
GABB Today

Volume 104 Issue 6 Newsletter of the GA Association of Business Brokers June 2004

from your President

In the profession of Business Brokerage, we often find ourselves in a difficult position early on in developing a relationship with a prospective seller. Inevitably, one of his first comments will be that he is interested in selling his business if he can realize xxx,xxx,xxx.xx dollars. Please notice the preponderance of Xs because every seller thinks their business is unique, irreplaceable and close to priceless. Diplomatically, we have to educate the seller on the process of valuing a business. Traditionally, I will repeat that often quoted phrase of "fair market value occurs when a willing buyer and a seller meet and agree on a price acceptable to both parties with neither party being compelled to act". In the practice of business valuation, companies typically sell for a multiple of the cash flow that they generate. In transactions below approximately \$3,000,000, individual buyers will search for those businesses that provide the best combination of historical cash flow coupled with future growth opportunity at the best value.

At this juncture, I often tell a prospective client that I can give him a range where most

businesses will sell but if he is seeking a very precise value, it would behoove him to have the business independently appraised by a professional. Normally businesses below the mid-market level (transaction value around \$3,000,000) will sell at a multiple of Discretionary Cash Flow (DCF) of between 1.5 to 3.0 times DCF. As transactions go above those values, we will typically modify the Discretionary Cash Flow model by deducting a general manager's salary and benefits from DCF to arrive at an EBITDA (Earnings before interest, taxes and depreciation) calculation. Mid-market companies traditionally sell for a multiple from 3.5 to 6.5 times the calculated EBITDA. Structurally, mid-market companies have generally assembled a management team and are not solely dependent on the owner for their continued success. Capable management coupled with the achievement of some critical mass make these organizations attractive to independent investors, PEGS (Private Equity Groups) and strategic buyers vertically or horizontally aligned to the target business.

Continued on page 2

MEETING NOTICE: Tuesday, June 29, 2004, 10:30 AM

The DeKalb BOARD OF REALTORS
1414 Montreal Road, Tucker 30084-8140
770 410-7582 ♦ www.gabb.org

Speaker:

Jim Town, CBI

"How to Price a Convenience Store"

50 Page handout available to attending members.

from your President

continued from page 1

As regards to narrowing down the value of the aforementioned ranges, I explain that I can do that but will need tax returns, financial statements and other internal operational reports for the prior four years plus several hours of the owner's time understanding the nuances in his/her financial reports and his/her operations. In this process, I will be investing the time to understand all of the key components of cash flow including:

- ✓ Net income from the 1120 tax return (hopefully an "S" Corporation to avoid onerous double taxation on sale of assets).
- ✓ Depreciation expense net of estimated future capital expenditures.
- ✓ Interest expense that will be eliminated upon a sale of assets as that debt will be paid off by the Seller at closing. Each buyer will have their unique debt or non-debt capital structure and brokers generally evaluate the business as if it were debt free.
- ✓ Compensation of the owner including base salary, bonus, deferred benefit plans and etc.
- ✓ Recasting adjustments to income to normalize the financial statements for non-recurring events.

After compiling this data, I will aggregate those components by year for the past four years and plot annual sales for each respective period. This initial review will tell me the overall trends of the business and how attractive this company will be on first glance to potential buyers. Additionally, the components I have specified will be those items compiled by virtually every lending source to determine the level of funding that will be available for a well qualified buyer. An important point is that financing institutions will draw the line here at

what components they will consider as eligible for inclusion in their cash flow model. While the seller may have a host of other discretionary expenditures which can be proven (vacations, car payments, entertainment and etc.), the banks will exclude those from their calculation.

However, all is not lost because the buyer will pay for these items in the purchase price at the appropriate multiple if he is irreversibly convinced of their accuracy and validity.

Why is any of this information important? As Business Brokers, we have only one thing to sell and that is our time. If the owner needs to realize \$5,000,000 on the sale of a business that is worth \$1,000,000 at current market multiples, you will invest a great deal of your resources into a venture that will return absolutely nothing. On the other hand, if he is willing to sell that same business for \$1,200,000, we might have something to sell.

Have a great month and I will see you on June 29, 2004 at our next meeting.

Pat Harkins

THE WORLD'S SHORTEST SALES COURSE

1. Know *their* business
2. Know *your* stuff.



MEET A MEMBER—*Up Close & Personal***Name: Jeffery E. Merry****Company: The Business House, Inc. Position: Owner**

Jeffery Merry has been a Business Broker since 1993 and a GABB Member since 1994. His professional affiliations include past president and board member of GABB as well IBBA membership. Jeffery especially likes to work on things that are out of the ordinary. Personal affiliations include Boy Scouts of America and the Southern Cruisers (a coed motorcycle riding group).

All about JEFF...

I have been married to my wife Rebecca for 30 years. We met in college and still like and enjoy each other. Rebecca is a retired lawyer and for the past year has been building our new empty nest. The empty nest is necessary due to the fact that our oldest son, 29, married and has given us our first granddaughter (3 years old now). Our middle son is a professional baseball umpire and travels with baseball 9 months out of the year and our youngest son, 22, will be attending Medical School this fall. So, no more need for the big house and big back yard that played host to many a football and baseball game with three teenage boys at home.

When not working or spending time with the family, my spare time is consumed by riding and traveling on my motorcycle. My wife also rides her own motorcycle, so it is a family affair. One of my personal goals is to ride my motorcycle to every major league baseball park in the United States before my eye sight goes and I can't see a fastball or hanging curve ball!

