BUYING AN EXISTING BUSINESS?

The Dynamics of Planning, Preparing, Managing and Implementing Your Purchase

BITS - n - PIECES

THE SYNCHRONICITY INVESTOR

No matter if you are a homeowner, a small business owner, or a decision maker at a real estate conglomerate, The Synchronicity Investor (TSI) is committed to providing you with choice and transparency so that you can make informed decisions.

With all of the information and misinformation that is out there, we want to make it easy for you to find the resources that you need. We encourage you to think of TSI as your go to source.

Note: Content for Bits-n-Pieces is provided by Real Property Experts LLC and authored by Pierre Mouchette

PUBLICATIONS

All publications provide accurate and authoritative information for:

- **HOMEOWNERS** - obtaining homeownership, maintaining your investment , and much more.
- **REAL ESTATE PROFESSIONALS** - we provide educational excellent material to help you enhance your career, and the services you provide to others.
- **INVESTORS** - we have content related to legal services, accounting, financing, taxes, insurance, management, investment and more.

WEBSITE

THE SYNCHRONICITY INVESTOR website contains hundreds of articles on **Real Estate,** everyday **Life,** and the **Environment.**
- ALL AVAILABLE FOR FREE -

There you will find more Books, Booklets, Guides, How-to-Articles, Environmental and Life Knowledge Publications.

BITS-n-PIECES

This publication will provide you with both information, and knowledgeable facts, on matters that you may be challenged with.

BUYING An EXISTING BUSINESS?

Pierre Mouchette, author

Bits-n-Pieces
a TSI Publication

Contents

Buying an Existing Business

Purchasing an existing business could be a fantastic decision if you do it right. Some items to consider are:

- Always remember what you are trying to accomplish – in buying an existing business you want to avoid the pitfalls of opening your shop from scratch. The business should have a strong customer base, growing sales, good staff, established procedures, and most importantly positive cash flow.

- Is it a good fit? Running your existing business has provided you with business experience and strengths. Buying a business that gives you a chance to leverage those skills makes a lot of good business sense. But, before you buy, make a list of what you are bringing to the table:
  - Are you a good manager?
  - Salesperson?
  - Organizer?
  - Do you have specialized technical knowledge?

  Keep an open mind and list everything!

- Due your due diligence - ascertain the following:
  - Why is this business for sale?
  - What is the business's outlook for the future?
  - How has the business changed over time? Different products? Services? Clients?
  - How does the business obtain customers? What did the previous owner do for marketing?
  - How long have the employees been there? Are there any key employees who would be hard to replace? Why or why not?

  Do not even think about buying a business unless you talk to its customers and suppliers. Get them to tell you as much as possible about their experiences of doing business with the company. It is also important to check with the ***Better Business Bureau*** *(their business standing, and if there are complaints filed against them), the* ***Secretary of State*** *where the business is located (to obtain information on the businesses standing), and* ***get a credit report on the owner, and the business.*** *These are musts!*

- Review financial statements - this is when your accountant earns his keep. Make sure the seller gives you all sales records for the past three years. They should be broken down by product or service. This will tell you which direction the business is heading in.

- Get a detailed list of all liabilities:
  - Has the owner borrowed money against any of the assets?
  - Have they made use of questionable sources to fund the business?
  - Are there any pending lawsuits?
  - Are there any employee benefit claims to be settled in the foreseeable future?

- Your attorney and accountant can help establish the following:
  - Are the accounts receivable good? How long have those receivables been on the books? (The longer they are held, the less likely it will be that you can collect, and what is the quality of those receivables)?
  - Look at the products/services price list. Has the owner been able to increase prices over time? Have prices fallen because of a dwindling demand?

- Have the business owner supply you with projected future financial statements. These **'pro forma'** statements will help you evaluate the value of the company.

- Documentation - your attorney and accountant together can help you create and evaluate important documents. Typically, that includes:
  - Letter of intent.
  - Confidentiality agreement.
  - Contracts and leases.
  - Financial statements.
  - Tax returns.
  - Sales agreement.
  - Purchase price adjustment.
  - And more......

The Inner Details

Inventory – if the business sells a product, you are going to pay for everything that is on the shelf and in the backroom. Since you are paying for it, verify that it is all there. Do not take the seller's word for anything. Both you and the seller should examine the inventory to make sure that it is all there and to verify that it is in good condition and can be sold. Just because the owner says the value is one thing, does not mean you have to go along with it. Verify, Verify, Verify! You can negotiate the value, and you will be better able to do so if you get professional help in evaluating what the inventory is worth.

Furniture and Fixtures - be sure you do not pay the owner what they paid! Remember, you are getting used furnishings, so do not pay new prices. That goes for equipment too.

Papers - review the legal documents and contracts. That includes articles of incorporation, leases. and tax returns for the last five years. Make sure your lawyer and accountant go over these with a fine-tooth comb. They will make sure that contracts are valid, and the income projections are reasonable. Also, discuss with them about drafting a **Letter of Intent** and the following:

- Why You Should Use a Letter of Intent?
- What to Put in Your Letter of Intent.
- Why You Should Only Sign a Nonbinding Letter of Intent.
- Format for a Letter of Intent.
- Promissory Note.
- Security for Future Payment: Asset Sale.
- Security for Future Payment: Entity Sale.

