



# BUILDING A BUSINESS TO SELL

PRESENTED BY: Rob Amerine, FBB Group



THE PIKES PEAK SMALL BUSINESS DEVELOPMENT CENTER HAS BEEN DEDICATED TO HELPING EXISTING AND NEW BUSINESSES GROW AND PROSPER FOR MORE THAN 30 YEARS.



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# **Rob Amerine**

**Certified Business Intermediary,  
The FBB Group, Ltd.**

## **Consulting Expertise Includes:**

- Buying and Selling  
Businesses
- Business Valuation
- Certified Business  
Intermediary
- Business Development
- Systems & Programming

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# OVERVIEW

- Introduction
- Financial Records
- Business Valuation
- Timing
- The “A” Team
- The Presale Audit
- Today’s Market

# INTRODUCTION

- The FBB Group (formerly First Business Brokers)
  - Established in 1982
  - Ron Chernak, Founder and Owner
  - Over 1000 completed transactions across 15+ states
  - Over 2500 active buyers/private equity groups
  - 5 intermediaries/3 office staff
  - Active Members of IBBA and CABI



Knowledge. Experience. Results.

# ROB AMERINE – CERTIFIED BUSINESS INTERMIDARY (CBI)

- 5+ years with The FBB Group
- Colorado Springs native
- Engineering/technology background
- Purchased first business in 2004 using a business broker
- Built software/services company to 25+ employees
- Worked with hundreds of small business owners
- We have 3 great kids and one on the way!



Knowledge. Experience. Results.



# What Is A Business Really Worth?



*Forty billion is a generous offer for our company, but we'd feel a lot better about it, if you didn't plan on financing it by putting it on your Visa.*



# FINANCIAL RECORDS

- Tax Returns (where most buyers/lenders start)
- Profit/Loss and Balance Sheet Statements (cash and accrual)
- Periodic Reconciliation (especially inventory)
- Equipment List (using Fair Market Value)
- Real Estate (owned or leased)

**\$ GET  
FINANCIALS  
IN ORDER**

Bottom Line

**“GOOD NUMBERS SELL BUSINESSES FASTER FOR MORE MONEY.”**

# VALUATION ASPECTS

- 3 Main Areas
  - Fair Market Value (FMV) of Tangible Assets
    - Equipment/Inventory
    - Office/Real Estate
    - Website/Intellectual Property/Franchise
    - Accounts Receivable?
  - Cash Flow/Adjusted Profit
    - Seller Discretionary Earnings (SDE) – *includes owner's salary*
    - Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)  
*(does not include owners salary)*
  - Market “rules of thumb”/buyer demand
    - Industry/strategic buyers
    - Industry Trends (i.e. Amazon’s take over of the consumer retail industry)

**DETERMINE  
TRUE MARKET  
VALUE**

**WALL<sup>ST</sup>**



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# ADJUSTED PROFIT/SDE EXAMPLE

	2013	2014	2015
<b>Gross Sales<sup>1</sup></b>	\$ 4,018,350	\$ 3,947,724	\$ 3,206,589
Less: Cost of Goods Sold	3,243,630	3,215,184	2,603,275
<b>Gross Profit</b>	774,720	732,540	603,314
<i>Gross Profit as % of Gross Receipts or Sales</i>	19.3%	18.6%	18.8%
<b>Net Profit from Tax Return</b>	\$ 166,330	\$ 177,843	\$ 192,425
<b>Positive Adjustments</b>			
Depreciation at 75%	-	359	-
Seller's Discretionary Expenses <sup>2</sup>	5,687	5,859	5,582
<b>Total Positive Adjustments</b>	\$ 5,687	\$ 6,217	\$ 5,582
<b>Seller's Discretionary Earnings</b>	\$ 172,017	\$ 184,060	\$ 198,007

<sup>1</sup>Owner purposefully scaled back online advertising in 2015 and 2016 to decrease employee overhead and keep margins high

<sup>2</sup>Includes owner's personal/family cell phones and auto related expenses