2004 GABB ORIENTATION

There were 25 new GABB members that attended the GABB Orientation on May 25. Topics included co-brokering, GABB forms, principals & ethics as well as other areas of interest. Ken Stebbins from BizMLS, our BBMS provider, covered the use of the BBMS system: it's uses, functions and versatility. Each attendee received, in addition to the topics covered, a notebook with the most current GABB Rules and Regulations for the BBMS, current GABB By-Laws, GABB forms and a Code of Ethics. We hope that you all learned a lot from this informative meeting.

PLEASE WELCOME NEW & PENDING MEMBERS:

Active Members:

Ken Cortes
Venture Resources, Inc.
Buford, Georgia
706-268-1550

Howard Waits & Parupkar Gill
Prudential Georgia Realty
Marietta, Georgia
770-973-8822

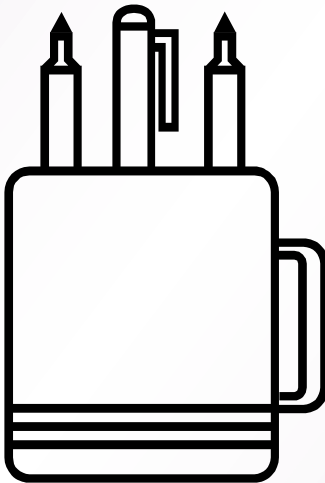
Thomas MacPherson
Summit Acquisitions Group, LLC
Roswell, Georgia
770-753-4323

Peter Bein, Divyesh Patel,
Carlos Canada, Dick Warren,
Mark Spalding
Metrobrokers, GMAC
Roswell, Georgia
404-843-2500

Affiliate Members:

Jim Barnes
A&B Commercial Investments
Duluth, Georgia
678-781-8340

Germaine Curtin
Curtin, Galt, LLP Law Firm
Atlanta, Georgia
404-869-0122



EDITORS NOTE

When it comes to taking care of customers (or clients), I've always liked the Nordstrom's approach with their Rule #1....

**“Use your good judgement in all situations.
 There will be no additional rules.”**

Just some food for thought!

James Welch
 Editor

**Affiliate Spotlight: Helen A. Stahel, P.C. Attorney at Law**

5591 Chamblee Dunwoody Road, Building 1360, Suite 200
Atlanta, Georgia 30338

Hstahel@mindspring.com telephone: 770-551-8499 fax: 770-551-9504

GABB Member since 1996

Many of you know Helen. She has been an active member of the GABB for the last 8 years. For those of you who don't, Helen is a sole practitioner with an office in Dunwoody. Her practice consists of small business mergers and acquisitions (representing buyers, sellers and acting as the escrow attorney), corporate law (consisting of legal entity organization and advise), commercial real estate (representing buyers, sellers and acting as the escrow attorney), and lender representation in both conventional and SBA guaranteed loans (representing lenders in SBA 7(a) loans and in the primary lender component of SBA 504 loans, as well as conventional loans).

Some of the types of businesses that her transactions have involved have been veterinary practices (very hot now), day care centers (very hot now), physician practices, chiropractic practices, franchise businesses, restaurants, retail businesses, printing businesses, electrical and plumbing businesses, automotive services businesses, and manufacturing businesses.

In addition to being a member of GABB, Helen is a member of the Georgia, Arizona and Louisiana State Bar Associations, the Georgia Association for Women Lawyers (having served as President of the Atlanta Chapter 1998-1999 and Treasurer of the Executive Board 1999-2002), and a prior Board Member of the National Association of Women Business Owners, Atlanta Chapter (1999-2002).

For fun, Helen enjoys training for and competing in triathlons, having just completed her first this year and already signed up for another!

And a little advice.....

Brokers, make sure that you know who actually has title to the real estate that you are selling. I have a deal right now where we got to the closing table only to find out that the real estate was in the name of someone who died 28 years ago. Needless to say, there are probate issues and title issues involved that have delayed this closing a considerable amount of time. As a broker, make sure to get a copy of the deed to the property so that you know who owns the property and also to make sure that your commission and listing agreement is with the correct party. In this case, the broker had an agreement with someone who did not have any ownership interest in the property."

GABB TODAY

Georgia Association of Business Brokers

1414 Montreal Road
Tucker, Georgia 30084-8140

President:

Patrick Harkins
770-649-7666

Vice President:

David Still, CBI
770-962-8399

Secretary:

Art Lennig
678-852-6228

Treasurer:

Greg DeFoor
678-581-5966

Directors:

Gloria Hall
404-843-2500
Henry Hicks, CBI
770-569-8880
John Soublis
770-454-9630

Past President:

Kathryne Pusch, CBC
770-918-9390

COMMITTEES:

Education:

Charles Jay, CBI, Chair
478-477-6272

BBMS:

Henry Hicks, Chair
770-569-8880

Forms:

Nick Nicholson, CBI, Chair
404-874-6262

Membership:

Gloria Hall, CBI
404-843-2500

New Member Orientation:

Jeff Merry
770-534-6630
Hank Tanner
770-534-5868

Monthly Speakers:

David Still
770-962-8399

GABBMLS:

Ken Stebbins
Ariel Gonzalez
for info contact Henry Hicks

GABB TODAY Newsletter:

James Welch, Editor
404-843-2500
james.welch@metrobrokers.com

Kristy Farrell, Production
770-760-7595
farre11s@yahoo.com

Articles Due by the 5th

Listings, Information, Members,
and GABB Newsletter On-Line

GABB Website: www.gabb.org