good acquisitions can find financing relatively easily.
- ✓ This is an ideal time to buy a business
 - Combination of advantageous financing and demographics.
- ✓ Transition from Employee to Employer

Difficulties of Buying a Business



- ▶ Higher upfront costs
- ▶ Difficult to uncover the right opportunity
- ▶ 90% of buyers never find the right business
- ▶ Due diligence
- ▶ Inefficient “Business for Sale” market place

The Business Buying Process



Why Now?



- ▶ Average age of a US business owner is 65.
- ▶ 97% of business owners have no exit strategy. **You are their exit strategy.**
- ▶ 2:1 Baby Boomer to Gen-X Ratio.
- ▶ 7,000,000 business owners will exit their business by 2025.
- ▶ Interest rates are historically low, less than 6.5% for acquisitions.

*Source: *The Business Transition Tidal Wave*, Winsby Price/Waterhouse

Why Now?



Today's Typical Business Buyer*

- ▶ Former corporate executive
- ▶ Typically in his/her 40s/50s
- ▶ Disillusioned with the corporate world
- ▶ Strong desire to control his/her own destiny



Today's Typical Business Seller

- ▶ 15+ Years in Business
- ▶ Making \$300K-\$1MM per year
- ▶ Burned out
- ▶ Has growth opportunities but doesn't want to pursue them

**From The California Association of Business Brokers*

Why Do Most Prospective Buyers Fail?



- An inability to uncover good opportunities
- No “real” commitment to the buying process
- Analysis Paralysis
- Emotional/Family Concerns
- A reliance on brokers to develop listings that are a fit for their situation.

How Do You Find a Business to Buy?



- CPA & Attorney Referrals
- Online listings – function as a MLS
 - www.bizbuysell.com or www.bizquest.com
 - Business brokers only account for 20% of all transactions.
 - A leading brokerage firm touts “1,400 brokers assisted in closing 3,000 transactions nationwide.”
 - The odds are very low that you will find what you are looking for in the “Business for Sale” listings.
- A Proactive Search for Hidden Gems

What Types of Businesses are Listed?



There are 50,000 businesses currently listed across the United States.

| | |
|-----------------------------|-----|
| Food/Beverage/Entertainment | 30% |
| Retail Related | 20% |
| Business & Prof Services | 8% |
| Manufacturing | 5% |
| Health & Medical | 4% |

Finding Hidden Gems



1. Client Profiling

Business Preferences, Financing Options



2. Search



3. Contact & Follow Up



4. Qualify Leads

Hidden Gem Acquisition Search



- There are many business owners that will sell their business if approached.
- Most business owners will not list their business for sale.
- Acquisition Finders has developed a proven process to find businesses that fit your criteria:
 - ✓ Uncover unlisted opportunities
 - ✓ Systematically contact all businesses matching your criteria
 - ✓ This gives you the least amount of competitive pressure
 - ✓ This is the best opportunity for your situation
 - ✓ 4 to 7 month timeframe to complete a deal

Business Valuation



“Owner’s Earnings are the best way to measure the success and value of a business.”

- Warren Buffett

Business Valuation



1. Cash flow is king!
2. Determine true owner benefit (Key component)
3. Consider trends, competition, etc.
4. Determine your multiplier (typically 2-4)

Guidelines for Valuing Businesses

Finding Net Owner Benefit



ADD BACK

1. Net Profit
2. Owner Compensation (salary, dividends, etc.)
3. Depreciation/Interest/Amortization
4. Fringe Personal Benefits (car, insurance, cell phone, etc.)
5. One Time Expenditures – last year's hail damage

SUBTRACT

6. Capital Expenditures – understand the trends & needs

Add #s 1 – 5, subtract #6 to get Total Owner Benefit

Value Drivers

Factors in Determining Key Multiplier



- ❌ Industry Trend
- ❌ Type of industry
- ❌ Barrier to Entry
- ❌ Competition
- ❌ Defensible Market Niche
- ❌ Historical Financial Trends
- ❌ Revenue Growth Potential
- ❌ Customer Base
- ❌ Internal Operations – Defined processes
- ❌ Employees
- ❌ Years in Existence
- ❌ Seasonality

Financing Options



- Cash or Personal Finances (stock & securities)
- 401K/IRA Retirement Plans – penalty free
- Bank Loans (conventional asset-based)
- Seller Financing
- Small Business Administration Loans
 - Most attractive lending environment in years.
- Private Investors

The SBA



- Banks use the SBA guarantees to cover the collateral shortfall.
- Banks are extremely aggressive with acquisition financing.
- If you have a down payment of 10% to 20%, relevant industry experience and a good price negotiated, you can typically find a financing partner.
- SBA lenders like to see some element of seller financing, usually 10% to 20%
- The SBA will finance up to \$5,000,000 of a transaction. At a 3.5x multiple, that would be a business with a cash flow of \$1,500,000.

What can you Afford?



- **What do you need in salary from the business?**
 - Consider your lifestyle requirements
 - What was your salary at your previous job?
 - Remember the tax benefits of owning your own company
- **Does the business qualify for SBA financing?**
 - Certain industries are not allowed
 - Do you have relevant industry experience?
 - What is the available cash flow after your salary to cover the debt service?
 - The debt service coverage ratio should be at least 1.3.
- **What is your down payment?**
 - You will need at a 10% to 20% down payment in the current credit environment.

What can you Afford? – An Example



A Simple Formula

Salary X 2 = **Cash Flow Needed for Personal and Debt Service**

Cash Flow X 3 = **Amount Paid for the Business**

15% of the Amount Paid for the Business = **Your Down payment**

This basic formula will help you make sure that the business can pay you and pay off any debt you take on to purchase the business.

Client Success Story #1



Client had \$500,000 to invest in business purchase. Client was interested in wholesale/distribution and light manufacturing.

Acquisition Finders identified over 70 companies which were interested in selling in the chosen industries and markets. Offers were made on multiple businesses.

Client purchased a distributor of specialized industrial supplies which had an annual net income of \$1,750,000. Seller was 65 years old and ready to retire. Purchase price was approximately \$4,200,000 and was financed with SBA 7(a) loan from a local SBA lender.

Client Success Story #2



Client had \$300,000 to invest in business purchase. Acquisition Finders conducted a search in the Northeast for companies that were in B2B/B2C services along with wholesale and distribution industries.

Acquisition Finders identified 50 companies which were interested in selling in the chosen industries and markets.

Client purchased a swimming pool supply/service company. Net Income was \$750,000 and we were able to negotiate a \$2,100,000 purchase price and financed it through a local SBA lender.

Client Success Story #3



Client had between \$300,000 and \$500,000 to invest in business acquisition. Acquisition Finders conducted a search in the Little Rock metro area for companies that were in B2B/B2C services along with wholesale and distribution industries.

Acquisition Finders identified 75 companies which were interested in selling in the chosen industries and markets.

Client purchased a Massage Envy franchise with 2 locations with absentee ownership. Net Income was \$685,000 and we were able to negotiate a \$2,425,000 purchase price and financed it through a local SBA lender.

Your Next Steps



1. Evaluate your desire to move forward.
2. Research businesses that interest you.
3. Assemble your team of professional advisors.
4. Develop and implement a search acquisition process with your intermediary.
5. Allow time to uncover the right opportunity.

***The small business climate makes this a
opportune time to buy!***



To connect with Aaron Paul for more information, please submit your name and email through the following link:

<http://www.execunet.com/events?id=10206>