



Collateral and Cash— What to bring to the closing table?

Remember, you need to have a strong CCCE degree to buy a business these days. Bank financing is available, but in today's market, all buyers must be strong in Cash, Collateral, Credit and Experience. (CCCE) if they want to receive outside financing. If a buyer is looking to receive heavy seller financing, the story is pretty much the same – though heart can plan a part if the buyer is willing to walk away from their investment and give it back to the seller if the buyers new management fails.

Lately, Buyers are looking for sellers to finance much or all of the deal, especially when the Sellers want the same 2007 level equity price even after their revenue and profits have materially declined. It is understandable that Buyers want the Sellers to have some skin in the game if they wish values above the current market value. However, since there are so few businesses in the market for sell, now the Sellers can request a little more when it comes to collateral or at least be assured that their buyer has a strong financial net worth that their personal guarantee is tied to.

In this current market, it is very important that buyers have industry experience, a good credit rating and management experience just will not carry them. If they just have business management experience, it is better served with Seller financing than with Bank Financing. Of course, there are exceptions to all the rules, but if the Buyer lacks experience in managing small to middle market businesses, they will have to bring more cash or collateral to the table to make up the difference.

Currently, according to Rob Slee and the Pepperdine Studies, equity groups are putting down an average of 48% for the few middle market deals that they can find. In some cases, we are hearing of 100% down with the hope of re-financing in a couple of years.

Also, it is a new economy and it is growing very slowly, so keep all of this in mind when developing your business plan for your business purchase.

New rules, but with the right risk/return balance, profits can be made!

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Capital Endeavors, Inc.

P.O. Box 895, 232-C Crogan Street, Lawrenceville, GA 30046

Web: www.capitalendeavors.com Email: davidstill@capitalendeavors.com

PHONE: 770-962-8399 FAX: 770-962-8640