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# TIMING

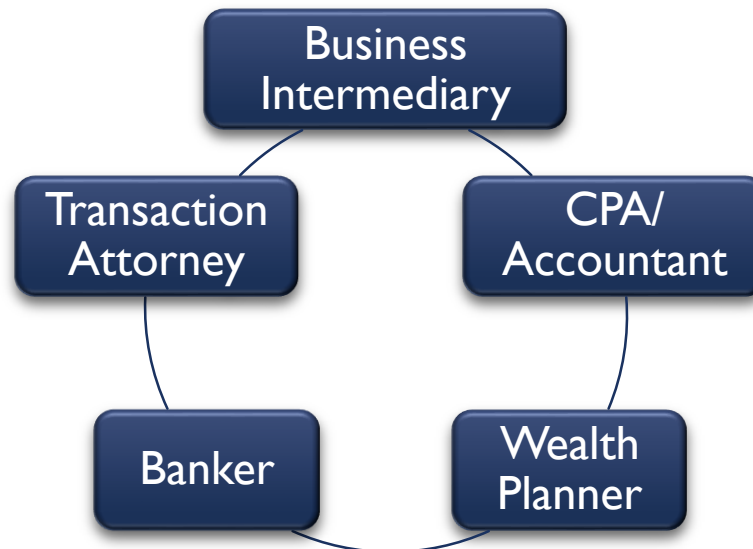
## ■ Things to Consider

- Personal/Family Decisions
- Increasing Revenue/Cashflow
- Favorable Tax Situation
- A planned retirement or before burnout!

DEAL SIZE	#1 REASON	#2 REASON	#3 REASON
<\$500K	Retirement	New Opportunity	Burnout
\$500K - \$1MM	Retirement	Burnout	New Opportunity
\$1MM - \$2MM	Retirement	New Opportunity	Health
\$2MM - \$5MM	Retirement	Burnout	Family Issues
\$5MM - \$50MM	Retirement	(tie) Family Issues, Burnout	

# ASSEMBLE THE ACQUISITION “A” TEAM

- Key Members



# THE PRESALE AUDIT

- 5 Key Areas
  - Financial/Accounting
  - Assets (Tangible vs. Intangible)
  - Real Estate/Lease
  - Operations/Processes
  - Market/Industry

# FINANCIAL/ACCOUNTING

## ■ Key Questions

- Do you use a good/reputable CPA firm?  
(get referrals!)
- Is your entity type favorable for sale or should you convert?  
(Sole Proprietor to LLC, C-Corp to S-Corp, etc.)
- Are you driving the value of your business down tomorrow by not paying taxes today?  
*(If your businesses is valued on cash flow a 3 multiple could be applied so if you're not reporting \$100K in income that could be a \$300K decrease on your selling price!)*
- How close are your profit/loss statements to your tax returns?  
*Think less is more with adjustments!*
- Is your business bank financeable for a potential buyer?  
(i.e. SBA pre-qualified)



# ASSETS TANGIBLE/INTANGIBLE

## ■ Key Questions

- What is the Fair Market Value (FMV) of all equipment?
- What is market value for assets such as website, client lists, brand name, etc.?
- Are there any filed patents or patents pending?
- Are there any recurring or long term contracts?  
*(monthly subscriptions, service agreements, etc. this is the single best way to drive value in any business...the key is how best to “productize” your service!)*
- Are all current agreements “assumable”?





# REAL ESTATE/LEASE

## ■ Key Questions

- If real estate is owned when was the last appraisal?
- If real estate is leased when will it expire/renew?
- Is the rent amount paid below or above market value?
- Are NNN expenses paid by the business?  
(NNN = property insurance, property taxes, and property maintenance)
- Could selling the real estate with the business increase the overall combined price?



# OPERATIONS/PROCESSES

## ■ Key Questions

- Are there good managers in place to run the business in the owner(s) absence?
- Are day-to-day processes well documented?
- Are there formal contracts in place for key vendors/client relationships?
- Does the company have an updated business plan?
- Are any active clients accounting for more than 10-15% of revenue?
- If multiple locations how are these valued separately verses combined together as a package deal?



