The Montana Small Business Development Center presents:

STRATEGY SELLS BUSINESSES
AND IT BUYS THEM TOO
Strategy Sells Businesses
And It Buys Them Too

Murphy Business Sales

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Owners’ Worries

• Wondering at one o’clock in the morning:
  – Who will buy my business?
  – How much is it worth?
  – How do I find a good buyer for my company?
  – Can I sell it to my good employees?
  – Which advisors do I need to help me?
  – How long will it take to sell my business?
Buyers’ Worries

• Wondering at one o’clock in the morning:
  – Who will sell me their company?
  – How much is it worth?
  – How do I find a good company to buy?
  – Will the good employees quit if I buy it?
  – Which advisors do I need to help me?
  – How long will it take to buy?
A Transaction is a Mirror

• To successfully sell, think like a buyer
• To successfully buy, think like your seller
Did you know . . . .

• Sellers are not as well prepared to sell as buyers are to buy
• Buyers typically spend too much time analyzing business financials; failing to match their skills and personalities to the business
• Business valuation is an art; not a science
Did you know . . . .

- Attorneys and tax advisors need time to help get the transaction done well.
- It’s not over, even when it’s over.
  - You will need help after you sell or buy your business
    - Both parties need support during transition period
Webinar Goals
What You Will Learn Today

• **Reasons** sellers sell and buyers buy.
• The successful **process** for both sellers and buyers.
• Real **experiences** of people who have successfully bought or sold a business in Montana.
• Why things seem to happen (or don’t happen) when buying/selling a business so you may **prepare**.
Introductions
Introductions

• **Murphy Business and Financial Services**
  – Largest transaction firm in the U.S.
    • 280 professional intermediaries
      – former owners, CEO’s, CFO’s, CPA’s, senior level executives
    • Has over 3200 closed transactions worth over $2B
  – Credentials
    • Licensed by MT, ID, ND, SD, WY Real Estate Commissions
    • National brokerage and valuation certifications
    • Senior level business management
Our Firm Covers The Nation
Why Do People Sell Businesses?

- Burned out
- Retirement – no heirs
- Divorce, partner disputes
- Illness
- Insufficient capital to grow
- Achieve estate liquidity
- Get discovered; receive an offer to buy
## U. S. Small Business Market

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Employees</th>
<th>Revenues</th>
<th>% of Total Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>&lt;10</td>
<td>&lt;750K</td>
<td>80</td>
</tr>
<tr>
<td>Larger Business</td>
<td>&lt;20</td>
<td>750K – 2Mil</td>
<td>10</td>
</tr>
<tr>
<td>Mid Size Company</td>
<td>&lt;100</td>
<td>2Mil – 30Mil</td>
<td>9</td>
</tr>
<tr>
<td>The Larger Company</td>
<td>&gt;100</td>
<td>&gt;30Mil</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: International Business Brokers Association, used with permission
## How Many Sell?

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenues</th>
<th>Number of Businesses</th>
<th>Estimated # for Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>&lt; $750K</td>
<td>4,320,000</td>
<td>864,000</td>
</tr>
<tr>
<td>Larger General Business</td>
<td>$750K-$2Mil</td>
<td>594,000</td>
<td>173,000</td>
</tr>
<tr>
<td>Mid-Size Company</td>
<td>$2Mil-$30Mil</td>
<td>486,000</td>
<td>73,000</td>
</tr>
<tr>
<td>Larger Company</td>
<td>&gt;$30Mil</td>
<td>54,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Source: International Business Brokers Association, used with permission
## How Many Actually Sell?

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenues</th>
<th># of Businesses</th>
<th>Estimated # for Sale</th>
<th>Actually Sell</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>&lt;$750K</td>
<td>4,320,000</td>
<td>864,000</td>
<td>157,000</td>
<td>18</td>
</tr>
<tr>
<td>Larger Business</td>
<td>$750K-$2Mil</td>
<td>594,000</td>
<td>173,000</td>
<td>43,250</td>
<td>25</td>
</tr>
<tr>
<td>Mid-Size Company</td>
<td>$2Mil-$30Mil</td>
<td>486,000</td>
<td>73,000</td>
<td>21,000</td>
<td>29</td>
</tr>
<tr>
<td>Larger Company</td>
<td>&gt;$30Mil</td>
<td>54,000</td>
<td>8,000</td>
<td>2,500</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: International Business Brokers Association, used with permission
Why Don’t More Small Businesses Sell?

