



HAS SOLD MORE BUSINESSES,  
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# ***The American Dream...***

## **To Own My Own Business**

S I N C E 1 9 7 9



# ***Why Own Your Own Business?***

- Job Security
- Financial Independence
- Control Your Own Destiny
- Personal Satisfaction
- Satisfy Entrepreneurial Desire



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# ***Why People Sell A Business?***

- Retirement
- Burned Out
- Wants to Pursue a New Venture
- Business Has Grown Beyond Seller's Means
- Want a Change
- Health Reasons



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# ***Why Buy an Established Business?***

- Established Location
- Proven Product or Service
- Positive Cash Flow
- Established Customer Base
- Better ROI (return on investment)



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# ***Established Businesses Have High Success Rates***

- VR Studies indicate over 95% of Established Businesses that are resold succeed.
- Government Studies indicate that over 60% of Start Up Businesses fail.



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# *The Safety Zone*

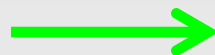
Large Business + Big Profits = High Investment



**Strategic Buyer**



Middle Market + Six Figure Cash Flow = Moderate Risk

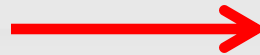


**Individual**

Value



Failing Business + No Profits = Huge risk!



**Professionals**



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# *Keys to Success*

## **On-Going Businesses Provide 3 of 4 Necessary Components of Success**

1. A Proven Location
2. A Proven Product
3. A Positive Cash Flow



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# *Keys to Success*

**You...**

**Provide the Fourth  
Ingredient!**

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**Management**



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# ***Who Pays for the Business?***

The Only Monetary Investments You Have in a Business are the Down Payment, Working Capital, and Improvements.

The Business Should Retire Its Own Debt and Provide a Living Wage Out of the Existing Cash Flow.



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# *Financing*

## **SBA Lenders vs. Seller**

- **Rate-Prime + 2.0%  
2.75%**
  - **20% Down Payment**
  - **Credit, Background Checks, and Detailed Application**
  - **Personal Guarantee plus 2<sup>nd</sup> position on House**
  - **10 year financing**
- **Rate  $\pm$  7% to 10%**
  - **35-50% Down Payment**
  - **Simple Credit Check**
  - **Personal Guarantee plus the Business as Collateral**
  - **Average 5 to 7 year financing**



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# ***How Businesses are Valued***

- Discretionary Earnings (DE) Analysis, determined from recast financial statements
- Comparable Statistics of Similar Companies That Have Sold
- Industry Standard Valuation Methods



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# ***A Few Terms Explained***

What is Discretionary Earnings (DE)?

- EBITDA plus Owners Compensation
- DE is the total economic benefits of owning the company

What is EBITDA?

- Earnings Before Interest, Taxes, Depreciation, and Amortization.



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# ***SBA Financing Success Story***

***Type of Business: Custom Counter Top Manufacturer***

**Purchase Price: \$1,730,000**

**Working Capital/Closing Costs: 175,000**

**Total Project: \$1,905,000**

**Less: Borrower Injection: 381,000  
(20% of project)**

**SBA Lender Financing: \$1,524,000  
(80% of Purchase Price)**

**Fully Amortized Loan of 10 years**

**Collateral: Business Assets, 2<sup>nd</sup> Mortgage on House, and  
Personal guarantee from Purchaser and Spouse.**



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# ***Seller Financing Success Story***

***Type of Business: Franchised Sign Company***

**Purchase Price: \$600,000**

**Less: Down Payment: \$200,000**

**Less: Seller Financing \$400,000**

**7 year Financing @ 9%, Monthly Payment of \$6,234**

**Collateral: Business Assets and Personal Guarantee  
from Purchaser and Spouse.**



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# ***Business Acquisition Guidelines***

## ***What does an SBA Lender Need?***

### **From the Buyers**

- Complete Loan Application
- Personal Tax Returns for 3 years (All Pages)
- Purchase Agreement
- Business Plan and Projections

