

GABB Today

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IS IT A GOOD OFFER?

C. David Chambless, Principal – Abraxas Business Services

Many of us have been in the situation where our client, a business owner, has gotten an offer for her business, and we are asked to evaluate the offer and help determine if it crosses the threshold of acceptability. Although price is a major determinant in this test, just as important are the many other variables that go into deciding whether to sell a business to a particular person or entity.

When preparing a business for sale, the owner typically establishes criteria by which she will sell. These sale criteria usually become the bases of the business broker's qualification of prospective buyers: do they have sufficient financial resources to close and the assets to collateralize the goodwill; how long before they can close; how does this opportunity fit in the buyer's strategic vision? However, many times during the processes of evaluating offers it becomes apparent that the initial sale criteria established by the seller are not the only dimensions the seller is using to judge the offer. The emergence of additional criteria is often seen with the owner's evaluation of the first offer received.

Generally, the criteria used by sellers in evaluating an offer can be grouped into

several categories:

1. **Price:** Is the consideration offered fair and near what the seller is expecting? There may be different expectations of sales price for different types of prospective buyers. For instance, an individual, or owner/operator, will generally pay the least, with private equity groups often willing to pay more, and strategic buyers often offering to pay the most.
2. **Terms and structure:** What are the financial terms of the deal? How much seller financing is required and at what interest rate over what time period? Is any of the consideration structured as an earnout? How likely is it that the earnout will be realized? Is the buyer demanding a highly restrictive non-compete or non-solicit covenant?
3. **After-tax proceeds:** Does this offer (consideration and structure) provide the seller with the after-tax proceeds she is expecting? Too many deals fall apart at or near the closing table because no one had taken the time to properly analyze this aspect of the offer.

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MEETING NOTICE: Tuesday, September 27, 2005, 10:30 AM

South Terraces Building
115 Perimeter Center Place, NE
Atlanta, 30346

Speaker: Bill Wright – Ringler Associates

Topic: Close More Deals and Defer Taxes Too!

AFFILIATE SPOTLIGHT**Brookins Management Co. Inc. William "Bill" Rogers**
Principal Consultant/ President

Bill Rogers is Principal Consultant / President at Brookins Management Co. Inc., a litigation-support consulting practice. Brookins Management is a non-traditional CPA practice. The company's emphasis is in the eminent domain arena. Bill does most of his work with various branches of state government or private companies/individuals and provides expert testimony when needed on damage issues and business valuation, in which he is credentialed. "They don't always like it but my time and my opinion is for sale. In addition, working for both litigants lends credibility to my testimony." Bill's work involves some forensic accounting but focuses on business valuation. He has an MBA from and has done doctoral-level work in finance at Georgia State University. Prior to his current focus, Bill mostly worked in business purchase/sale, start-up, etc.

Bill has been an affiliate member of the GABB for years. Professional affiliations include AICPA, IBA, AM ARBIT, ASSN, and National Assn. Appraisal Specialist.

Bill is a widower (4 years) after more than 30 years happily married. He has a grown son and daughter. Bill is semi-retired and winding down his litigation support consulting practice. Currently he is trying to travel and see all of the world.

Bill finds great satisfaction in helping others succeed. "Be aggressive. When you fall, and you will, get off the floor and start slugging again. If not, you are destined to stay on the floor - maybe for life."

Meet a Member— Up Close & Personal**We Sell Restaurants, Inc.**
404-593-4193**Eric Gagnon, President**
eric@wesellrestaurants.com**Professional & Personal Affiliations**

- ~GABB Member since 2003
- ~Georgia Restaurant Consulting Group
- ~Volunteer of Georgia Special Olympics
- ~Georgia Restaurant Association
- ~Member of Indian Hills Country Club
- ~Volunteer firefighter

Eric Gagnon has been president of We Sell Restaurants, Inc. for three years. He represents buyers and sellers focusing on the restaurant, bar, and nightclub markets. Eric was a commercial lender for several years and financed several restaurants, bars and a nightclub. He also worked as Director of Business Development for KPMG in their risk advisory practice and worked several mergers and acquisitions deals worldwide.

Eric grew up in Montreal, Canada, before moving to South Carolina to attend college on a tennis scholarship. After graduating from school, Eric moved to Charleston, South Carolina where he met his wife, Robin. Eric and Robin moved to Nyack, New York; they then moved to Atlanta in October, 2001. They now live in Marietta with Ginger, their golden retriever. They love sports and attend college football games in the fall, Braves games in the summer, and hockey in the winter. "I am an avid golfer. We enjoy attending movies and spending time at our beach house in Florida. We volunteer our time at my wife's alma mater, Appalachian State University, mentoring young students and serving as members of the MBA Board. As a French Canadian by birth, my first language (written and spoken) is French, so I am perfectly bilingual. I hold degrees from both Canadian and U.S. schools, the University of Montreal as well as Francis Marion University."

DIRECTOR'S LETTER Continued from Page 1

4. **Transition period and requirements:** Some buyers may put "golden handcuffs" on a seller – when the seller is ready to go to Florida and play golf. If the Company is being marketed to private equity groups or strategic buyers, count on a long transition period!
5. **Buyer profile:** Is this the best type of buyer that can be attracted to the business? Will this buyer bring needed resources, or contacts, or expertise to the business that will allow the business to grow? Will this buyer most likely continue the business as envisioned by the seller (legacies are very important to many sellers)? Will this buyer treat the employees of the business in an acceptable manner?
6. **Chemistry and trust:** Many deals fall apart not because of price and terms, but due to lack of chemistry or trust. If the seller gets the feeling that the buyers are "bad apples" or "bottom dwellers", the chances of closing the deal get remote.
7. **Likelihood of closing:** One of the key calls needed in the evaluation of an offer is the likelihood of the buyer actually buying the business. While this call requires judgment on the parts of the seller and the seller's broker, there are certain clues which can be assessed. For instance, what are the size of and conditions around the deposit or earnest money; how much analysis went into the buyer's decision to buy the company; what are the quality, depth and breadth of the advisory team fielded by the buyer; and, how responsive are the buyer and the buyer's advisors to the seller's team?

Evaluating an offer is often a difficult task. But, evaluating multiple offers is exponentially harder. Not only must the overall offer be evaluated, the relative weights on the various elements of the offers must be addressed. Offer One is for a much higher price, but there is more earnout and a much longer transition period. Offer Two is a lower price from a person who has a very strong reputation in the community. Offer Three is a stock offer, and the business is organized as a C-corporation. Offer Four...

A key value of a business broker in a transaction is in the evaluation of an offer. By thinking with the seller about the "perfect" offer early on in the process, the broker can help establish the seller's knowledge base and set the seller's expectations. Proper attention in this area will allow the broker to appropriately screen prospective buyers, making the process more efficient for all parties. And, thoroughly understanding the owner's mindset early on will lead to fewer disruptive surprises during the process, in turn leading to higher success in closing the transactions.

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