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May 2018 - In This Issue:

PREPARING TO SELL YOUR BUSINESS - MINIMIZING BUYERS' RISK

INDUSTRY KNOWLEDGE

LIFE & GOLF

WHAT IS MY BUSINESS WORTH

LIFE & GOLF

Maybe it's time to think about where you are in the Life cycle, and whether you should consider selling. It's not an obligation to sell, it is an opportunity - and timing is very important.

It's going to be warm and dry enough around Southwestern Ohio one of these days to play golf - almost no Spring this year. Some years ago, a friend commented he measured his life like a round of golf, that is each segment of his life is like one hole of golf. There are 18 holes of golf in a round, and he said that he "was already on the second nine". I guess we could say that we could "measure" our lives in 18 segments. If we say a segment is five years, that's 90 years. It's a nice target, and maybe we can hope / expect to live that long.

Like my friend, I'm on the back nine of life. Will I make it to 90? Few of us can really know

PREPARING TO SELL YOUR BUSINESS - MINIMIZING BUYERS' RISK

Serious buyers are concerned about risk

As discussed in previous issues of this newsletter series, as buyers zero in on a particular business, risk minimization rises to the top of buyer motivation. They begin to analyze the business by looking at the downsides - the obstacles and pitfalls to their potential success. If the risks discovered in due diligence are too high, even an agreed-to deal can quickly fall apart.

Sellers' Discretionary Earnings (SDE) below \$100,000 can be an obstacle

One of the first risk factors considered by buyers is "Can I rely on this business to continue to support the lifestyle to which I've become accustomed?" With many potential buyers coming from the corporate world, they are concerned with income replacement (and they want to be rewarded for entrepreneurial risk). When buyers inquire about businesses for sale and are questioned by business brokers about their goals, almost all will respond "they want (or need) six-figure income." \$100,000 is the lowest number meeting that objective. Coincidentally, that is also about the minimum level of SDE most lenders require to consider SBA financing (because lenders are usually not interested in transactions below \$250,000, which requires about \$100,000 in SDE).

If a business has less than \$100,000 in SDE, the pool of potential buyers shrinks considerably because most cannot afford to live on take-home pay of \$50,000 - \$75,000 (after debt-service on the acquisition and reinvestment in the business). In addition, below that \$100,000 SDE threshold, SBA financing is considerably more difficult to obtain. In this case, the buyer's risk of inadequate income to maintain their lifestyle parallels your risk of not being able to sell the business. To help assure salability, it is extremely important to improve the business to generate a minimum of \$100,000 in SDE.

how long we will live. Some people do have an idea how long they live due to medical issues that affect their remaining life.

Business Owners rarely can retire - unless they give up ownership. They can cut back, delegate a lot of duties to key employees, but they are still in charge. Selling a business is one of a few ways to remove the responsibilities of ownership to allow for an overall better life. "Better life" means something different to everyone. It can mean affording time to spend with family and friends, vacation, travel, and play more golf. The most important aspect is to remove the burden of making payroll, wondering what your employees will do, getting rid of personal guarantees on debt, and any number of other things we as business owners deal with.

I know some business owners that are "on the second nine" and very close to the "last of the holes", having reached the age where maybe they might have considered selling some time ago. Many other business owners aren't ready to sell but might be enticed (some might say "wise") to consider whether now is the right time to sell. The right time might be now because business and economic conditions are generally good, interest rates are low, there are buyers of all types with funds to invest, and banks are lending. Do you want to own the Business when the inevitable next economic downturn will likely reduce business values?

I've been in business doing what I'm doing for more than thirty years - WOW! Writing that makes it seem like a very long time, and it is. I wonder how

Buyers are also interested in reliable SDE. If the SDE fluctuates wildly from year to year, the buyer's risk is very high if the price is based on the higher earnings level.

When SDE shows considerable fluctuation, buyers' offers will only be based on the lower SDE. Lenders take the same approach. The only way sellers obtain more is through earn-out negotiations which results in future funds being earned by the seller after closing based on the actual results produced by the buyer's operation. To the extent that you can control SDE fluctuations (i.e., avoid accelerating expenses into the current year for tax purposes, etc.), the better off you will be - minimizing not only the buyer's risk, but yours as well.

Lack of second-level management creates risk for buyers

Buyers are always concerned about the transferability of business knowledge and customer/supplier relationships. If all the knowledge about a business resides in the owner's head and has not been adequately transferred to key employees who can run the business in the owner's absence, it's a significant risk that might preclude the possibility of a successful sale. In the long run, the investment in a few key people will pay off. It's not only a good thing to accomplish from the standpoint of selling your business, it is also likely to help the business grow and will provide greater flexibility to you from a personal standpoint.

Customer concentration issues

Customer concentration is a very significant risk for buyers. If you have a single customer that represents 10% or more of your business, it may be an issue to buyers or lenders. As the percentage of concentration increases, so does the risk for buyers and lenders. Your risk of failing to sell your business also increases. Diversifying your customer base will aid significantly in salability and increase the perception of value.

Inadequate financial information

From a buyer standpoint, it's an expensive proposition to fight through financial statements that are incomplete, inconsistent, erroneous or meaningless. Almost all prospective buyers and their advisors will walk away from a business they can't get a handle on because of inadequate financial statements

the years have gone by so fast? During that time, I've NEVER heard a business owner regret selling. I have, however, heard several business owners say they wish they had sold sooner, particularly when their business has declined in Revenues, Profit, and Value.

Question might be: Are you going to play the rest of your 18 in Business or Retirement?

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

Next Issue

Preparing to Sell Your Business - Improving Accounting Procedures

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and supporting documents. When you successfully tackle this issue, your financial statements will provide reliable information that can be used as the basis for making decisions affecting the future growth and profitability of your business.

Uninformed sellers

You can also help minimize buyers' risk by obtaining knowledge of the business sale process. It's important to identify obstacles to a successful sale and address as many as possible and disclose any negative issues that you are unable to solve. Process-wise, it is also important to understand the need for confidentiality, the need to sign a non-compete agreement and the need for owners to cooperate in a post-transition (or training) period, all of which help mitigate the buyer's risk assessment. When these types of negatives arise in due diligence, transactions are usually doomed to failure.

Seller Financing

And finally, in most instances, sellers must be prepared to provide some seller financing. Buyers perceive a willingness to do so as your belief in the business, which aids in assessing their business acquisition risk. Some SBA lenders will usually require minor participation from sellers.

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

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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](#)



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