

Selling Your Business in a Slow Economy

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With negative economic news capturing the daily headlines, *small business* owners may think it is impossible to sell their company in 2009. (For this article I am defining *small businesses* as those with sales up to \$5 million, which is 89% of businesses in the North Bay.) Most small business owners ultimately decide to sell for personal reasons such as retirement, health, a family or career change, or relocation – taking into consideration their financial position and post-sale plans. Fortunately for business owners ready to move on now, business transactions are taking place in this economy.

Your business probably falls into one these sales and profit trend categories:

1. Flat or slight decline – essentially tracking with the economy. You'll have to work smarter and harder, but you should still be able to attract a buyer and sell at historical price multiples and on reasonable terms.
2. Trending up and outperforming the economy (either because your industry is counter-cyclical or growing, or because you are expanding into new markets, or taking market share from your competitors). Congratulations, your business will stand out and may command a price premium at this time.
3. Way down and losing money. There is even a market for these businesses, albeit at appropriately lower prices and with more creative deal structuring. This is a time for tough decisions.

For sellers in all categories, here are some suggestions to improve your chances of selling on favorable terms in 2009.

Attract More Buyers

While the economy has weakened business performance and restricted capital, it has not dramatically impacted the number of “willing” buyers. Of course, you will have to work harder to find, qualify, and win over the “able” buyers in this environment.

Put your best marketing foot forward by tying up financial, legal and other loose ends, and compiling all of the information buyers will need. Prepare an offering memorandum that makes it easy for buyers and their advisors to quickly and confidently grasp your business and make higher and better offers. Develop and implement a well thought out, aggressive marketing plan. Consider hiring a professional intermediary to market your business, confidentially, while you manage it during this critical time when it needs to look its best.

As you attract buyers, prepare to kiss a lot of frogs to find your prince, and qualify them early and thoroughly. Whether your target buyers are individuals, other companies or investment groups, look for business acumen, relevant experience, demonstrated success during economic downturns, and significant, committed assets for working capital reserves or to pledge as collateral.

Take Advantage of SBA Financing

With an experienced creditworthy buyer in hand, lenders are more likely to support your transaction. For loans up to around \$2 million, the U.S. Small Business Administration's (SBA) loan guarantee program has long been a reliable business acquisition financing solution. As of this writing the program is holding up and enjoys strong participation among community banks and regional lenders. While the SBA recently tightened its credit guidelines and banks are more closely scrutinizing businesses and buyers – deals are getting done. Your financial statements will need to be in order and your business will have to be appraised. If you're planning on selling right away, complete your 2008 federal tax return as soon as possible because the bank will need it. Sure SBA loans require a lot of

work, but if your business and your buyer qualify, and you work with a lender that specializes in financing business acquisitions, it's not as arduous as most people expect.

Expect Some Seller Financing

In order to achieve the highest value in this market, most sellers can expect to share some of the risk with the buyer and bank. Until recently, with a bank on board to provide financing, subordinated seller financing was typically 10% or less. In today's environment we are seeing seller financing in the range of 10 to 30%, depending on the size and circumstances of the deal. Seller notes are typically amortized over 5-7 years with balloon payments in 3-5 years. Sometimes seller notes are structured as an earn-out, where the amount paid depends on the performance of the business after the sale.

Besides making deals possible, seller financing can provide tax savings; and protective measures can be taken to reduce your repayment risk. Other financing options to consider should include accounts receivable factoring, asset-based loans and equipment leasing. Another strategy is to ask key customers or suppliers for special payment terms, or even debt or equity participation in the acquisition. Long-standing "stakeholders" may be willing to help out if your business is vital to their continued success.

Put your best foot forward if you plan to sell in 2009. Prepare, attract more and better buyers, explore all financing options and prepare yourself for agreements with creative deal structures. Whether you "sell and go" or "hold and grow", best of luck this year!

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