# MARKET/INDUSTRY

## ■ Key Questions

- What is the estimated market share?
- What are the industry trends and are they cyclical in nature?
- What are comparable businesses in the industry selling for?
- Are there any barriers to entry?
- What are the long term prospects for the industry?



# A PRESALE AUDIT HELPS TO ENSURE YOUR *BUSINESS IS BUILT TO SELL*

## ■ Advantages

- Provides a bench mark for valuation/metrics
- Helps identify weaknesses early
- Helps spot industry trends (good/bad)
- Provides good perspective for lenders/investors
- Keeps the owner's eye on the ball!
- Should be done early and often (every 2-3 years)
- Ideal is 3-5 years prior to selling



# TODAY'S MARKET - SEGMENTS

## ■ Deal Sizes

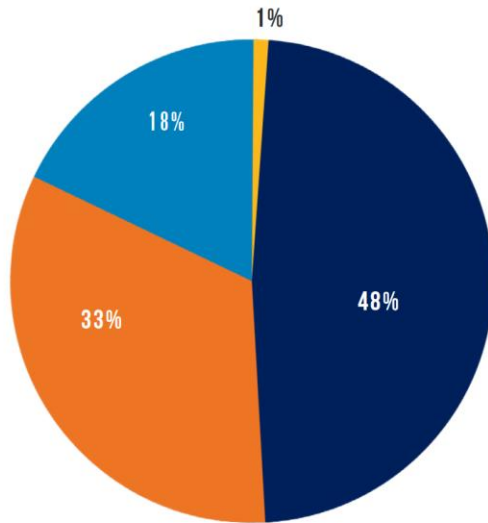
MAIN STREET	LOWER MIDDLE MARKET
Less than \$500K	\$2MM - \$5MM
\$500K - \$1MM	\$5MM - \$50MM
\$1MM - \$2MM	



# TODAY'S MARKET - BUYERS

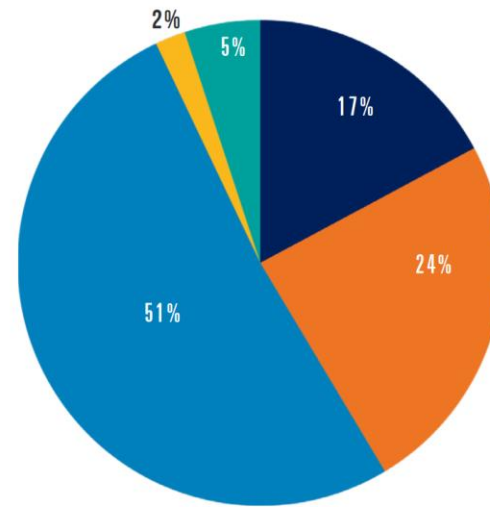
## ■ Who are the buyers?

