



Intermediary Insight

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Celebrating 20 Years of Business Brokerage in Brevard County!

We've Come a Long Way, Baby!

by John Stivers, CBI, M&AMI, BVS, BCI, Business Broker

It seems like Déjà vu all over again. In 1991, I was between jobs and our country was experiencing high unemployment, a sluggish economy and we were entering into the Gulf War. Probably the worst time to start a new business, but I was twenty years younger, certainly naïve about business brokerage and desperate to make a living.

To be perfectly honest, I had never heard of a business broker. The first twenty years of my career was spent in sales and management with a major industrial manufacturer. I did help facilitate the sale of one of our divisions, and I thought that was all I needed to know about the selling of businesses. Boy was I wrong! I'm sure I made every mistake in the book...

For the first five years or so, we acted as "Buyer" brokers. Contracting with buyers that claimed they wanted to purchase a business and move to Florida. What a mistake! The time and resources dedicated to this approach was significant, with little to no return. We realized that the traditional real estate model of taking a listing, marketing that listing and then selling that listing, was more result oriented. We were floundering and starving.

About that time we joined the Florida Business Broker Association, a network of independent brokers that specialized in the sale of businesses. This organization, one of the first in the nation, became the model for our industry. Florida requires that we hold a real estate license, but many of the other states imposed no regulations on this profession.

The FBBA developed a code of ethics, a library of training materials, and a complete set of forms and contracts dedicated to the sale of a business. The FBBA evolved into the Business Brokers of Florida (BBF) and is presently the largest organization of its kind in the country.

About this time, several major events took place: the intro-

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duction of SBA lending and the founding of the International Business Brokerage Association. The SBA paved the way to larger sales. We were now selling multi-million dollar firms in addition to the 'Mom and Pop' type businesses. The IBBA, conceived in large part with the help and support of the Florida Business Brokers, provided a universal program of ethics and education. Holding two seminars a year, IBBA members come from all corners of the world to share their experiences and knowledge. This organization put the structure and professionalism into Business Brokerage. Their Certified Business Intermediary (CBI) program provides invaluable education and instills the 'Gold Standard' in every broker that successfully takes the courses and passes the exam.

Technology has also played an important role in the evolution of Business Brokerage. When we started, we had an inordinate amount of written documents, typed letters that were either mailed or faxed. Advertising was primarily delegated to the local newspaper and was limited in scope, extremely expensive and immensely ineffective. Today, we communicate 'at the speed of light' through emails, texting, and almost exclusively advertise on the internet and in specialized trade magazines, reaching a worldwide market.

Our industry is one industry that has advanced greatly through the process of technology.

Twenty years later we find ourselves still at war and in yet another recession. This one really hit us hard in October of 2008 and so far, has shown no signs of recovery. Fortunately, Professional Business Brokers has gained international exposure, recognition and respect. Even in today's tough economy, Europeans still see the value of living and working in the USA and contact us to find investment opportunities that can facilitate their relocation.

We would like to personally thank our clients both domestically and abroad, who have trusted our expertise in handling the sale or acquisition of their businesses. It has been a pleasure working with each and every one of you and we are excited to see what the future holds.

Respectfully,

*John Stivers & the staff at
Professional Business Brokers*

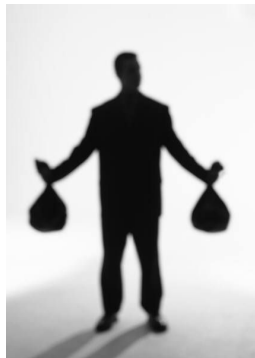


An Update on SBA Lending

by Lynne Singletary, Vice President/Business Development at
Quadrant Financial

...What's going on with SBA lending these days?...
...How will my buyers secure financing for their transactions?...
...Are most banks really out of money? ...
...When will all the uncertainty end?...

These are questions that many of you have asked me (sometimes more than once!) over the last couple of years. While I don't have a crystal ball, I do have some good news to share. I'll also include some basic information that is critical to successfully utilizing the SBA 7A program to finance your next acquisition transaction.



The Good News

SBA lending is up for the SBA's fiscal year which ended 9/30/2011. At press time we are still awaiting the final numbers, but it appears that 7A lending will be up more than \$7 Billion (nationally) for the year. Many lenders, Quadrant included, have money to lend and are actively seeking deals to fund. While you may be hearing doom and gloom reports with respect to conventional lending, I can assure you that SBA lending is not only alive and well, but also thriving!

What You Need to Know

- During FY2011 SBA increased the maximum loan amount available through the SBA 7A program. Borrowers are now able to secure SBA 7A loans up to \$5,000,000 (a \$3 Million increase over the \$2 Million previously offered). Obviously this opens the door to larger transactions than ever before and recognizes the important role that small businesses will play in our nation's overall economic recovery.
- As you are preparing buyers for the loan process, please make certain that you review their available cash reserves. Lenders will require that buyers inject 20-30% of the total project cost into the transaction. Although the majority of this cash injection should come from the buyer's personal resources, lenders will typically allow seller carry back notes to make up a portion of the cash injection. Terms of the seller note will vary depending on the strength of the cash flow, but can range from the requirement that they be put on full pay standby to conditional P&I payments permitted.
- Lenders always make their credit decisions based on the company's historical ability to service the proposed debt, **not** projected cash flow under the new owner/management. There can be significant variation between demonstrated, historical and projected future cash flows. Lenders will rely on the past as the best and strongest indicator of the future.
- Lenders expect that buyers will have direct industry experience in specialized industries and relatable experience for non-specialized industries. This has proven to be a key predictor of the new owner's ability to successfully operate the business and, in turn, repay the SBA loan.
- The SBA has recently taken a flexible approach with respect to loan terms. We are now able to amortize the SBA 7A loan based on the **majority** of the use of proceeds. For example, if the majority of the proceeds will be going towards commercial real estate, then the amortization can often be a full 25 years versus the blended term we were required to utilize in the past.

