



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.



FREE
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PRACTICAL
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BUSINESS
RESOURCES



Funded in part through a cooperative agreement with the U.S. Small Business Administration

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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

[Schedule Consulting](#)

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**

WALLST



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ADJUSTED PROFIT/SDE EXAMPLE

	2013	2014	2015
Gross Sales¹	\$ 4,018,350	\$ 3,947,724	\$ 3,206,589
Less: Cost of Goods Sold	3,243,630	3,215,184	2,603,275
Gross Profit	774,720	732,540	603,314
<i>Gross Profit as % of Gross Receipts or Sales</i>	19.3%	18.6%	18.8%
Net Profit from Tax Return	\$ 166,330	\$ 177,843	\$ 192,425
Positive Adjustments			
Depreciation at 75%	-	359	-
Seller's Discretionary Expenses ²	5,687	5,859	5,582
Total Positive Adjustments	\$ 5,687	\$ 6,217	\$ 5,582
Seller's Discretionary Earnings	\$ 172,017	\$ 184,060	\$ 198,007

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

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



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TIMING

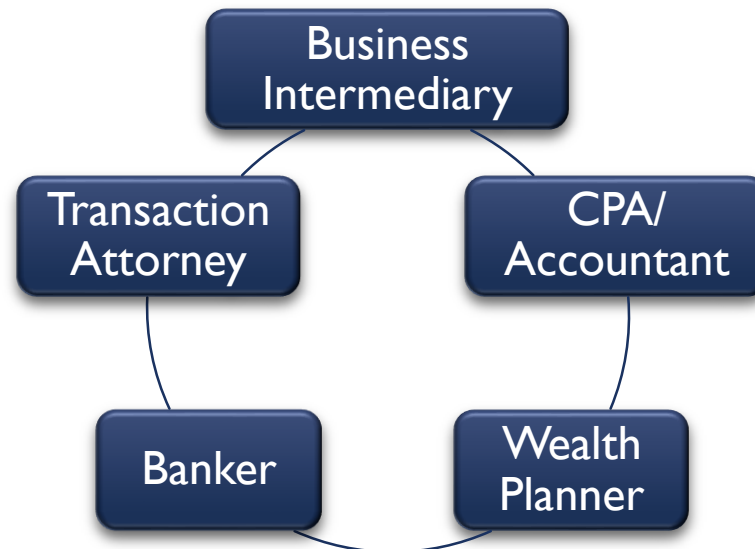
■ Things to Consider

- 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

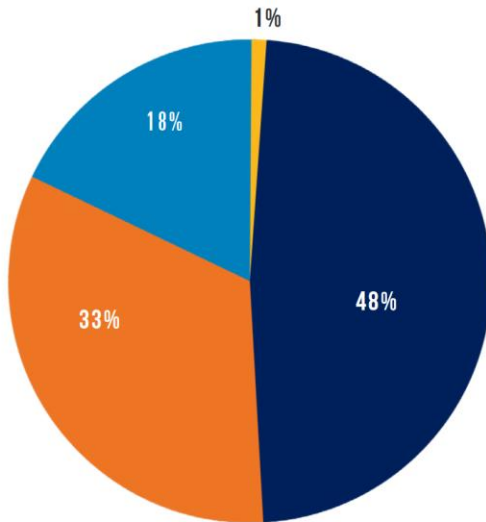
■ Deal Sizes

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

TODAY'S MARKET - BUYERS

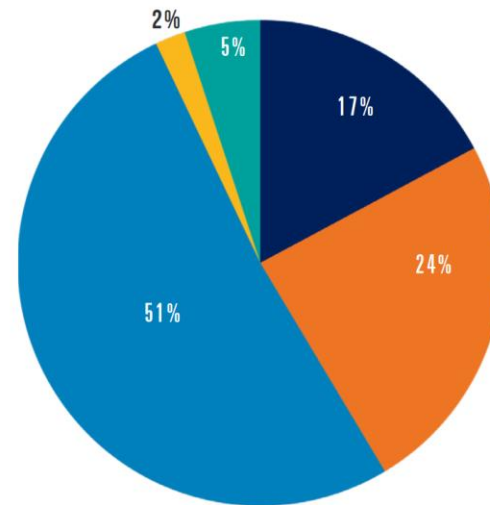
■ Who are the buyers?