MAIN STREET



■ 1ST TIME INDIVIDUAL ■ INDIVIDUAL WHO OWNED BUSINESS  
■ EXISTING COMPANY/STRATEGIC BUYER ■ PE FIRM - PLATFORM

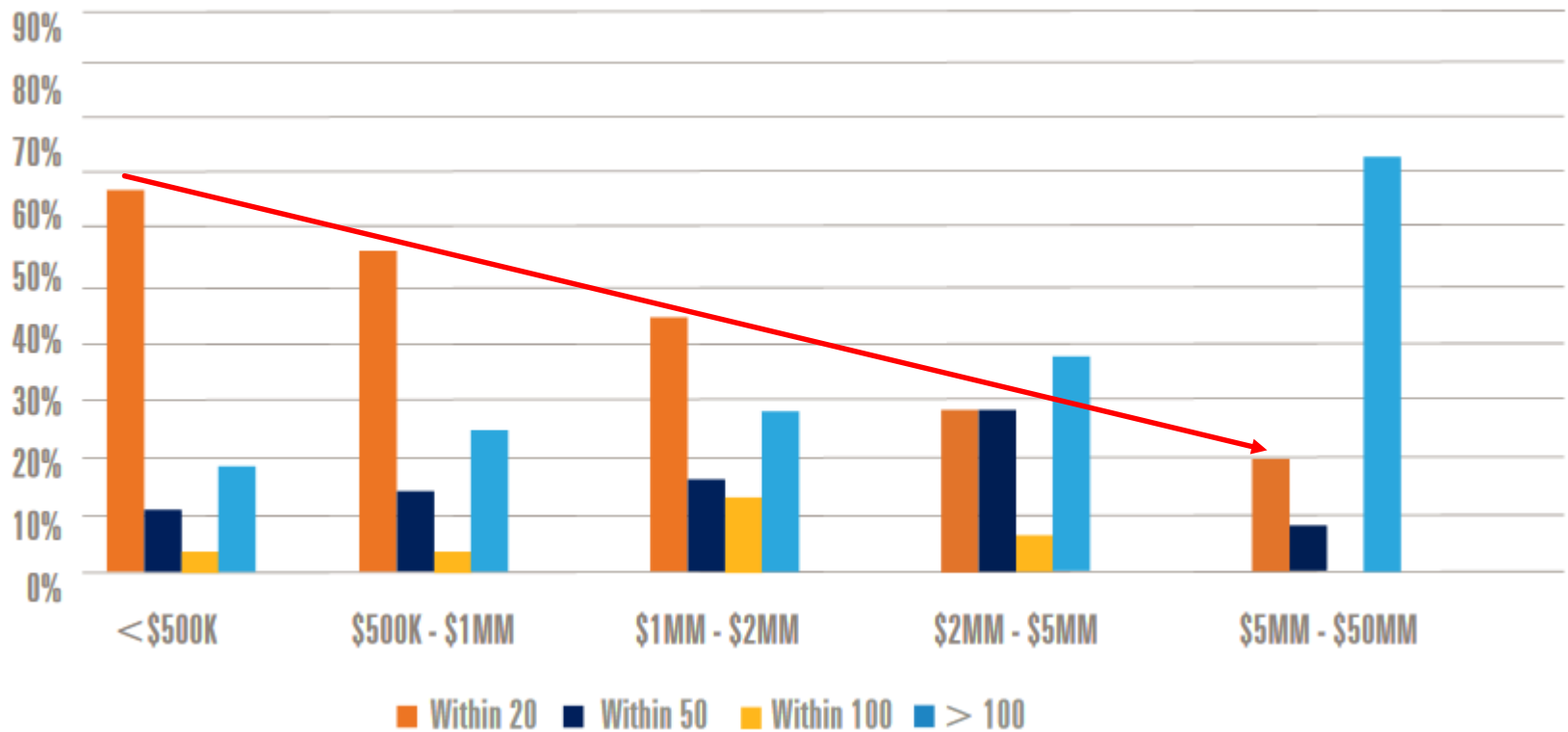
LOWER MIDDLE MARKET



■ 1ST TIME INDIVIDUAL ■ INDIVIDUAL WHO OWNED BUSINESS  
■ EXISTING COMPANY/STRATEGIC BUYER ■ PE FIRM - PLATFORM ■ PE FIRM - ADD ON

# TODAY'S MARKET – BUYER LOCATIONS

## ■ Where are all the buyers?



# TODAY'S MARKET - MULTIPLES

## ■ Average SDE/EBITDA Multiples

<\$500K is stagnant at 2x...  
buyers don't like pay more  
for just a job...

	2018	2017	2016	2015	2014
	Q4	Q4	Q4	Q4	Q4
<b>MEDIAN MULTIPLE PAID (SDE)</b>					
<\$500K	2.0	2.0	2.3	2.0	2.0
\$500K-\$1MM	2.8	2.5	2.8	2.5	2.9
\$1MM-\$2MM	3.3	3.1	3.3	3.3	3.0
<b>MEDIAN MULTIPLE PAID (EBITDA)</b>					
\$2MM - \$5MM	4.4	4.3	4.8	4.0	4.6
\$5MM - \$50MM	5.8	5.5	5.5	5.1	5.0

>\$500K+ multiples are still up!



