

GABB Today

Volume 104 Issue 3 Newsletter of the GA Association of Business Brokers March 2004

from your President

People often inquire as to what constitutes an ideal business. The question is then related to the comparability of their business to this model entity. While many of the comments articulated in this brief commentary, area applicable to all businesses, our target audience is the individual buyer. As we all know, there is no perfect business. However, there are businesses that are more attractive because they have less risk attached. In a perfect continuum, one would expect to pay more for a business (given similar cash flows) that enjoys less risk than one that possesses significant inherent risks. This representation is nothing more than the traditional risk/reward model that we encounter daily. Let's examine some of those characteristics that increase value, and concurrently reduce risk. They are as follows:

Earnings History:

If the company has enjoyed a rising level of revenues and cash flow over the past several years, there is reason to expect that this trend can continue. On the other hand, if revenues and profitability have been largely unpredictable or experienced severe swings, this company may possess substantial risk to a potential investor/buyer. In particular, any company that has enjoyed rising earnings during a recessionary environment (as the

past three years), is one that warrants particular consideration.

Barriers to Entry:

For any given business, a prospective buyer considers the classic make/buy alternative. If there are significant barriers to entry, the buyer will abandon the possibility of starting a business from scratch. For example, substantial capital investment, strong customer loyalty, unique products or services, lengthened cycle to procure new customers all favor the purchase of an existing business. A buyer must consider required capital expenditures plus start up expenses along with the assumption of initial losses as the equivalent of purchase price. Of course, this attaches no monetary value to the incredible hours and headaches incurred in any start up activity.

Customer Loyalty & Concentration:

Very few people are willing to buy a business with one customer and singular allegiance to the current ownership. Diversification of the customer base along with a lack of concentration of income with a small group of customers adds to the entity's value. In most situations, it is desirable not to have any single customer represent more than 5% of the firm's revenue stream. Moreover, the

Continued on Page 2

MEETING NOTICE: Tuesday, March 30, 2004, 10:30 AM

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**Speaker: Dean Fulghom
Asset Verification, Inc. of Georgia
"Verifying Assets for the Sale"**

PLEASE WELCOME NEW MEMBERS:

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Nathan Ivey

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Tucker, Ga. 30084
770-491-3710

PENDING:

Dan Hinson & Stuart Brady-Prime Business Investments
Agate Lip-Metrobrokers GMAC

From Your President *continued from Page 1*

more that customer is tied to the company and its management team versus current ownership, the more inherent value it contains.

Well Defined Niche & Strategic Advantage:

Every business that operates in a well-defined niche will be more appealing to most buyers. Couple a niche operator with a well defined strategic advantage, the company becomes a compelling acquisition candidate. A niche can include any differentiated product or service offered to a unique customer or market. The existence of a niche business with a competitive advantage implies the tolerability of present and future competition.

Growth Opportunities:

People buy businesses based upon their current and historical cash flow but the decision to buy is prompted by the future growth opportunities in revenue and cash flow. Few buyers want to purchase a business that has maximized revenues, profitability and market share leaving little upside potential. Inherent in these forecasted increases in overall profitability are the presumption of a stable and growing industry with little risk of replacement by substitute goods and services.

Transitioning Key Employees:

One of the first things I request after undertaking

an engagement is an Organization Chart. I pay particular attention to the Owner/CEO's direct reports. Long term, competent managers with well-defined skill sets can be a real plus so long as they are willing to stay aboard with the new owner. Incentive plans, stock options, equity participation, employment contracts and various perks can be instrumental in persuading existing employees to remain with the company.

In summary, a prospective buyer consciously or unconsciously, evaluates and ranks each of the aforementioned characteristics and develops a composite risk profile of the target company. On a scale of one to ten, with 10 being viewed as an ideal company, entities scoring eight or above will be considered very appealing. Conversely, businesses with an overall score of three or below would be considered unattractive candidates. An educated buyer will pay handsomely for those opportunities he perceives as real values in the marketplace. As business intermediaries, we have an obligation to assess our client's innate marketability and work collaboratively with him to develop strategic initiatives that move him along that definable continuum known as the "ideal business".

I look forward to seeing you all at the next meeting.

Pat Harkins

Tremendous THANKS!

I wish to personally, and on behalf of all GABB Members, express a huge THANK YOU to everyone who worked on the 10th Annual GABB Conference March 5-6, 2004. It was a GREAT IBBA Class and an incredible Saturday full of diverse educational mini-seminars related to our profession. Todd Morrell, the Conference Chairperson and Charles Jay, GABB Education Chairman did a wonderful job, with months of planning. We thank these individuals and everyone else who participated in the planning and execution of this successful conference.

Thank you to all of those who volunteered their time, talent, wisdom, and experience to the conference! Many of these people are GABB members, and they were most generous in sharing with us.

We all owe a **very special thank you**, and a promise to keep these professionals at the top of our referral lists, to each of our SPONSORS. Their financial support allows us to keep the cost for those attending to a bare minimum. Please make an effort to professionally refer clients whenever appropriate to these sponsors:

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Thank You! Pat Harkins

For Your Professional Information:

The following was published in the IBBA Newsletter. "IBBA staff has been informed by several IBBA members of a website providing information about a businessman by the name of Kenneth Mitan, who is alleged to have been involved in numerous fraudulent buy-sell or financing transactions, including transactions which may directly relate to the business activities of some IBBA members. They suggest that members immediately check out the following website, www.mitanalert.com, for information which may be useful if they are ever involved in any transaction or proposed transaction involving this individual or any of the companies listed on the website. IBBA has not attempted to verify the information presented on the website, but a member may check with regulatory authorities or others identified on the website for further information."

President:

Patrick Harkins
770-649-7666

Vice President:

David Still, CBI
770-962-8399

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Art Lenning
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678-581-5966

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New Member Orientation:

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770-534-6630
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770-534-5868

Monthly Speakers:

David Still
770-962-8399

GABBMLS:

Ken Stebbins
Ariel Gonzalez
866 881-7861

GABB TODAY Newsletter:

Gina Carr, Editor
770-241-7246
gina@georgiabusinessgroup.com

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

Articles Due by the 5th

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

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Georgia Association of Business Brokers

1414 Montreal Road
Tucker, Georgia 30084-8140