

GABB Today

Volume 106 Issue 9 New letter of the Georgia Association of Business Brokers September 2006

"Increased Value, Decreased Risk"

By C. Patrick Harkins, Anchor Business Advisors, Immediate Past President of GABB

People often inquire as to what constitutes an ideal business. The question is then related to the comparability of their businesses to this model entity. While many of the comments articulated in this brief commentary are 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. For example:

Earnings History:

If the company has enjoyed rising revenues and cash flows 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 buyer. In particular, any company that has enjoyed rising earnings during a recessionary

environment is a business 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, and 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 which has singular allegiance to the current ownership. Diversification of the customer base, along with a lack of concentration of income in 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

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MEETING NOTICE:

Tuesday, September 26, 2006, 10:30 AM

South Terraces Building

115 Perimeter Center Place, NE Atlanta, 30346

Speaker: see page 5 for more information

AFFILIATES CORNER: 10:00 AM

Come to meet affiliate members and find out how they can assist you with your deals.

September's Affiliate Member Hospitality Sponsor:

H. Grady Thrasher, IV of Joyce, Thrasher & Kaiser, Attorneys at Law

Please be sure to thank Grady for his generosity and support of the GABB.

Pending Members

Steve Watkins, Associate
Metro Brokers GMAC
Marietta, Georgia
404-843-2500

Victoria Chang, Associate
Metro Brokers GMAC
Roswell, Georgia
404-843-2500

Charlie Stanford, Affiliate
Sunrise Commercial
Capital, LLC
Atlanta, Georgia
404-601-1954

J. Frazee Bentley, Affiliate
First Bank of The South
Lawrenceville, Georgia
770-237-5753

New Members

Alan B. Thomas, Active
Allegiant, Inc.
Roswell, Georgia
404-751-9462

Joe Brooks
Metro Brokers/
GMAC Real Estate
Duluth, Georgia
404-843-2500

Eric L. Tognesi, Active
VR Mergers & Acquisitions
Atlanta, Georgia
770-881-7211

John W. Mitchell, Associate
Preferred Business Brokers
Atlanta, Georgia
770-551-8208

Leo Karkman, Active
Abram Karkman Associates, Inc.
Sandy Springs, Georgia
404-252-4129

Welcome

Don't Miss It! Register Now! The 2006 GABB Holiday Party is For YOU!

This year's extravaganza will be bigger and better than ever with a delicious holiday buffet for your enjoyment. Just have a look at the mouth watering delicacies we have planned for you and your guest. Every 2006 Member and one guest are cordially invited to attend (just one of your many great member benefits). Networking in a casual atmosphere, great food and a chance to relax with friends and business associates.

STARTERS

Baked Briz en croûte with Apricot and Walnut Marmalade, Warm Spinach Artichoke Dip

HOT BORS D'OEUVRES

Bacon Wrapped Scallops, Portabella Puffs, Mini Chicken Cordon Bleu, Breaded Artichoke Parmesan, Vegetable Empanada

CARVING STATION

Hickory Smoked Breast of Turkey, Roast Tenderloin of Beef, Roast Rack of Lamb with Mint Jelly, Cranberry-Orange Walnut Chutney, Béarnaise Sauce and Red Onion Cabernet Marmalade, Dijon Mustard, Mayonnaise and Silver Dollar Rolls

RAW BAR

Jumbo Shrimp, Crab Cakes, Oysters on the Half Shell, Cocktail Sauce, Horseshoe, Lemon Slices and Tabasco Sauce

HOLIDAY DESSERT DISPLAY

Assorted Holiday Cookies, Petit Fours

BEVERAGES

Mulled Cider and Egg Nog, Herbal Tea Selection, Fresh Brewed Coffee Station with Gourmet Condiments to include: Chocolate Shavings, Whipped Cream and Cinnamon Sticks

CASH BAR

Your Favorite Adult Beverages (Remember to drink responsibly or don't drink!)

GABB 2006 HOLIDAY PARTY *REGISTRATION FORM

When: Tuesday, December 12, 2006

Where: Hilton Hotel, 5993 Peachtree Industrial Blvd., Norcross, GA

Time: 7 PM 'til 10 PM

Member & One Guest Cost: Per person, a new, unwrapped toy for a boy or girl, all donated to Children's Hospitals of Atlanta for hospitalized kids during the holidays. This is coordinated by Affiliate Member Helen Stahel.

Please complete all information and forward form to James Welch, NO LATER THAN NOVEMBER 27, 2006. The sooner the better! Space is limited!