### **From the Seller**

- Seller's Tax Returns & Financials for 3 years and Interim to the Last Quarter
- Copy of the Purchase Agreement w/an Allocation of the Purchase Price
- Copies of A/R & A/P Aging
- Equipment List with Serial #'s
- Copy of Existing Lease Agreements
- Copies of W2's
- Detailed Evidence of all Add Backs



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# ***Buying Process***

## Your Commitment

### *Today*

- Interview to Determine Wants and Needs
- Education with "The American Dream Presentation"
- Non-Disclosure and Financial Statement

### *Next Step*

- Tour Businesses
- Meet the Owner, Possible 2<sup>nd</sup> Meeting
- Discuss Numbers and Offer with Associate

### *Offer*

- Contingencies and Conditions
- Due Diligence
- Earnest Deposit



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# ***Buying Process***

## *Present Offer & Your Background*

- Seller Accepts Offer
- Seller Counters Offer

## Negotiation Process

- Exhaust All Options

## Due Diligence Begins

- Review Books And Records
- Financing Options, If Applicable
- Assignment Of Lease

## Third Party Attorney Drafts APA-Split Fees

- Asset Purchase Agreement, Bill Of Sale, Lien Search
- Non-Compete, Consulting, Assignment and Assumption
- Promissory Note, UCC-1, Security Agreement

## Closing-Now You Own Your Own Business



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# *Forms*

- Memo Record of Showing
- Offer for Purchase
- Addendum



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# ***Intermediaries Do...***

- Educate
- Negotiate & Facilitate
- Save You Time
- Save You Money
- Present Facts
- Facilitate the Sale Between You and the Seller



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# ***Intermediaries Do Not...***

## **Make Your Decisions**

- Only you can make the final decision.

## **Manage the Business**

- You're the boss now, it's your business.

## **Release Books & Records Without an Offer**

- Owners do not want to share their confidential records unless a serious offer is on the table.



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# ***The Buyer's Job***

- Communicate
- Ask Questions
- Give Honest Feedback



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# ***Advisors...***

Talk to an Accountant for:

- Tax & Bookkeeping advice

Talk to an Attorney for:

- Legal Advice & Legal Matters

Talk to a Business Owner for:

- Advise on Buying a Business



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***Build Wealth - Buy a Business!***

***The Best Investment You Can  
Make Is In Yourself!***



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# Build Wealth – Buy a Business

## SBA Loan

• Sale Price	\$570,000
• Working Capital	50,000
• SBA Fee & Closing Costs	<u>15,000</u>
• Total Project	\$605,000
• Down Payment 20%	<u>(120,000)</u>
• Bank Financing	\$485,000
• 10 yrs @ 8.75% - Monthly Payment	\$ 6,078
• Annual Debt Service	\$ 73,000

*Assumption:* 1) Grow the SDC by 10% compounded annually  
 2) Fair Living wage is \$100,000/yr. 3) Seller's Discretionary Cash Flow (SDC) is \$180,000 4) Sell in 5 years

5 Year Cash Flow	\$1,209,000
<u>Less</u> 5 Year Debt Service	(\$ 365,000)
<u>Less</u> 5 Year Living Wage	(\$ 500,000)
R.O.I. Over 5 Years	\$344,000

SELL BUSINESS AFTER 5 YEARS @ 3.0 x SDC = 3.0 X \$290,000	\$870,000
<u>Less</u> VR Commission	(87,000)
<u>Less</u> Closing Costs	<u>(10,000)</u>
Proceeds of Sale	\$773,000
<u>Less</u> Payoff on SBA Loan	<u>(294,000)</u>
Net Proceeds of Sale, Pre-Tax	\$479,000
<u>Plus</u> R.O.I. Over 5 Years	344,000
<u>Plus</u> Working Capital Provided	<u>\$ 50,000</u>
<b>Total Return</b>	<b>\$873,000</b>

**14 months return of Down  
payment to Buyer 45% return**

**THE BEST INVESTMENT YOU CAN MAKE  
IS IN YOURSELF!**

**\$873,000 Total Return/\$120,000  
Invested after debt service and living  
wage.**



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# ***CONGRATULATIONS!***



S I N C E 1 9 7 9

## **You Are In Business**



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