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# TODAY'S MARKET: TIME TO CLOSE

- How long does it take to close?

	Q4 2018		Q4 2017	
BUSINESS VALUE	MONTHS TO CLOSE	MONTHS FROM LOI TO CLOSE	MONTHS TO CLOSE	MONTHS FROM LOI TO CLOSE
<\$500K	7	2	6	2
\$500K - \$1MM	8	3	7	3
\$1MM - \$2MM	9	3	9	3
\$2MM - \$5MM	10.5	4	10	4
\$5MM - \$50MM	12	4	11.5	5.5

**Average has increased from 6-7 months to 9-10 months  
...lenders being more strict and 2019 shutdown did not help!**



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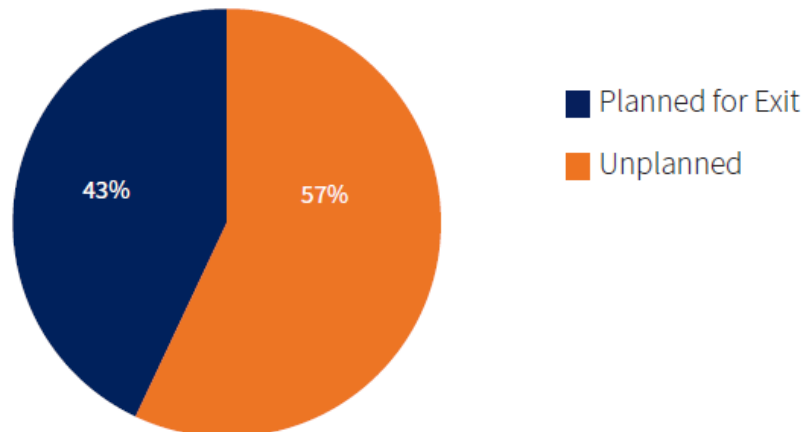
# THE BUSINESS SALE MAZE



# WHEN TO START?

## ■ Recommended Timeline

- 3-5 years to prepare
  - 1-2 years to sell
  - 6 months-1 year to transition
- Most owners expect their business to be their retirement yet start too late in the process...many are rushed to sell due to unplanned events!



# OPTIONS FOR SELLING

## ■ Direct Offline

- Work with only those buyers who contact you or employee(s)
- Work through all steps in the process by yourself – very risky especially with employees!
- Hope it closes the first time or wait for the next buyer to come along  
*(remember on average just 10% of companies actual sell!)*

## ■ Direct Online

- Work with buyers who are looking online (i.e. BizBuySell.com)  
*(more buyers are looking online than ever before)*
- Work through all the steps in the process by yourself
- Hope it closes or start fishing all over again (*deal fatigue is very real!*)



# OPTIONS FOR SELLING

- A Business Intermediary Firm
  - Works with existing and new buyers online/offline  
*(includes buyers looking at other deals represented by the firm)*
  - Directs and facilitates all steps in the process on your behalf
  - Works hard to push it across the finish line  
*(using a business intermediary can increase the closing ratios by 3-4x!)*
- When NOT to use a Business Intermediary
  - When confidentiality is not a big concern  
*(employees, customers, and/or competitors)*
  - When bank financing is not a necessary or available  
*(little or no assets, no employees, SDE under \$100K)*



# WHERE TO START?

- Get your business valued today by an expert
  - Accountant (good place to start but need to verify assumptions!)
  - Certified Appraiser (good for legal situations but can be costly)
  - Certified Business Intermediary (CBI)
    - Good understanding of current market trends (buyers and sellers)
    - Trained in valuing different types of businesses
    - Can provide recommendations for improving business value
    - Works with the accountant to determine best strategies
    - None or little cost but get references first!

***“Valuing a business the day you decide to sell is like planning your retirement the day you decide to retire -- you may be left out in the cold.”***

*- Michael Carter, Founder and CEO of BizEquity*



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# AFFILIATIONS/CREDITS



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