1) Member Name _____ Member Firm _____

2) Check One: Active Member _____ Associate Member _____ Affiliate Member _____

3) Member Guest Name _____

4) Additional Guests of Members may attend at a prepaid cost of \$55.00 per person.

Additional Guest Name _____ @ \$55

Additional Guest Name _____ @ \$55

Additional Guest Name _____ @ \$55

Additional Guest Name _____ @ \$55

Total Due With This Form _____

5) Cancellations of reservations for members and all guests can be made through Friday, December 1, 2006. Any member or guest canceling after that date or that is a reserved "no show" will be billed \$55 per person. This is necessary because of the guarantee we must give the hotel and the association has to pay for, whether or not attended.

6) Walkups without a reservation will be charged at the door as follows:

Member and One Guest: \$20 each

Additional Guests of Member: \$75 each

7) We have negotiated a special GABB room rate for you of just \$69 at the Hilton for the evening of 12/12, if you would like to stay the night after the party. Make your reservations directly by calling 770-447-4747 and ask for the GABB special rate. Normal room rates run \$109-\$159 so the \$69 rate is a real deal.

Mail this completed form to:

James Welch
Metro Brokers/GMAC
1580 Holcomb Bridge Road, Suite 26
Roswell, Georgia 30076

AFFILIATE SPOTLIGHT

Susan J. Kite, Business Development Officer
 Popular Small Business Capital
 678-445-6551 (office) 770-595-9734 (cell)
 A ffiliate Member since 2006

Popular Small Business Capital, a division of Banco Popular North America, is the 5th largest SBA lender in the nation – and growing. PSBC helps make your deal happen by offering your client access to capital. In addition to the SBA 504 and 7a programs, they provide an “SBA Express” Line of Credit to ensure that your client has sufficient working capital to succeed. PSBC’s loan “tool-box” includes conventional real estate loans that are excellent for investors and those who plan to occupy less than 51% of their building. They even have a commercial stated-income program.

PSBC is primarily a cash-flow lender, so collateral is not as important as it may be for other lenders. It looks for positive trends and a buyer with direct or related industry experience. PSBC can finance 100% goodwill, 100% partner buy-outs, and up to 90% on franchise acquisitions. A typical business acquisition is financed at 80% of total project costs, and an additional 10% can be in the form of a standby seller note. They also work with start-ups, refinances and business expansions. As SBA Preferred Lender Program (PLP) lenders, there are no geographic limits. Loan sizes range from \$150,000 to several million.

PSBC serves your client through seasoned lenders experienced in the local market. Susan Kite was born in Atlanta and graduated from UGA with a BBA in Marketing. She has over 20 years experience as a commercial real estate, SBA, and small-business lender. Susan began her lending career in Jacksonville, Florida, and was Director of the Jacksonville Local Development Company, an SBA 504 Certified Development Company. She returned to Atlanta in 1990 to work with Bank South and has had great success as a commercial and SBA lender, especially in the Cobb and Cherokee markets.

Susan and her family live in the Towne Lake area of Cherokee County. Her husband, Al, is Pharmacy Manager for Kaiser and “part-time rental professional” for their beach house in Cape San Blas, Florida. Their son, Andy, is 13 and the star Academic Bowl team member at ET Booth Middle School. He also enjoys fishing playing the drums, and leading the entire family on a few wild goose chases in a GPS-centered sport called GeoCaching. They are members of Hillside United Methodist Church where Susan has been a Sunday school teacher and youth group helper.

Susan is new to GABB and is excited about the opportunity to work with you and your clients. She pledges to be responsive to your calls, do everything she can to get a deal done, and tell you quickly if she cannot help. Susan looks forward to working with you!



GABB

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 of Business Brokers*

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revenue stream. Moreover, the more that customer is tied to the company and its remaining management team versus current ownership, the more inherent value the company has.

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 those managers 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 to work collaboratively with him to develop strategic initiatives that move him along that definable continuum known as the "ideal business".



SEPTEMBER MEMBER MEETING

Speaker information- Glenn Aspinwall, Vice President of Colonial Properties, and Alan Shaw of Shopping Center Group will lead a landlord discussion panel focusing on topics of interest to the business broker. This will include successful negotiation and transition tips for obtaining a new lease when a business is sold. Topics may also include when to involve the landlord, necessary steps and keys to success. Each will give an update on the Atlanta market, lease rates and general business climate. Glenn will focus on office space while Allen will focus on retail space. Each will speak for a short period of time and then take questions from the audience.

GABB Today

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