Should You Renegotiate Your Lease ...Or Move to Another Location?

by Byron L. Mangis, J.D.



You may not have considered the following. Potential investors looking at the value of a business will not see location and rent as two very important factors in their decision process.

Investors purchase businesses on values based on total revenue and net ordinary income. If your rents are higher than market rent, for similar locations in your immediate area, the investor may weigh your business against the others that have a more favorable cost basis, due to the market rent being lower. The worse case scenario is potential buyers may not seriously consider a business with an out-of-market lease where the landlord treats the current tenants and must decide if they purchase the business, are they going to be "OK" with stepping into the shoes of the current lessee.

What Makes Them Think They Will Be Able to Better Negotiate with the Landlord, Than an Existing Tenant?

Investors will also make a value decision regarding the location. Is the location worth the extra lease cost? Maybe—Maybe not. Is the business dependent on this specific location for a customer base? For example, a mall may have higher rent than a small strip center, but the foot traffic and sales revenues generated for each mall store may be sufficiently higher to more than compensate for the additional costs of the location. However, moving to another location that exhibits a better rent component may make sense if the business isn't dependent on high visibility and foot traffic. This could be especially true if most of the business revenue is generated from referrals and past clients which are not necessarily location sensitive, but are product and service oriented.

Many Businesses Are Area Sensitive and Are NOT Necessarily Specific Building Location Sensitive.

Be careful as moves to another location may become expensive and this cost must also be factored into your decision process. With that being said, where rents and vacancies are a major factor, your new landlord may be willing to absorb some, if not most of your moving costs, to gain your business and reduce their vacancy factor.

So What Should You Do First?

Try to renegotiate your existing lease with your landlord, if your rents are not competitive for your area. It is actually beneficial for both you and the landlord to be competitive in the market. Your landlord is a business person as well and understands economics, supply and demand pressures on rents, tenants, etc. Sizeable empty spaces in locations such as strip centers affect landlord revenues and bring harm to their ability to acquire additional quality tenants...especially if their leases are not competitive for their immediate area. This should be a win-win negotiation. You may obtain a more competitive rent and become more profitable and attractive to potential investors and/or buyers. The landlord has removed a potential vacancy by you or a potential buyer of your business and is at no less than market rent. The landlord's vacancy factor has not been harmed and the business location and/or strip center may be more financially sound with competitive rents.



What We Face is a Difficult Economy

by John Stivers, CBI, M&AMI, BVS, BCI, Business Broker
President of Professional Business Brokers

As a business broker celebrating 20 years of business in Brevard County, these hard economic times are especially disheartening. The complete loss of fiscal responsibility at the federal and state levels of government has resulted in a devastating impact on small to medium-sized businesses everywhere. With the banks subject to ongoing government intervention and ever-changing regulations, it is no wonder that loans of all types are nearly impossible to come by. Joe “the plumber” has little work so Joe “the plumber” spends little money. The reduction in consumer spending imposes hardships on businesses of all sizes, eventually causing lay-offs and significant belt tightening. This downward spiral continues until businesses shut their doors, landlords go into foreclosure and consumers go broke. This is the path we are destined for unless and until attitudes, philosophies, and experience changes in government.



Every successful business person carries a level of spirit, confidence and ambition that fuels their growth. Unlike the government, business owners and managers plan their future with uncanny accuracy making sure to monitor their progress often and making as many adjustments along the way to remain on track. After all, it's their money at risk, not that of the taxpayers. The entrepreneur doesn't have the luxury of printing more money at will or floating an endless stream of bonds to the market. This translates to an operating “budget” and the ability of the business to operate within that budget.

As owners and managers review their budgets, they develop a level of confidence as to just how realistic their goals were. A low level of confidence, coupled with a high level of risk, generally breeds an individual that is ultra-conservative. Being ultra-conservative may be a good thing, but if allowed to fester, eventually leads to indecision.

We have arrived at the current state of affairs that is strangling this country. Businesses and their management teams have reached critical mass and it is indecision directly resulting from lack of confidence. Not being able to responsibly forecast salaries, benefits, taxes, interest rates or understand the affects of the pending regulations and healthcare programs make it impossible for businesses to plan their future growth. Instead, management concentrates on damage control, survival and reduction of overhead.

Until confidence is once again restored, we are locked in a business continuum that challenges our economy. The cornerstone of our economy has always been small businesses. In order for our economy to grow, small businesses must once again thrive. This can only happen with the re-establishment of confidence...which comes in large part with confidence in our government.



(Continued from page 2)

SBA has also recently introduced operating guidelines for lenders that may well (eventually) lead to other changes to the SBA 7A lending program. The guidelines are still being studied and implemented. As a result, we are keeping daily tabs on the status of any possible changes and I urge you to work with a lender who is experienced, knowledgeable, and fully up-to-date on all of the latest developments. This will insure that clients receive the most attractive financing package currently available. Call me today (321-972-8840) for the latest news and updates or if you have further questions.



Lynne Singletary is the Vice President/Business Development Officer at Quadrant Financial. She has over 22 years of commercial lending experience and considers SBA lending to be her real forte.

With 15 years of SBA experience, Lynne has put together SBA deals large and small, simple and complicated. That experience allows her to see opportunities, where others falter. It's a talent recognized by her peers. Twice she's been honored as the Central Florida Commercial Real Estate Society's Affiliate of the Year.



Business Brokerage Without Borders!

Congratulations to Patrick &
Conny Ceunen of Belgium
on the purchase of



We'd Love to Hear From You!

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