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It's February Already, What's Your Status?

Its already mid-February, January and its 31 days seemed to have come and gone quickly this year. With time seemingly flying by, it's important to ask ourselves some important questions. Did we accomplish the things we needed to at the beginning of 2023? Hopefully we did, and now we can focus on moving forward.

Here at Zoellner Garten & Company we are having a very busy start to 2023. We have four businesses for sale with transactions in process. That's a lot for us as they all take time to manage. We have offers on two other businesses for sale and are "sorting through them". We also have 3-4 new opportunities to advise Business Sellers and Buyers. Needless to say, there is a lot of activity despite much higher interest rates, Bank prime rate at 7.75%, and inflation hovering around 8%. All of these are much higher than a year ago. The Stock Market is also up and down yet steadier than many pundits have predicted.

What about our businesses? How should we as business owners or prospective business owners move forward? Did we do a Budget for 2023? Is it an optimistic or pessimistic budget compared to

Eliminate the clutter of unproductive assets

Unproductive assets are things like obsolete or excess inventory, furniture, fixtures, machinery, and or equipment. Those obsolete items are obstacles, literally. In many businesses, they are taking up a lot of space in the office or warehouse. Employees may need to take circuitous routes within the premises to get around them. Perhaps more importantly, they are cluttering up the appearance of your business. Among the first suggestions made by residential real estate agents is to eliminate the clutter. The same holds true for your business. Although appearance is usually not a major factor in a prospective buyer's decision, it can affect the first impression of your business. And we all know, **first impressions are lasting impressions.**

In a previous issue, we explained businesses are valued based on sellers' discretionary earnings (SDE). If the business is profitable, usually the SDE value exceeds the value of assets being transferred. So, in essence, you are not being paid for the assets, you are being paid for the cash flow created by productive assets. If you transfer excess or obsolete assets, the prospective buyer is not going to pay you any more than if you don't include them in the sale. You need to transfer to the buyer the assets that are creating your cash flow, but you do not need to transfer unproductive assets that do not create cash flow.

You can legitimately sell off unproductive assets before selling your business

This creates an opportunity to put a few dollars in your pocket while you eliminate the clutter in your business. You can sell your obsolete or excess inventory, furniture, machinery, and equipment and clean up the clutter at the same time! But, could you do it before you put the business on the market? If you do it after it's on the market, buyers may think you are trying to pull a fast one.

For sellers who do not fully understand the concept of their business valuation is based on SDE, not

2022? What can we control?
What can we influence?
Sometimes not much, but we can be aware of things going on around us. Since early 2020 business life has changed for owners, employees, customers, vendors, financial institutions. Could we have predicted what happened – an emphatic NO!

What are businesses worth in today's market? Business buyers look at history and current conditions to help determine how they value a business. Most importantly they look ahead. If they see too much risk they won't buy. With the activity we are seeing in early 2023 and what we saw in the 4th quarter of 2022, buyers are willing to take risks.

Whether you own a business and might consider selling, or you want to own a business, we are here to discuss options.

Please feel free to contact us to discuss anything at all, of course with no cost or obligation. We've been doing this since 1988 and continue to learn.

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the value of assets transferred, this can create a mental obstacle. Often, sellers want to add the value of inventory or equipment to the price offered by a buyer. But that is not the way it works. Again, the buyer is acquiring the cash flow generated by the business and is entitled to receive the productive assets that create that cash flow. But, you do not have to transfer unproductive assets that are not responsible for creating cash flow.

First impressions are lasting impressions

Returning to first impressions, often unproductive assets are not only taking up space and creating clutter but also accumulating dust and dirt. It's a lot easier to have the appearance of a clean facility when those obsolete or excess assets have been physically removed. In fact, if you don't do it prior to putting the business on the market, some buyers will make it your responsibility to remove unproductive assets prior to closing. They don't want to deal with it.

Obsolete inventory

There's another reason obsolete inventory is an obstacle. Buyers may become overly concerned about the nature of the business results if levels of obsolete inventory are too high. Because you have many more years of experience in the business than they do, they may project that their obsolete inventory problem is likely to be much larger than your problem, and factor that negative aspect into their evaluation of your business.

Technology assets

Another common "first impression" obstacle has to do with the appearance of your technology assets - primarily computers. Especially prior to a sale, if your computers are obsolete but still functional, you should consider upgrading. Relatively speaking, versus the acquisition of other types of assets, new computers, and upgraded software are inexpensive. You don't want a buyer visiting your facility to think your business looks like it belongs in the 2000s - that's not a good first impression.

Look around your facility. Identify unproductive assets and sell them, donate them, or trash them - before you put your business on the market.



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