

# Key Steps To A Sound Business Purchase Structure

If you have just decided to start the process of buying your first company or if you are a seasoned mergers and acquisitions professional, you as a business buyer, need to utilize a disciplined, structured approach to purchase the best business acquisition possible. This article will give you a shortcut to incorporating most of the elements you must have to systematically qualify and “bias” the business purchase negotiations in your favor with the business seller.

Buying a business is a “one off”, iterative process in that each purchase opportunity is unique and different with regard to its sense of urgency from the seller’s perspective. However, as each purchase situation is different, if you do many business acquisitions over time you quickly see that there are fundamental elements to the location, qualification and negotiation processes of buying a business, that once learned, can be leveraged repeatedly from one business purchase opportunity to another.

## Four Steps to Business Valuation and Purchase/ Sale Analysis

With the intent to be brief yet adequately cover all the important elements of the business appraisal and deal structure steps of buying a business, we will only focus on these elements within the typical business purchase process:

### 1) Company Analysis Steps:

Review all information obtained from the seller as solicited in the buyer’s Letter of Intent or “LOI”: All financials, leases, insurance policies, tax returns, contracts, environmental reports, legal documents, retirement programs, inventory counts, patents, licenses, policies, customer lists

Adjust historical financial statements provided by the seller to represent profits that reflect actual business performance and exhibit correct asset and liability values

Compare adjusted financials to key, like industry, performance metrics

Evaluate all non-financial elements of the company Customer sales mix, customer retention rates, customer locations, employee counts and performance metrics, landlord contracts and lease provisions, bank/financing relationships, key suppliers and critical product or service content and warranty issues...to name a few

Prepare a “zero-based” budget for the next 3 financial terms, including anticipated monthly cash flows for the business including acquisition debt service requirements

### 2) Business Valuation Steps:

Calculate an asset based approach to business value determination

Calculate a profit based approach to business value determination: This will require use of capitalization and a wide variety of Discount rate elements based on: Projected real returns with inflation assumptions Industry growth factors and risk influences Management additions or deletions and compensation changes A wide variety of non- financial factors and assumptions

Calculate a cost to replace company assets approach to business value Determination

Weight each of the business valuation methods for relevancy based on historical business performance, future performance assumptions, various non-financial aspects of the business, the anticipated final terms of business purchase, the financial and human resources that will be available to take the company where you want it to go

### **3) Business Purchase and Sale Analysis:**

Select specific assets and liabilities to be purchased

Identify a \$ allocation to each asset and liability you select

Analyze various means to purchase current debt obligations, consider seller contingencies

Rank each means to purchase current debt obligations and select the best for your constraints

“Run the numbers”: put together a monthly and annual post sale cash flow analysis for both the business buyer and the seller. Emphasize positive cash flows for eventual seller presentation.

Test your proforma financials for possible seller “numerical exaggerations” or mistakes

### **4) Communicate Findings and Analysis to Seller:**

Your primary objective is to justify your desired company purchase terms in a professional manner, to maximize your credibility and foster constructive dialog with the seller

All findings and analysis should be proof read before presented to the seller

All documentation should be organized in a professional, somewhat formal Format

The information should be introduced as a “starting point”, a basis of further discussion

Your data should include numeric analysis responses to anticipated seller Positions

Consideration should be made to have a professional, “non-buyer” present the findings

All documentation should be also used for future lender, key supplier, landlord and employee presentations.

Each presentation customized or fortified for the targeted audience.(This step is where all your purchase “weapons”are shown, but not necessarily used)

Purchasing a viable business can be a complex and emotional experience for both the business buyer and the seller. The business seller often has much of their life and money wrapped up in the enterprise and is looking for the long awaited “pay day”, while the buyer typically has an intense “opportunistic” disposition fueled by a “seek and conquer” methodology.

The more a business buyer can take the emotion out of the purchase negotiation with effective development and professional presentation of key financial and non-financial justification content, the greater his probability of reaching HIS desired business purchase terms with the business seller. The business analysis and valuation steps in the business buying process are key components to reaching this ultimate objective.