BUY A GREAT BUSINESS AT A GOOD PRICE

A PATH OUT OF CORPORATE AMERICA

Presented by Aaron Paul, President of Acquisition Finders

ExecuNet
Connecting Leaders Since 1988℠

ACQUISITIONFINDERS
Search. Independence. Success.

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

- Peter Drucker

Why Buy a Business?

- Existing cash flow provides opportunity for immediate paycheck for you to replace a salary and allows the business to pay for itself.
- A proven track record.
- SBA financing is very active. Good opportunities are easily financed. Rates are still historically low, but have been trending higher.
- Significantly reduced risk than other entrepreneurial options.

Difficulties of Buying a Business

- Hard to uncover the right opportunity
- 90% of buyers never find the right business
- Inefficient “Business for Sale” market place
- Due Diligence – Coronavirus effect
- Higher upfront costs

The Business Buying Process

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No.1:
What is
it Worth?

No. 2:
Negotiate

No. 3:
LOI &
Structure Trans

No. 4:
Financing

No. 5:
Due Diligence

No. 6:
Draft
Contract

No. 7:
Closing

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Why Now?

- 97% of business owners have no exit strategy.
  - **<u>You can be their exit strategy</u>.**
- 2:1 Baby Boomers to Gen-X ratio.
- 7,000,000 business owners are expected to exit their business. The average age of a US business owner is 65.
- Financing is very active, allowing you to let the business “pay for itself.”

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

Why Now?

Today's Typical Buyer (a.k.a YOU)

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

Today's Typical Seller

- 15+ years in the business
- Making $300K-$2MM annually
- A dull business, but dull is good.
- Burned out and won't pursue growth opportunities. That's opportunity for you.

Source: *The California Association of Business Brokers*

Why do Most Buyers Fail?

- **Can’t find the right opportunity**
  - Need to be proactive
  - Need to be flexible - there is no “perfect business”
  - Need to have more than one option - multiple possible deals have to be juggled
- **Family Concerns**
- **Are You Really Committed?**
  - Do you really want the independence and corresponding responsibility of owning and running your own successful business?
- **Over Analyzing (Analysis Paralysis)**
  - You will need to make multiple offers
  - Have to make decisions with incomplete information

Where Do I Find a Business to Buy?

Average Search

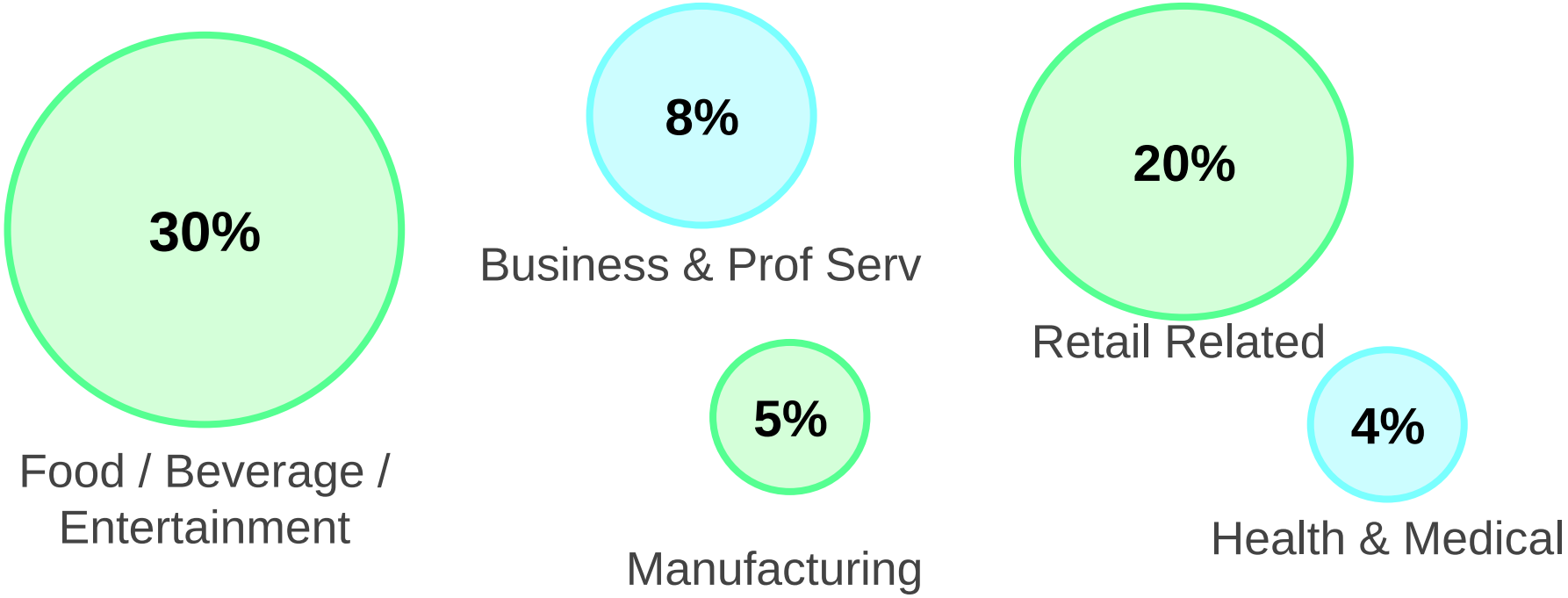
- Online Listing Services
  - Biz Buy Sell
  - Biz Quest
  - Odds are low you will find a good business.
  - Prices tend to be inflated.
- CPA / Attorney Referrals

