



Buying or Selling a Business During Tough Times

By Gary Papay, M&AMI

With negative economic news grabbing the headlines in the United States, business owners may think it's not a good time to sell their company. But fortunately for owners looking to sell, that's not necessarily true.

Business sales are still taking place with sellers capturing attractive prices and favorable terms, when the deal is structured properly.

Look at the buyer's credibility – Of course, you want to find the best buyer possible. Whether it's an individual, another company or a Private Equity Group, look for a potential buyer with business acumen, significant assets to pledge as collateral or a committed fund, as well as demonstrated success.

With a proven, credible buyer at the negotiating table, lenders are more likely to support the transaction.

Expect some seller financing – Oftentimes during a tight economy sellers must share the risks with the buyer and the lender in order to achieve the highest value.

In many instances the value of a successful business is greater than the fixed assets. In today's tight lending environment, a seller can still get a strong value for the business, but the seller may need to finance more of the purchase price than before. Regardless of the capital structure or finance considerations, professionally crafted and creative deal structure is the key during a difficult economy.

Typically, seller financing has been somewhere between five percent and 15 percent. With the current lending climate, seller financing may approach 15 percent to 25 percent amortized over 10 years with a balloon payment between three years and five years.

After the buyer has proven themselves in the business and shown that the debt payments will be made, the lender will generally refinance the seller's note. As a result, the seller receives full payment within three years to five years and the lender gets to loan more funds to a demonstrated lower-risk borrower.

While the economy has put a crunch on available financing, it has not had a dramatic impact on the number of potential buyers. With the right structure, deals are still getting done across the U.S.

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