MAIN STREET



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

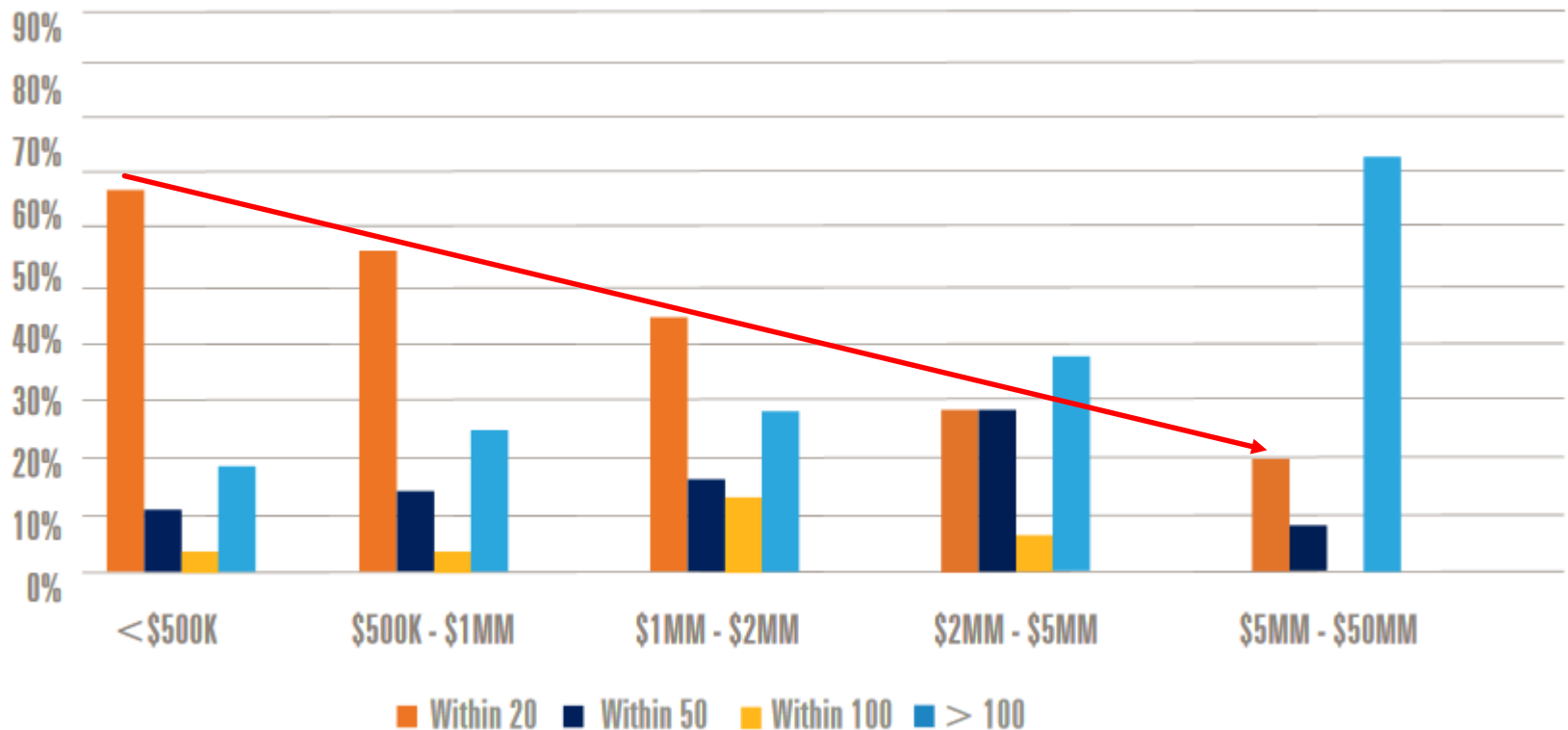
LOWER MIDDLE MARKET



■ 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
MEDIAN MULTIPLE PAID (SDE)					
<\$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
MEDIAN MULTIPLE PAID (EBITDA)					
\$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!**



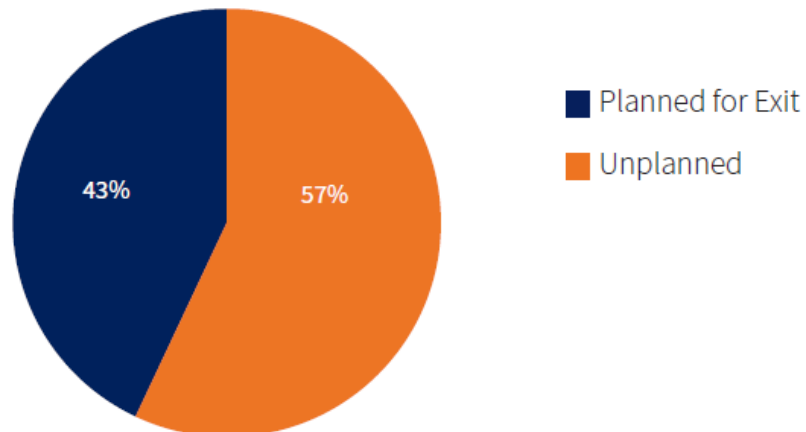
THE BUSINESS SALE MAZE



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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