What's It Worth?
Business Valuations, Mergers, Acquisitions, and Consulting
NEWSLETTER ARTICLE ARCHIVE

Top Three Best Deal Killers

Over the last year, I have been brought into various transactions that were already in progress and a clear pattern has developed into what I call – Top Three Best Deal Killers! I hope that your reading of these issues can assist everyone in developing a smooth road to a successful business transaction.

Real Estate with the Business

With the trends of bankers requiring strong outside collateral from buyers and bankers distaste for investment commercial real estate deals, Sellers many times need to include the business real estate with the sale of the business. Many Sellers prefer to hold onto the real estate that the business occupies and lease it the Buyer. Typically, the problem with this approach is many banks required the building to be owner occupied – at least 51%.

Rumor has it that currently some banks in the market, given certain circumstances, are not requiring commercial building be owner occupied. This is now giving better options for businesses to be sold without the real estate. The downside to this type of financing are possible hefty pre-payment penalties in the first few years so be aware of all the fine print. Check with your banker for your options or call Capital Endeavors, Inc. for possible bankers that may offer different solutions. Don't let a deal die on the vine before you check out all the potential financing opportunities.

Books and Records

Now is the time to beef up your books and records and keep them in shape if you are looking to close a deal anytime soon. Here are the top three reasons:

1. Putting deals together can be quite a challenge at any time. Bankers have enough issues to deal with and are focused on meeting their book of business goals. They do not need a reason to turn a deal down – they have plenty! Happy bankers can make happy sellers and buyers – so keep them happy with books and records that show the business can support the transaction and the associated debt.

2. Remember that if the owners of the company are basically "living" out of the company's check book, it can make it much easier legally to penetrate the corporate veil and the shareholders, members or partners can lose their limited liability status. Make sure to check with your legal counsel from time to time to clarify your strength or weakness on this point.

3. Buyers do not like a long list of discretionary add-backs (personal expenses run through the Company) when buying a business. It scares them and if they find the books not to be trustworthy and reliable, the majority of the time they either walk away or offer a very low price.

Know the "entry fee" for buying or selling a business

Determining a purchase price for a business is just one step in a business transaction. Do not forget that there are outside costs for both parties in the deal that need to be considered and placed on a particular timeline so that good money is not thrown after bad. A little time and money spent in some basic due diligence (not forensic accounting – later step) should be the first money spent. For example, there is no reason to pay non-refundable up-front loan fees before you know that the reported cash flow is reliable moving into the future.

Have a budget for your business transaction. Know up front what the estimated expenses will be for your broker, accountant, and attorney. Also, make sure to estimate any and all tax implications for both sides of the deal. Bills can increase easily without supervision, and it really hurts the pocket book when you are walking away from a deal after spending $25,000 or more of your hard earned money.

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