



By now you may understand that in Colorado there is little to no co-brokering. This means that unlike real estate transactions where a buyer can have a broker represent them in a sale, and be paid from the seller's broker, few, if any business brokers will represent a buyer. Why? I really have no idea but that is the law here. When I began in the industry, I did represent a buyer and found a very high-quality listing for him. I contacted the broker representing the seller and he said, 'we don't co-broker'. I insisted that if he was representing his seller's interest then he should be open to co-brokering. What he told me did not make sense at that moment, but I came to understand it fully. He said, 'I have no shortage of buyers, and good listings attract plenty of buyers.' He then added that the buyer's brokers did little to no work on the deal (true), and it was more likely that because so few brokers are credentialed experts, a buyer's broker would more likely only complicate a deal (sad, but also generally true).

The sad truth is that you as a buyer, and likely a first-time buyer, are on your own. So why would I bother to write this short guide? I like to help people, find satisfaction in it, and really believe that if you serve others first it will come back to you. I want to help you find your first business and in 4 or 6 years when it's time for your sale you will reach out to one of the few people who have made time to help you. I also came to the conclusion that if you have high quality listings, buyers will find you. For this reason, we limit our engagements to only businesses we know that we can sell for the correct and highest price. Let's get started.

- Virtually every business you target will be represented by the seller's broker. Brokers speak to 15 'buyers' for every 1 real buyer. If you want a broker to consider you as a real buyer, and not a dreamer, you need to present yourself as such from your first interaction.
- The purchasing process begins with you, and being fully prepared is critical if you are to find the correct business, and most importantly to be considered a serious buyer. As above, brokers speak to 14 pretenders for every real buyer, so don't expect them to drop what they are doing and be flattered because you contacted them as a buyer. Until you present yourself as a qualified and serious buyer, brokers really don't want to waste their precious time with you. I know this sounds harsh but speaking with someone who thinks that being a buyer makes them special is tiresome. Remember again that because we do not co-broke, there is no money to be made from buyers who want the help of a broker - unless they are speaking with a buyer who is inquiring on one of their listings.

Even if you are contacting us because you are inquiring on one of our listings, if you do not present yourself as a serious, qualified, and action-oriented buyer, we will likely not want to spend a lot of time with you. It's simply because we, like everyone else, only have so many hours in the day to earn a living - and being a broker is not an easy way to make a living.

- Brokers (at least the ones with great listings) speak to hundreds of buyers every quarter. Getting lost in the shuffle is normal. Even if you have a great conversation with a broker the odds are low that they will think of you when they bring a new listing to market. So, you must make sure that you remain as top of mind with them as you possibly can. Trust me, I would much prefer to reach out to one of my preferred buyers than to put a listing up on a public sale platform and suffer the 14 out of 15 'buyers' who want to eat into my day. Further along I will tell you how to remain top of mind.



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# PREPARING TO BE A BUYER:

- You must understand what you want – do not think that a broker can determine the right business for you without some specific guidance. If you cannot articulate some specifics about what you are looking for, a broker will immediately place you in the ‘non buyer’ category. It is incumbent on a broker to focus on the buyers for whom their listing will most likely meet their acquisition criteria. The first step is creating a simple list of industry segments which you are most interested in. Being too specific will not be productive. Being overly broad will also not be helpful (unless you are really interested in any retail business). Be receptive to looking at similar businesses.
- When I left the corporate world to enter the world of small business ownership, I made the mistake of looking only for something in my industry, and within a couple of months I became so frustrated that I decided to simply start a business. (I was very lucky and defied the odds and created a great business which I eventually sold.

Include your prior industry in the mix but include it as one of ten industries of interest. I would tell you to start by not thinking about industries but instead about the attributes of the industry:

