

**ALLEN BUSINESS INVESTMENTS
BUSINESS BROKERS**

**VALUING AND SELLING
YOUR BUSINESS**

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Dear Business Owner,

Thank you for meeting with a professional Business Broker/Intermediary from Allen Business Investments (ABI). The decision to sell your business is probably one of the biggest financial decisions that you will make in your lifetime, and thus one that I know you will not take lightly. Choosing the right firm to handle your sale is especially important. I hope the information assembled in this booklet will make your decision easier.

Each of our licensed intermediaries is committed to four goals to meet your needs:

- \$ To deal with sellers and buyers forthrightly and with integrity at all times
- \$ To determine the market value of the businesses we represent and to help achieve that value for you
- \$ To put the best buyers into good long-term business opportunities
- \$ To complete transactions that stand the test of time and continue to be good for both the seller and the buyer

The diligent pursuit of these goals allows us to meet your objective, which is the sale of your business to the best buyer at the best possible price.

I am proud of the reputation which we have built since our first transaction in 1984. We consistently achieve excellent results for our clients because our system for selling businesses has been perfected and fine-tuned over hundreds of business sales and thousands of hours of professional education.

To learn more about us and how we can sell your business, please look through this booklet – it could be the best decision of your life!

You may also find more information about our firm, and our sister Mergers & Acquisitions firm, on our websites, www.abi.nu and www.oa-ma.com

Sincerely Yours,

MISSION STATEMENT

Allen Business Investments (ABI) was created to provide the highest level of services to its clients. ABI serves as a catalyst in the sale/purchase transaction of existing businesses. ABI's skilled professionals have more than 60 years of experience in assisting Sellers and Buyers to achieve their goals, with demonstrated results based upon confidentiality, competency and integrity.

All of ABI's brokers-agents are licensed by the California Department of Real Estate.

VALUE DRIVEN STRATEGY FOR GROWTH

Remembering that profit is a natural by-product of doing something well and not solely an end in itself, ABI will achieve continued growth through its commitment to the following values:

- Caring and sensitivity to the needs of its clients.
- Performance of its activities with honesty and integrity.
- Development of credibility and professional excellence.

ABI advertises every week in the Business Opportunity section
of multiple Bay Area newspapers.

REASONS WHY SUCCESSFUL BUSINESSES ARE SOLD

- The owner is retiring.
- There are health issues.
- There are partnership disputes.
- The owner may have family members who are relocating.
- The owner is tired or “burnt out”.
- The owner does not want to upgrade.
- The owner can’t handle the business; feels “over their head”.

ABI would be happy to supply a list of client references.

WHAT SELLS YOUR BUSINESS

Commitment

The seller is committed to sell the business at a price and terms consistent with the marketplace.

Documentation

The seller provides all the necessary documents and information required to sell the business. Buyers and lenders will require accurate records.

Valuation and Pricing

ABI analyzes the business and suggests the optimal price range.

Terms

ABI shows how offering financing terms to qualified buyers will maximize price and minimize the time needed to sell the business. Capital gains taxes may be reduced. Recorded liens and other devices help insure that the debt will be paid.

Advertising

ABI advertises the business to get the highest possible response and the greatest number of prospects. ABI advertises more business for sale in newspapers and professional Business Broker databases than anyone else in our area.

Confidential Exposure

ABI discloses the nature of the business (*but not the name*) to the broadest group of qualified buyers.

Qualifying

ABI makes every attempt to “weed out” unqualified buyers and “tire kickers”.

Showing/Tour

ABI introduces the business to potential prospects, at a time reasonable to you, so that they can see it and feel it.

Offer to Purchase

The buyer writes a Purchase Agreement with contingency clauses. ABI represents the seller's interests to get the best possible offer. The offer addresses all important issues and is the logical next step in the process. ABI may also represent the buyer, in which case ABI owes a fiduciary responsibility to both parties.

Accept the Offer

The seller accepts the proposed Purchase Agreement or makes a counteroffer.

ABI's unique skill is being able to bridge the gap between buyers and sellers.