Unfortunately, most don’t follow a proven process to manage a successful transaction
So, Let’s Get Started Successfully Selling and Buying Private Businesses
Transaction Exercise -- You are asked to advise a friend on **buying** or **selling** a business

- **WHAT** are the five (5) key factors you would be most concerned to know about the company?
  
  **AND**

- **WHY** do you see these as key to making a good buy/sell decision?
Why Follow a Process?

A proven, successful process:

• Reduces risk
• Increases likelihood of closing
• Makes business more “bankable”
• Increases the business’s VALUE to the ownership (selling and buying)
The Optimal Business Transfer Process

- Preparation for sale or purchase
  - Know thyself and thy needs
- Valuation of the business
  - The right information is needed for a successful transaction
- Confidential Marketing Plan and Search
  - Unlocking the best transaction at the right value
  - Prepare the Offering Package
The Optimal Business Transfer Process

• Due Diligence
  – Confirming what is said
  – Cost-effectively and on schedule

• Purchase Negotiations
  – Starting them, keeping them going AND finishing them on schedule

• Financing and Funding
  – Getting ALL the money necessary for success

• Closing and Transfer – Finishing the Job
  – Coordinating the law and tax work
  – Post closing matters
Process Solves Problems

- Let’s review your five most important concerns from Exercise 1

- When does the Optimal Business Transfer Process address these problems before final decisions are made?
Let’s Follow The Optimal Business Transfer Process
Preparation for Sale/Purchase

• The National business market today
  – Owner-financing is a major driving force in U.S. business transactions
  – First timers (many career-changers) now represent 70% of the Nation’s buyer market

• The “ante” is up for good business information
  – Buyers must know details of the business to buy and to get financing
  – Financial statement quality affects business value
  – Sellers expect to know the skills and resources of buyers
The Optimal Process - Preparation

• Know thyself and your needs
  – What is important to you and what is not!

• Prepare a valuation of the business
  – “Fair market value” and appropriate price
    • Both must be present for a successful transaction
Valuation for Purposes of Sale

• Most small businesses are sold on the strength of earnings -- not assets

• Today, the Market Method is the most effective way of valuing a small business

• Problem: How can you find out these values to maximize the price of your business?
Using Easy Rules of Thumb

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$6,000,000</td>
<td>$18,000,000</td>
</tr>
<tr>
<td>2016</td>
<td>$8,000,000</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>2017</td>
<td>$12,000,000</td>
<td>$12,000,000</td>
</tr>
<tr>
<td><strong>Debt</strong></td>
<td>$1,500,000</td>
<td>$7,000,000</td>
</tr>
<tr>
<td><strong>Equipment Age</strong></td>
<td>35 yrs</td>
<td>20 yrs</td>
</tr>
<tr>
<td><strong>Owner’s Comp.</strong></td>
<td>$350,000</td>
<td>$100,000</td>
</tr>
<tr>
<td><strong>Owner’s Vacation</strong></td>
<td>6 Weeks</td>
<td>None</td>
</tr>
<tr>
<td><strong>Similar Customers, Industry, and Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pretax Net Income</strong></td>
<td>$1,500,000</td>
<td>$1,500,000</td>
</tr>
</tbody>
</table>

Do these two Companies Deserve Equal Market Value?
Valuation for Purposes of Sale

• Most small businesses are sold on the strength of earnings -- not assets
• Today, the Market Method is the most effective way of valuing a small business
• Problem: How can you find out these values to maximize the price of your business?
• Solution: Good valuation knowledge of actual transactions better gauges value and supports negotiations
Confidential Marketing Plan