Payment for Non-compete Agreements and Consultant Deals

- Seller's Agreement Not to Compete with the Business After the Sale.
- Current Employees of the Business You Are Buying.
- Location is critical. If you rely on retail sales, is the location one that will continue to attract traffic? Why?

Business Value

The value of the business - there are many different methods to determine a fair price for the sale of a business. Here are a few:

- **Capitalized earning approach** - this method refers to the return on the investment that you expect.

- **Excess earning method** - like the capitalized earning method, except it separates return on assets from other earnings.

- **Cash flow method** - this method is typically used to determine how much of a loan the business' cash flow can support.

- **Tangible assets (balance sheet) method** - this method values the business by the tangible assets.

- **Value of specific intangible assets method** - this method compares buying a wanted intangible asset versus creating it.

Forms That May Be of Importance

IRS Forms

- IRS 8594 - Asset Acquisition Statement and Instructions

UCC Forms

- UCC Financial Statement and Addendum

Miscellaneous Agreements; Notes; Letters etc.

- Confidentiality Letter
- Attachment to Sales Agreement
- Amendment of Sales Agreement
- Promissory Note
- Security Agreement for Asset Sale
- Security Agreement for Entity Sale
- Escrow Agreement for Stock Certificates
- Escrow Agreement for LLC Transfer Certificates
- Bill of Sale for Business Assets
- Statement Regarding Absence of Creditors
- Assignment of Lease
- Assignment of Contracts
- Consent to Assignment of Contract
- Assignment of Intellectual Property
- Directors' Consent to the Corporation's Purchase of a Business
- Shareholders' Consent to the Corporation's Purchase of a Business
- LLC Members' Consent to the Company's Purchase of a Business
- Partners' Consent to the Partnership's Purchase of a Business

- Covenant Not to Compete
- Independent Contractor Agreement
- Closing Checklist for an Asset Sale
- Closing Checklist for an Entity Sale
- Asset Sale Agreement
- Entity Sale Agreement

The greatest deals are attained by those who do their
'due diligence' *before making the* ***'offer to purchase'.***

Commercial Loans

Commercial loans can be generated for:

- Acquisitions and Development
- Business and Industry Guaranteed Loan
- Line of Credit
- Venture Capital
- SB 504
- Miscellaneous
    - Accounts Receivable
    - Asset Based Lending
    - Business Credit Card
    - Inventory Financing
    - Working Capital

Government Loans

The Small Business Administration (SBA) - is known for their loan guarantee programs. The two programs that are startup friendly are the **Community Advantage Program** and the **Microloan Program**. Both programs target new or underserved businesses. SBA loans can be difficult to qualify for! You will need to have a credit score of 680+ and be able to pledge some collateral for the loan.

The Community Advantage program lets your startup borrow up to $250K, and the Microloan program provides loans up to $50K. The SBA is not the lender but instead they guarantee the loan. The lender is an SBA-approved intermediary, such as a CDC (Community Development Corporation), a bank, or a non-profit institution.

Recommended Reading:
Mouchette, P. (2021). *HOW TO SECURE A GOVERNMENT LOAN - SBA 7(A) FOR SMALL BUSINESS OWNERS.* Independently published.

Terminology and Questions

Capital (Net Worth) - The following are part of the general financial condition questions:

- Is the company well capitalized?
- How much money do the principals have invested in the company?
- Are the principals at risk in the company?
- How do the company's financial statements read?
- How far will the principal's personal resources support both themselves and the business as it is growing?

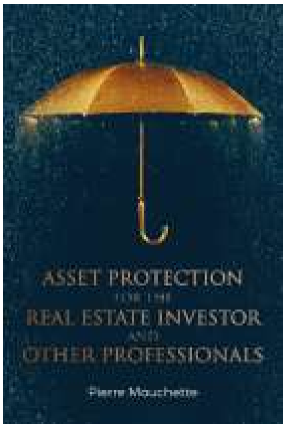
Collateral (Assets) - The following are assets offered by the borrower as security worth:

- While cash flow will usually be the primary source of repayment, lenders look at what they call the secondary source of repayment. Collateral represents assets that the company pledges as an alternate repayment source for the loan.
- Most collateral is in the form of hard assets such as real estate and office or manufacturing equipment.
- Alternatively, your accounts receivable and inventory can be pledged as collateral.

Conditions (of the Company and Overall Economy):

- What are the conditions and circumstances peculiar to the industry or geographic area?
- Are there any economic or political agendas that could negatively impact the growth of the business?

Featured Book



Asset Protection for The Real Estate Investor and Other Professionals

Finally, a book that is written in an easy-to-read format, that will provide the reader with questions and options to review with professional advisers.

Material covered is general and is not intended as a comprehensive representation of all relevant issues. Laws in each state vary, and the applicability of the information provided in this book may change depending on specific circumstances.

The reader is cautioned that information presented cannot be substituted for competent legal advice. Buy on AMAZON NOW!

TSI-Book Store:
Books; Manuals and Guides for upload in PDF format.

Thanks for reading!
If you enjoyed this publication, share it with family and friends.
Please take a moment to let us know how we are doing.
Your support does make a difference.

Comments

The Real Property Experts Website Family

Real Property Experts | Authors Website
The Synchronicity Investor | Website Collective of RPE Publications
TSI-BizSense | Recommended Products and Services