WHAT SELLS YOUR BUSINESS (continued)

Mutual Acceptance

All parties agree to the terms and conditions of the sale and the buyer receives permission to inspect books and records, equipment, and customer profile list.

Contractual Agreements

Arrangements are made for lease assignment, loan assumptions, training and/or consulting agreements, franchise transfer, equipment lease assignment, non-compete agreement, etc. ABI oversees and facilitates the entire process.

Contingency Removal

All contingencies in the Purchase Agreement are usually removed just prior to opening escrow.

Open Escrow

ABI provides all necessary information to the escrow company; an escrow account is opened and the proper documents are prepared.

Document Review

Copies of closing documents from the escrow company are given to all parties for review and comment.

Closing

All parties meet together to conduct a final inventory count, hand over keys to the business and to execute final transfer documents. The seller collects their check from the escrow company the next business day.

FINDING THE “STRATEGIC” BUYER

Many sellers look for the strategic buyer—someone who is willing to pay a premium for a business to gain a special advantage in the marketplace. Sellers often envision strategic buyers as large companies who are flush with cash. ABI has found these large and powerful buyers are not interested in existing businesses and certainly not using normal business valuation formulas.

Sellers sometimes think the strategic buyer can merge businesses to achieve a whole that is greater than the sum of its parts. This sometimes happens on Wall Street—it seldom happens on Main Street. It is extremely rare that transactions under \$10,000,000 can generate savings sufficient to cover restructuring costs. Such scenarios and buyers are rare indeed.

WHAT BUYERS LOOK FOR

While it is important to be most concerned about your own needs, it is important to understand the concerns of buyers.

- Provable Books and Records
- Reasonable Price
- Leverage Terms
- Living Wage (after debt service)
- Furniture, Fixtures and Equipment
- Lease
- Training
- Appearance
- Covenant Not to Compete
- A good Reason for the Sale
- Time is of the Essence
- No Last Minute Surprises

ABI's management team has over 60 years of experience.

WHAT IS A BUSINESS WORTH?

The value of a business depends on the needs and perspective of each individual buyer. Value is related to risk and the ability of the business to generate an income stream that is comfortable or the buyer.

It is important to start with the basics:

- Review tangible (fixed) assets
- Recast, normalize, confirm, and review earnings trends (for the past 3 to 5 years)
- Review factors that can impact future earnings
- Select the appropriate valuation approach(es)
- Calculate and apply external factor discounts

While there are many different valuation methods, they can be grouped into one of the following categories:

- Cost of Asset Approach
- Income/Earnings Method
- Market/Comparable Sales Approach

In many cases we see some common averages:

- Two to three times annual discretionary cash flow
- Fair market value of equipment and inventory plus one year's discretionary cash flow
- A percentage of annual gross sales (25% - 100%)

Discretionary cash flow is defined as total owner's pretax compensation for a single full-time owner/operator. This includes owner draw or salary, net profit, deducted interest, deducted depreciation plus other benefits such as luxury automobiles, excessive insurance, exotic travel and bonuses to children which have been charged off as business expenses. Normally the value of equipment is much less important than the amount of discretionary cash flow that a business is generating. These "common averages" vary greatly, depending mostly upon a business's cash flow, geographic local and type of business.

The final analysis, the final price of a business must pass the sanity test:

- Must cover debt service
- Must provide a reasonable income for the buyer
- Must allow for working capital fluctuations

Turnaround Opportunities

Businesses with a negative cash flow may not pass the sanity test but *may* be a good acquisition candidate for the right buyer.

While ABI assists the seller in finding the best method to price a business, the final asking price and terms are determined by the seller. Conversely, while ABI may assist the buyer in reviewing a range of values for a business, the offer amount rests solely with the buyer.

ABI clients are usually first-time buyers and sellers.