• Create the Confidential Offering Memorandum
  – Key information in a typical business profile
    • The business and its history
    • Sales, expenses, and earnings of the business
    • Marketing strategy
    • Employee profile
    • Tangible and intangible assets
    • Facilities and location of business
    • Reason for sale

• Prepare a Market Plan uniquely suited to the business
  – The who, what, where, when, why and how to find top quality prospects
Confidential Search

• Liquidity adds value
  – Local buyers are a small portion of the buyer pool
  – Buyers throughout the Nation must be screened
  – National search is particularly valuable

• Finding and keeping the best buyers add value
  – Managing “back-up buyers” while the primary buyer negotiates his/her best offer
Who Buys Businesses?

• Types of Buyers:
  – Individuals (employees, career changers, former executives)
  – Corporate (competitors, suppliers, customers)
  – Financial buyers (small, private buying groups)
Finding Good Buyers

• A network of experienced brokers and intermediaries throughout the Nation
• Contacts with affiliates and brokers throughout the U.S.
• Relationships with the best business advisors in the community
• Full-service brokerage firm’s confidential databases of buyers and sellers
Markets
Create Value
The Optimal Process
Market Search Adds Value

Distribution Company

<table>
<thead>
<tr>
<th>X Earnings</th>
<th>Bid 1</th>
<th>Bid 2</th>
<th>Bid 3</th>
<th>Bid 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.0</td>
<td>1.9</td>
<td>3.4</td>
<td>2.9</td>
</tr>
</tbody>
</table>
The Optimal Process
Market Search Adds Value

Service Business

X Earnings

Bid 1 | Bid 2 | Bid 3 | Bid 4
-----|------|------|------
3.5  | 2.0  | 1.9  | 1.5  

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The Optimal Process
Market Search Adds Value

Manufacturer

X Earnings

Bid 1  Bid 2  Bid 3  Bid 4

1.9  7.2  2.0  4.9  0.0  1.0  2.0  3.0  4.0  5.0  6.0  7.0  8.0  9.0

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The Optimal Process – Negotiating the Purchase Offer

- Completeness of terms and conditions
- Timeliness to finish the transaction
- Confidentiality about the matter
- Clarity of terms to all concerned
- In short -- attention to the details
The Market’s Definition of a Good Business aka: The Buyer’s Test

- Covers the debt service of acquisition
- Provides adequate working capital
- Pays the owner/manager a reasonable salary
- Provides a reasonable return on the cash invested
- Creates a safety cushion of cash flow for unforeseen changes in the business – has cash left at year end
The Optimal Process – Due Diligence

- Verify what we know is true
- Documenting the facts
Typical Selling Mistakes

• Failing to run the business while selling
• Demanding unrealistic prices
• Negotiating with only one buyer
• Nitpicking in negotiations
• Failing to evaluate the buyer’s personality and skills
• Losing your flexibility
Typical Buying Mistakes

- Demanding unrealistic prices
- Negotiating with only one seller
- Nitpicking in negotiations
- Overlooking conflicts with seller’s personality and skills
- Incomplete due diligence
- Losing your flexibility
The Optimal Process – Financing and Funding

- Understand the lender’s criteria
- Experience anticipates problems and opportunities for funding a transaction
- The information ante is going up
- The preparation effort pays off
  - The Marketing Plan informs and reduces lending risk
  - Good information speeds the lending process
The Optimal Process – Closing and Transfer

• No surprises at “the closing”
• Documents prepared earlier now support the necessary legal and tax work
• Confidentiality protects employees, vendor relations and customers
• Smooth closings add confidence
• After the closing, prepare for needed legal and tax work
The Optimal Business Transfer Process

• Anticipation is Key
  – STAY ON THE AGREED SCHEDULE
  – Anticipate future problems and opportunities resulting from present actions
Today, We Bought and Sold a Business

• We hope you gained some ideas that will help you in your business
• We have explained why things happen when buying/selling business
• The Process helps you prepare for transaction success
• The Process reduces risk of selling or buying your business. Value is increased
Thank You for Attending

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