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Zoellner, Garten & Co.
Cincinnati & Dayton OH
513-852-2400
937-677-2400

April 2017 - In This Issue:

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DETERMINING BUSINESS VALUE

Two Business Valuations of a Manufacturing Company were reviewed - and they reported different values.

One Valuation reported the Businesses was "worth" \$4.6 million; the other reported it was "worth" \$6.5 million. For either Value, a buyer would be buying Inventory, Fixed Assets, and Goodwill.

The Manufacturing Company had Annual Revenues a bit over \$18 million. Earnings Before Interest & Taxes (EBIT) averaged \$925,000 over the past three years. Depreciation added to EBIT produces EBITDA that averaged \$1,625,000 over the past three years. Annual Depreciation totaled \$2.8 million over the past four years. Capital Expenditures (Cap X) were just a bit under \$2.8 million over the same four-year period. Cap X was expected to continue, not diminish, to allow

ABOUT INDIVIDUAL BUYERS

After your business is on the market, your broker will handle inquiries from all types of individual buyers. Statistics indicate approximately 90% of people who inquire about a business never buy one.

There is an unlimited supply of "tire kickers"

Sources of "tire kickers" are endless but can include those without sufficient funds to acquire your business; those incapable of running your business; those in your industry such as competitors, customers or suppliers who are trying to figure out what is for sale; and those with unrealistic price expectations, including "bottom fishers" and "sharks."

The unlimited supply of "tire kickers" is one of many reasons that you should engage a business broker to sell your business as opposed to trying to sell it yourself.

There is no need to expose the confidential information of your business to "tire kickers." The broker should qualify buyers, not release confidential company information to those unqualified, and preclude you from dealing with those who are not good candidates.

First-time buyers

Most inquiries received by brokers from individuals are from first-time buyers. As a result, many have very little knowledge about the business acquisition process, how businesses are priced or what their expectations should be. Business brokers spend a lot of time educating first-time buyers and many lose interest once their expectations are adjusted to reality. About 90% don't really know exactly what they want and only a very few buy the business they first inquired about.

Income-replacement buyers

the business to continue to be cost competitive.

The Appraisal with the lower value was based mostly on EBIT, as the appraiser stated that in his opinion Cap X was very real and a recurring expense and did not generate Cash Flow. The \$4.6 million value based on EBIT was five (5) times, and the value based on EBITDA was 2.8 times. The Appraisal with the higher value was based mostly on EBITDA. The \$6.5 million value based on EBIT was seven (7) times, and the value based on EBITDA was four (4) times. The higher value Report did not discuss prior or estimated future Cap X as important factors.

Both appraisers have impressive credentials. So why the difference in values? First, an appraisal is an OPINION, not a fact, and opinions can and do differ. Perhaps a relevant question is "At what price would a willing and knowledgeable seller sell, and at what price would a willing and knowledgeable buyer buy?" All parties should keep in mind that

DETERMINING VALUE is both an ART & a SCIENCE.

WHAT IS MY BUSINESS WORTH

It will cost you absolutely nothing and there is no obligation in giving us a call or an email to request a simple valuation of your business. Relying on a professional that understands your industry is important. It is also wise to work with someone who is aware of current trends; and that is working with both buyers and sellers daily. This

For a variety of reasons (layoffs, corporate downsizing, burn-out, job relocation, etc.), many potential buyers are exploring buying a business to replace the income from their job. Often those buyers lose interest after they gain a better understanding of the required investment, the amount of work required and the risks associated with a business acquisition. They quickly (or ultimately) decide to continue working as employees of others.

Mid-level executive buyers (from the corporate world)

What about the 10% that are not "tire kickers"? What are their profiles? Although there is no such thing as a typical buyer, one group of legitimate buyers are mid-level executives from the corporate world who have entrepreneurial dreams and have saved just enough (typically about 25% of the purchase price is required to qualify for SBA financing) to afford a business that can replace their current employment income.

Many have general management, marketing, sales, financial or engineering backgrounds with supervisory experience, and they may be responsible for big budgets. But most have not previously owned a business nor fully understand that the typical small business owner is both the President and "chief cook and bottle washer." That's the good news and the bad news. If they can adjust to the "chief cook and bottle washer" role, they may also have the management experience to take the business to the next level. And that is usually their dream. They are leaving the corporate world in search of the ability to control their own destiny and build equity in the business. And it is usually a very scary and big step for them; sometimes it can be difficult for them to make the last leap of faith that's required to get a deal closed.

First-time buyers are squeamish

It's hardly ever an easy process to get the individual first-time buyer through an acquisition. That's why it is so important that obstacles to a successful sale of your business have been identified and resolved, or disclosed early on. Even the most confident of buyers are squeamish and may bail out unnecessarily when difficulties are encountered.

The serial entrepreneur

Another type of buyer is the former business owner - an entrepreneur who has done it before and is interested in doing it again. Having been through it before, they can typically reach a decision sooner than a first-time buyer and the whole process has the potential to be more efficient. But this type of buyer may be a lot tougher

approach insures you plan for and receive the maximum return on the transfer of your business.

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***ABOUT MIDDLE
MARKET BUYERS***

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negotiator and it may be much more difficult to reach a mutually beneficial agreement.

Other types of buyers

Corporate executives and former business owners are only two of the various types of buyers you may see. Depending on the nature of your business, other examples might include: two or more partners combining their resources to pursue an acquisition; husband and wife teams looking for a business venture; wealthy individuals looking for a passive investment; a "provider" spouse looking to put their spouse into business; a parent looking to acquire a business for their child to run; an individual backed by a wealthy investor looking for an acquisition; etc.

Individual buyers come in all shapes and sizes with all kinds of backgrounds, life stories and motivations. The one thing they all have in common is this: for you to successfully sell to them, you must identify and, ideally, resolve the business sale obstacles you face, or at the very least disclose to potential buyers those obstacles early in the process. Let your business broker help you work through these obstacles early on.

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

Our presence as a Professional Business Broker is extended nationally as a result of being an affiliate of [BHarmony, LLC](#). We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.



We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing. **Learn More**



John W. Zoellner
[Zoellner, Garten & Co.](#)
Cincinnati, Dayton OH
513-852-2400



Terry D. Wagner, Sr. Vice President
James R. Sachs, Sr. Vice President