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HOW THE PURCHASE OF A SMALL BUSINESS IS FINANCED

There are many sources of financing a buyer can explore:

- Family, friends, partners
- Commercial banks
- Home equity, pension funds, insurance cash value
- Government agencies
- Strategic partners
- Leasing companies

In most cases, these sources will not provide favorable terms for financing the purchase of a business. The typical business acquisition involves the following elements:

- **Buyer's Cash** (*always*)
Typically 20% - 50% of the purchase price comes from the buyer's cash reserves. The seller and/or bank is usually unwilling to finance any portion of the purchase if the buyer's commitment is not significant. The buyer must also consider reserves to be used for business acquisition costs and operating capital, and includes interest.
- **Seller Financing**
Sellers will consider financing as a way to receive the full value of the business. Seller financing supports the idea of confidence in the business as well as a continued commitment to success—both of which are appealing to buyers. Such financing is usually structured as a term loan, consulting agreement, and/or non-compete agreement.
- **Institutional Financing** (*e.g. "SBA"*)
ABI provides assistance in securing such financing. Government secured loans are available in some cases and will include a review of the buyer and the business to be financed. Institutional financing usually requires the buyers' personal guarantees and subordination of any loans made by the seller.

Regardless of the valuation method used, service businesses usually cannot be financed if sold for more than 2 to 3 times discretionary cash flow. Buyers do not pay for potential. The final sales price must be based on the ability of the business to generate cash and to supply a product or service for which there is demand.

ABI is the oldest and most respected business brokerage firm
in the San Francisco East Bay.

WHAT ARE THE COMPONENTS OF THE ABI PURCHASE AGREEMENT

A Purchase Agreement specifies how the sale is to be structured:

- Asset Sale
Involves the sale of specific assets including equipment, trade names, and inventory but does not include cash, accounts receivable, or accounts payable
- Stock Sale
Involves the transfer of stock in the company and effectively includes all assets and liabilities of the company.

Purchase Agreement specifies Price, Terms and Conditions:

- Cash due at closing
- Assumption of debt (if any)
- Seller financing terms—term, interest, security
- Inventory included or to be purchased

The Purchase Agreement most often contains some contingencies that are usually satisfied prior to opening escrow:

- Due diligence (confidential business information not initially disclosed by the seller that the buyer still needs to review)
- Confirmation of financials, books and records
- Financing arrangements
- Lease assignments or negotiations of new lease
- EPA compliance
- Licensing requirements
- Franchise approval

Other issues that are addressed in the Purchase Agreement:

- Buyer and Seller warranties
- Training
- Covenant Not to Compete
- Allocation of Purchase Price (frequently done subsequent to Purchase Agreement)
- Desired closing date
- Date by which seller must respond

Once a Purchase Agreement is written ABI is obligated to present it to the seller.

The seller has three options:

- Accept the offer as presented
- Respond with a counter offer
- Let the offer expire with no action taken (rejection)

ABI has sold everything from a fire engine manufacturer, to moving and storage companies, distributorships, pizza chains, taverns, restaurants, manufacturers, tire stores, and photo labs.

THE ROLE OF THE ESCROW OFFICER

The services of an experienced Escrow Officer is recommended for the effective transfer of ownership of the business. Escrow Officers that ABI uses are specialists in the practice of business transfers. The bulk of their work, and experience, is in business transfers. The Escrow Officer is completely neutral. Their purpose is to prepare documents which reflect the interest of both parties as described in the Purchase Agreement and to collect and dispense funds. They do not represent one party against the other and they do not represent the broker.

The Escrow Officer

- Creates all the necessary closing documents including the Bill of Sale, loan documents, etc.
- Performs lien searches on the business to make sure clear title can be conveyed.
- Prorates and pays the rent, deposits, taxes, and other expenses as required.
- Insures that secured creditors are satisfied.
- Files and records documents with the appropriate authorities.
- Complies with the Bulk Sale provisions of the Uniform Commercial Code of the State of California.
- Keeps copies of all sales documents for at least five years.

The buyer and seller should have their attorney review all documents prior to closing.

ABI is part of both a state wide and a national network of business brokers, giving clients access to buyers and sellers across North America.

