

Understanding the Business Buying Process



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The Motivations of Buyers



- Controlling one's own destiny
- Financial reward
- Being the person in charge
- Ability to use personal skill sets

The Motivations of Sellers



- Burnout / Boredom
- Retirement (age)
- Health
- Economic factors
- Lack of operating capital / Need for growth capital
- Industry overview
- Employee stability
- Sales / Cash Flow

Buyer Profiles



- Employed corporate executive
- Displaced executive
- Former business owners
- Buyer group
- Turn-around specialist
- Individual buyer
- Strategic buyer
- Synergistic buyer

Steps Involved in Buying a Business



- Business owner decides to sell business
- Determine your buying parameters
- Identify potential businesses
- Determine the value of the business
- Arrange meeting with buyer and seller
- Offer to purchase / Letter of Intent (LOI)
- Negotiations / structuring the deal
- Due diligence
- Closing

Getting Organized



- Business plan
- Sound financing
- Risk/reward
- Self assessment
- Location
- Timing
- Confidentiality agreement, buyer resume and profile
- Type of business
 - Manufacturing – Distribution – Service - Retail

Finding a Deal



- Intermediaries
- Internet/Database
- Professionals
 - CPA's, Attorneys, Bankers
- Direct Mailers

Understanding the Valuation Process



- **Objective**
 - Owner's Discretionary Cash Flow (ODCF)
 - Asset Value
 - Inventory Value
 - Accounts Receivable (A/R) and Accounts Payable (A/P) – included?
 - Leverage – Financing
 - Asset vs. Stock sale

Owner's Discretionary Cash Flow: Example



Net Income	\$ 100,000
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Addbacks:

Depreciation	\$ 50,000
Interest	\$ 20,000
Owner Salary	\$ 80,000
Owner travel (personal)	\$ 5,000
Owner auto (personal)	\$ 6,000
Owner health insurance	<u>\$ 7,000</u>
Owner's Discretionary Cash Flow	\$ 268,000

Understanding the Valuation Process



- **Subjective**
 - Years in business
 - Employees
 - Reason for selling
 - Length of training
 - Customer and supplier base allocation
 - Business Type
 - Other factors:
 - Market strength, Industry growth, Appearance, Location, Owner's involvement

Franchises



- Advantages
 - Training system in place
 - Support during start-up
- Disadvantages
 - Lack of on-going support
 - Confined to established practices
- Exit strategies available
 - Buy-out options

Who Are the Buyers?



- Corporate executive
- Competitors / Vendors
- Existing employees
- Investment groups
- Intergenerational buyers
- Foreign and public companies

Working with Buyers



- Emotions
- Picking the right seller
- Timely information requests

Due Diligence



- Financial
- Interim profit and loss statement and balance sheet
- Three years of tax returns and income statements
- Current asset list
- Assets and liabilities
- Employees
- Company
- Customers
- Suppliers
- Competitive position
- Lease
- Legal
- Why a company might not sell

Documents to Move Forward



- Letter of intent (LOI)
- Offer to purchase
- Definitive agreement
- “Out clause”
- Covenant not to compete
- Consulting agreements
- Closing documents

Negotiating and Deal Structure



- Sale Price
- Allocation of sale price
- Taxes
- Handling assumed assets and liabilities
- Earn out
- Assets vs. Stock
- Non-compete agreements
- Length of training
- Earnest money
- Deal structure

Financing



- Buying for all cash
- Owner financing
- SBA financing
- Earn out
- Conventional financing

Closing



- Escrow company
- Neutral site
- Title and lien searches
- Timing
- Closing date
- The closing table

Why use a Business Intermediary?



- Pricing a business
- Lower sale price
- Negotiating a better deal
- The closing process
- Handling the support team
- Facilitate post-closing adjustment

Pitfalls to Avoid



- Listening to other seller sale prices
- Overpricing businesses
- Not being ready
- Bad books and records
- Proving owner perks
- Unreported cash
- Attorneys – CPAs – Business Intermediaries
- Bad attitude
- Spouse
- Handling your support team

Our Services

Get the Five-Point Advantage

- Selling a Business
- Buying a Business
- Business Valuation
- Business Debt Funding
- Business Advisory Services



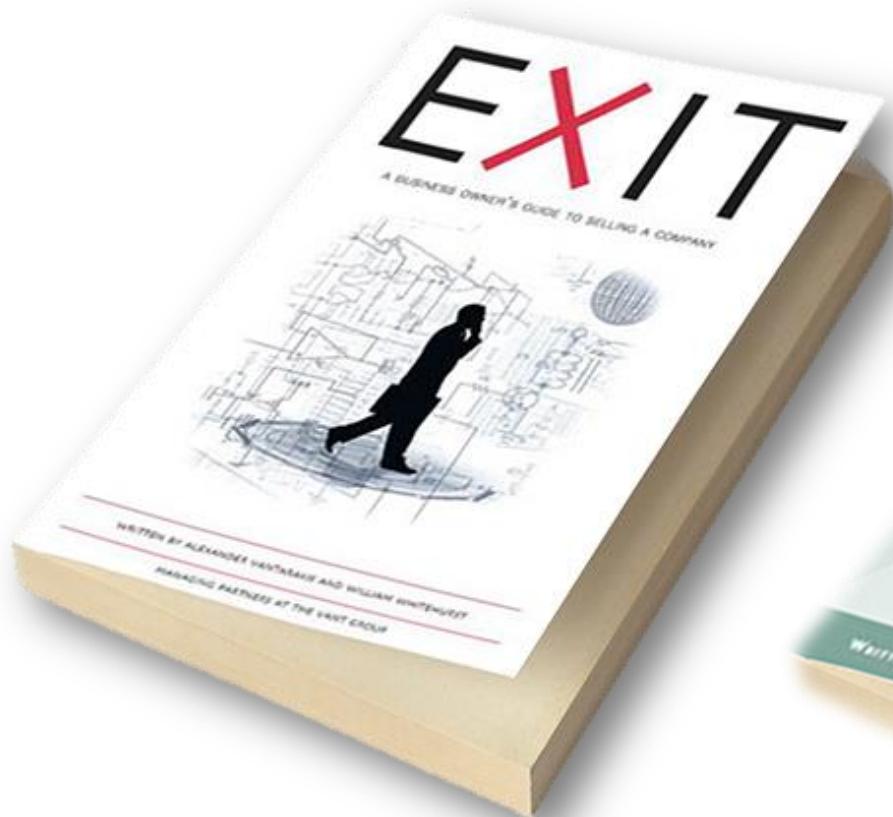
Get The Vant Group Advantange And Discover Our Difference!



- We deliver the **Five-Point Advantage** to our clients: Selling a business, Buying a business, Business valuation, Funding, and Business advisory services
- Founded in 1999
- Closed 80% of the businesses we listed vs. 40% Industry average
- Consistently sold business within 95% of the asking prices
- Closed 500+ business transactions for diverse businesses; including manufacturing, technology, energy, healthcare and service industries
- Established industry best practices as basis for two leading books on business transfer
- 20 years of buying and selling businesses for our own portfolio

Exit and Entrance

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