Please take a moment to review the valuable content in our newsletter.

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September 2020 - In This Issue:

PERSISTENCE

Persistence is defined as a firm or obstinate continuance in a course of action in spite of difficulty or opposition. I recently read about persistence in in the "Thoughts" section of Forbes Magazine and it got me thinking about what persistence really means from a business perspective and especially in the current Covid era.

It has only been about six months since most of us began to understand how Covid would affect our lives, both personally and professionally. I am also quite certain that many of us have all likely experienced some of the same things.

Anyone that currently owns or has owned a business has hopefully had positive experiences, and has likely had some difficulties as well. One of the realities is that "quitting" is rarely a good option, leaving persistence as a course of action. The path forward isn't always as hard as you think. Analyze the situation, determine one or

OWNERS UNWILLING TO PROVIDE PARTIAL FINANCING WHEN SELLING A BUSINESS

Owner Financing

In today's economic climate, an owner should be prepared to provide some seller financing.

These days, if a business owner demands an all-cash closing, the likelihood of a successful sale decreases significantly.

Minimize seller financing

From a seller standpoint, your goal should be to minimize the amount of financing to be provided. The key to being able to do so is to diminish other obstacles to a sale. It's important to have realistic price expectations, to minimize customer concentration and to maintain current operating results that are on track with your prior year's historical results. If the business is priced to high, you have customer concentration issues or your current year's results are declining, the percentage of required seller financing can dramatically increase. In many instances, seller participation can be as low as 10% of the purchase price. However, much depends on the nature and specifics of the business itself.

The effect of "blue sky" (goodwill) on seller financing

Another factor that might affect the need for seller financing is the amount of "blue sky" (goodwill and intangible assets) in the business valuation. Under SBA rules, goodwill and intangible assets are the value of the business in excess of the fair market value of collateral assets. As of this writing, when goodwill/intangible assets are in excess of $500,000, the equity on that portion of the transaction has to be at least 25%. Because some lenders allow seller financing to be counted towards that 25%, you may be asked by the lender or the buyer to partially participate in that financing requirement.

The decision to provide partial seller financing can have numerous benefits:

1) In many instances, it can be the difference between

more courses of action to survive, adjust and make changes as warranted, and move forward until successful.

A Business Plan, no matter how well planned, will require changes as the world around it continually changes. There rarely, if ever is one right answer or only one course of action. There is no guarantee that whatever is chosen will work - changes will be necessary. Persistence is required to survive!

Today's reality is something businesses have never experienced. Our business (yes, it is affected) in both good and bad ways. Our clients are continuing to work with us, in some situations because of Covid issues and others despite Covid issues. It doesn't matter, if we persist, we will endure and accomplish.

Talking about where things are and where you want them to be is important and owning a business can be lonely. We are here for you and would like to hear from you, to get an update on you and your business - confidentially of course. There is no obligation or commitment - just an opportunity to expand our respective networks and learn from each other.

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successfully selling the business or not being able to get it done at all.
2) It instills confidence in the buyer when he knows the seller believes in the viability of the business.
3) The business will sell much more quickly than otherwise.
4) Studies show that owners who provide some seller financing achieve a higher multiple (sell the business for more) than those who demand all cash at closing.
5) With the interest rate you can negotiate, you will likely achieve a higher rate of return on the financing you provide vs. investing the funds elsewhere.
6) Because income deferral occurs as a result of providing seller financing, there may be some tax savings. Ask your tax advisor.

Perform your own due diligence on the buyer's qualifications

Obviously, if you are going to help buyers with partial seller financing, you want to feel good about the prospects of the buyers' success. Just as buyers interview you to become comfortable with the business, you should interview buyers to enable you to reach your comfort level with their likelihood of success. You can request resumes, references, personal financial statements and check credit scores. You may want to ask for updated monthly, quarterly or annual financial statements for the length of your note. You might be able to negotiate security agreements and/or personal guarantees. However, your security will likely be subordinate to the lender's security (if a lender is involved). When it comes to a seller note, you should definitely get your attorney involved.

When planning to sell your business, one of the best decisions you can make is to be open to the possibility of providing partial seller financing to a qualified buyer.

NEXT ISSUE

Owners Who Cannot Afford To Sell

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