THE BUYER MEETING

A successful buyer-seller meeting is very important to a business sale. It gives the buyer a chance to get comfortable with the seller and with the business. It also gives the seller a chance to evaluate the buyer.

DO NOT:

- Meet with a prospective buyer without an ABI agent present.
- Discuss price and terms with the prospective buyer—this could seriously damage the seller's negotiating position.
- Discuss the brokerage fee.
- Hand over financial records unless the meeting was set for that purpose.
- Give the impression that only one specific type of person can run the business—it will scare off the purchaser!
- Overload the buyer with more information than he or she wants or can understand.

DO:

- Clean things up and eliminate clutter. A new coat of paint never hurts.
- Discuss the good points of the business and its potential.
- Explain the operation of the business and concentrate on its unique features.
- Allow the buyer to ask questions. They usually have several.
- Ask the buyer to call ABI if they contact you with more questions. We will get the answers for them.
- Explain the reason for sale in a positive manner.
- **SMILE!** Be positive about the business. Be enthusiastic!

QUESTIONS AND ANSWERS

When is the best time to sell my business?

The best time to sell is when the business is doing well. Currently, the economy is reflective of strong buyer interest for businesses of all types. Even if the business has peaked, it may very well command an excellent price if handled correctly.

How much is my business worth?

A company's value depends on many factors—cash flow, asset values, financial history, condition of equipment and premises, lease attractiveness, competition, potential for improvement, location, industry, and economy. Most importantly, the value of the business is determined by its ability to provide the buyer a reasonable wage to live on and cash to retire the debt.

Can a real estate agent sell my business?

It may be difficult. Business brokers are licensed to sell real estate, but most do not, and most real estate agents do not know how to sell businesses. The techniques of pricing, selling, and putting together the business transaction are altogether different from selling houses or commercial property. It is virtually impossible for a real estate agent to get the confidential exposure to qualified buyers that a business brokerage firm can get.

What about the accomplishment fee?

ABI usually collects its fee when the business is sold expecting for larger, complex transactions. Usually all the costs involved with advertising the business, screening buyers, and bringing the buyer to the closing table are paid by us. Usually there are no up-front fees or costs. Most sellers have found that the cost of using our services are more than offset by the value to be gained from taking advantage of our expertise and access to qualified buyers. Sellers have found that because ABI buyers historically offer more for businesses, the net proceeds to the seller after fees are paid are usually more than what a seller might have negotiated on his or her own. Some "larger" businesses may be of the size and complexity that a different fee structure is contracted for .

Remember, your business is in competition with other business opportunities and investments the prospective buyer may be considering.

ABI is a member of The Better Business Bureau and both the California Association of Business Brokers (CABB) and the International Business Brokers Association (IBBA).

DO'S AND DON'TS OF SELLING YOUR BUSINESS

DO:

- Keep good records
- Allow sufficient time to advertise and sell your business
- Offer terms
- Consult a knowledgeable broker

DO NOT:

- Wait too long to sell
- Underestimate the value of your business
- Overprice your business
- Pay large amounts of money for an appraisal or legal fees

Many ABI agents have successfully owned and operated their own businesses.

MANAGING THE SELLING PROCESS

PLANNING

Desire For Information
On The Selling Process

Data Gathering/
Owner Interview

Recast Financial
Statements

Prepare
Valuation Report

ABI
Listing Agreement

Prepare Confidential
Business Review

SEARCH

Active Buyer
Search Plan

Screen Responses

Interview
Potential Buyers

Obtain Confidentiality/
Non-Disclosure Agreement

Present Confidential
Business Review

Determine
Buyer Interest

DEAL MAKING

Buyer Visit
First Meeting

Probe Buyer Interest

Motivate Buyer To Act

Offer To Purchase
(Purchase Agreement)

Facilitate Negotiations

Agreement In Principle

CLOSING

Coordinate
Due Diligence

Loan Request
Package

Lender and
Landlord Introductions

Assist In
Resolving All Issues

Definitive Escrow
Instructions (Draft)

Review
Final Documents

Close

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