eCourse Outline

Funding a Business in New Hampshire: Buying a Business

Course Outline
- General Considerations
- Equity Funding
- Debt Financing Options
- Negotiating Seller Financing

Build a Team
Build a solid advisory team to help guide you through your search and eventually execute the transaction.
- Attorney
- Accountant
- Business broker

Identify the Cash Earnings
In small business sales the price is usually determined by what is called a multiple of seller’s discretionary earnings (SDE) or EBITDA.
- Identify the amount of cash earnings the business generates for the owners
- Look at the net income on the profit and loss statement
- Add back things like depreciation, interest expense, taxes, and expenses

Sale Price
The sale price is then typically 2 to 3 times that SDE or EBITDA number.
- Can be many variations
- Work from the same financial documents as the seller
- Gain access to the seller’s tax returns to verify the information

Work with the Seller
Work with the seller and the seller’s key employees throughout the transaction and after.
- Develop an amicable relationship with the seller
- The sale process can be an emotionally charged time

Other Considerations
Consider a training period after the deal.
• Have a non-compete agreement with the seller
• Bring key employees into the process and incentivize them to stay
• You may need to require a non-disclosure agreement
• Consider if you will lease or purchase the real estate
• Leasing reduces upfront capital and unforeseen problems with the building
• Buying may allow access to low-cost SBA 504 financing

Assess your Personal Finances
The first step is to assess your personal finances.

• Credit score
• Personal savings
• Basic living expenses
• Home equity loan

Other Options for Funding
Other options include self-directed IRAS and 401(k)s. Leverage your existing retirement savings.

• Keep your retirement savings
• Avoid paying early withdrawal penalties
• Costly to create and administer

Bank Loans
Use bank loans to supplement your equity contributions.

• Need a complete package of financial information
• Be prepared to personally guarantee the loan
• You may need to provide collateral such as your home or other assets
• Senior loan may have a 20-year term
• Down payment is typically 20 to 30%

SBA Programs
The SBA works with lenders to guarantee or supplement loans to businesses.

• SBA usually doesn’t make direct loans to businesses
• SBA guarantees a portion of the loan in case of default
• SBA 7a Loans
• SBA 504 Loans

USDA Loan Guarantees and Programs
USDA Rural Development Programs.

• Towns under 50,000 people
• Guarantees for up to 80% of the loan value
• Grants for up to 25% of clean energy projects
New Hampshire Business Finance Authority
- State based agency that provides guarantees of 75-90% for loans of up to $10 million
- Direct and/or temporary loans of up to $2 million

Sub-Debt
Subordinated debt can sometimes be used to supplement financing.
- Taken in conjunction with other loans
- These loans are considered more risky and have higher interest rates
Good New Hampshire providers include:
- Community Loan Fund
- Regional Development Corporations

Seller Financing
Three kinds of seller financing include seller notes, earnouts, and holdbacks.
- Seller notes are traditional debt instruments
- Earnouts are agreements for the new owner to pay based on agreed business performance metrics
- Holdbacks are when buyers only pay a portion of the purchase price