Hidden Gem Acquisition Search

- Hidden Gem Marketplace
- Get Proactive
  - Start looking for a “Hidden Gem.”
  - Develop a target profile.
  - Get started.

What Types of Businesses are Currently Available?

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



Hidden Gem Acquisition Search

- Most business owners will not list their business for sale.
- There are many business owners that will sell their business if approached by an interested buyer.
- Acquisition Finders has developed a proven process to find businesses that fit your criteria:
  - Uncover opportunities. Goal is to find all interested sellers.
  - Systematically contact all businesses matching your criteria.
  - This gives you the least amount of competitive pressure.
  - Find the best possible acquisitions for you and your situation.
  - 4-6 month timeframe to complete a deal.

"Owner's earnings are the best way to measure the success and value of a Business."

- Warren Buffett

Business Valuation

- Cash flow is king!
- Determine true owner benefit (key component)
- Consider trends, competition, etc.
- Determine your multiplier (typically 2-4)
  - Businesses with $250K to $1MM in cash flow are generally priced at a 3x multiple
  - As business cash flow increases over $1MM, then the multiple will increase

Guidelines for Valuing Businesses

Finding Net Owner Benefit - SBA Formula

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

1. Capital Expenditures - understand the trends & needs

Add #1-5 and subtract #6 to get Total Owner Benefit

What Can You Afford?

- **What do you need in salary from the business?**
  - 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?
  - Is there enough cash flow after your salary to cover the debt payments?
    - 3 year look back on financials
- **What is your down payment?**
  - You will need at least a 10% to 20% down-payment in the current credit environment.
  - Equity co-investment funds are available for down payment assistance.

What Can You Afford?

A Simple Formula:

Salary x 2 = **Cash Flow Needed for Personal & 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.

Financing Options

- **Small Business Administration Loans**
  - Most buyers are using SBA loans for their acquisitions.
- **Cash or Personal Finances (stock & securities)**
- **401K / IRA Retirement Plans - penalty free**
- **Seller Financing**
  - Key Component of Deal Structure
- **Private Investors**
  - Friends & Family
  - Private Equity Co-Investor is possible on large acquisitions.

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% - 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.
- Recent changes to SBA procedures have made deal structure more flexible.

The Coronavirus Effect

- Sales of businesses took a pause from April through June.
- We are seeing a significant uptick in buyer interest
  - Questions about future corporate roles/Downsizing
  - Financing at historical low rates
- Business owners are motivated to sell
  - If doing well through pandemic, good opportunity to consider
  - If struggled, opportunity to possibly purchase at a lower valuation
  - Be wary of “too good to be true” valuations – PPP funding effects.
- “Thinning of the Herd”
  - Quality businesses are surviving/thriving. Lower level competitors are really struggling.

Client Success Story #1

Client had $400,000 to invest in business purchase. Client was interested in wholesale/distribution and B2B Service/Residential Service Companies.

Acquisition Finders identified over 50 companies which were interested in selling in the chosen industries and markets. Offers were made on multiple businesses.

Client purchased an independent commercial cleaning business which had an annual net income of $650,000. Seller was 67 years-old and ready to retire. Purchase price was approximately $1,850,000 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 over 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.

Recent Closings

- **ATL area Specialty Mfg**
  - $700K in cash flow, purchase price of $2.25MM
- **NC Mechanical Services Install/Maintenance**
  - $1MM in cash flow, purchase price of $3.3MM
- **TX based Awning Mfg/Install**
  - $700K in cash flow, purchase price of $2.0M
- **Memphis area Window Covering Mfg/Install**
  - $420K in cash flow, purchase price of $1.35MM
- **IA based Uniform Supply Company**
  - $450K in cash flow, purchase price of $1.4MM

Your Next Steps

- **Evaluate your desire to move forward.**
- **Self assessment Time**
  - Type of Business/Broad Industry
  - What Can you Afford – Use the Formula!
  - Geography
- **Assemble your team of professional advisors.**
  - Will need a CPA & Attorney.
- **Get Proactive.**
  - Start today.
  - Uncover all possible opportunities.
- **Allow time to uncover the right opportunity**.
  - 4 to 6 months to source, investigate & close on a great business at a good price.

Your Next Steps

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

http://www.execunet.com/events?id=11396