

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