- Business to Business or Business to Consumer?
- Service or Product?
- Manufacturing, Distribution, or Retail?
- Operating Hours? 9:00am to 5:00pm, 24/7, or something in between.
- 5 days a week, 6, or 7 days a week.
- If you are not prepared to being on call 24/7 don't buy a business that operates 24/7.
- Do you like interacting with customers or do you prefer to direct the activities of those who interact with customers?
- There is no ‘right’ answer. It depends on your personal preferences. If you compromise too much because you think you can learn to deal with something that you really do not like, you may be setting yourself up for a painful future – not what you had in mind.
- Your transferable skill set should be your guide. In fact, when you apply for an SBA loan the first thing a lender will ask you is about your transferrable skills. Banks are very (!) reluctant to lend their money to someone with no transferrable skills. They will also push back if you do not have industry experience. But if the business is not wholly dependent upon the owner (and this is the type of business you want) then your transferable skills will be more important. If you have only managed a team of 3 people and your target business has 40 employees you will face strong headwinds in finding a lender to finance the deal. But if you find a business with a general manager or ‘right-hand’ person who manages the day-to-day operations of the business the lender will be much more receptive. (And this is definitely the type of business you want!).
- What size of business are you seeking? This is the question that helps a broker understand your requirements and also helps you to understand which financial attributes are important in your acquisition criteria (Revenue for example, is not). What is most important is EBITDA and/or SDE (Seller's Discretionary Earnings). This is the adjusted cash flow (benefit) to a single owner of a business. Why is it the most important? Because SDE or EBITDA is the amount of money which the business produces which will pay your salary, pay the debt service on the bank loan, and produce the net profit after all other expenses. This is also a good way of looking at the near-term ROI on your down payment.



# CONSIDER:

- What salary do you need to continue to live in the manner in which you are living now? Don't think that because you are accustomed to enjoying an income of \$200,000 that you can simply cut back and live on \$50,000. You might be able to do this and perhaps live off your savings, but the bank will likely say 'no, that will not work'. Remember that the bank holds most of the cards. It's their money at risk and they do not like risk.
- How much do you have in liquid cash or equivalents for a down payment? Not how much you can get from investors (more on that later). How much do you have right now to put down on the business?

You need to know how much you need in income/salary and the down payment available to determine the size range of the business you are seeking.

Let's do some simple math: the very general rule of thumb is that businesses producing SDE below \$200,000 will be priced at a multiple of as low as 1x to 2x, businesses producing between \$300,000 and \$500,000 will be priced at a multiple between 3x and 4x. These are general rules of thumb and vary for a variety of factors including: the industry, financial performance history and trajectory, reliance on the owner, competition, years in business, barriers to entry, regulatory issues, licensing, etc.

A lender will require a down payment (also called a cash injection) of between 10% and 20% of the price of the business. It is unlikely you can find a lender to allow you to put down less than 10%, so don't get excited about another nugget learned from the internet. Be realistic and seek input from multiple lenders.

SBA loans tend to have a term of 10 years (120 months). There are SBA fees and lender fees which will add another 3% to 5% of the loan amount. So, if you are buying a \$1,000,000 business and will need to put down 20% (\$200,000), the total loan will be \$800,000 plus 4%, or \$32,000, for a total loan amount of \$832,000 or more. For the sake of simplicity, let's say the interest rate is 10%. An \$832,000 loan at 10% for 10 years will have an annual debt service amount of \$131,939.28.

If you determine that you need a salary of \$200,000 per year and you add the debt service of \$131,939 that means that at the absolute minimum, you will need a business producing in excess of \$331,939. From my view you will need a business producing at least \$400,000 in SDE. Remember, you also want an ROI on your down payment of \$200,000. This example is extremely simple to illustrate the point, but there are plenty of other factors and scenarios to understand.

These are just the very basics. Let's just say that you will need a business to produce \$400,000 in SDE. So, recall that we began this looking to put some parameters around the 'size' of the business. We just did. Revenue does not matter, only SDE. (Although the ratio of revenue to SDE provides insight on gross margin!) If you find a business that produces \$400,000 in SDE and it is priced at a million dollars, and you have a \$200,000 down payment, this deal will probably work. If the business is priced at \$1,500,000, a 10% down payment might work and your \$200,000 will work, but the annual debt service will not work. At the end of the day, it comes down to simple math. You will also need to bring Working Capital to the transaction so that you can meet the near-term financial obligations of the business such as payroll, rent, utilities, and all of the other fuel or blood that enables the business to function every day. Your SBA lender is usually happy to provide a buyer with Working Capital in the form of a line of credit. On transactions above \$2,000,000, some amount of Working Capital may be left in the business as Accounts Receivables but on transactions below this level it is usually left up to the buyer to bring Working Capital.

So, in this example the numbers to give to the broker are - a minimum of \$400,000 in SDE, a purchase price between \$800,000 and \$1,200,000, and you can tell them that you have up to \$200,000 for a down payment. The reason I mentioned a price as low as \$800,000 is that you might find a business that is close to \$400,000 in SDE or one that can be financially improved straight away, or perhaps you can realistically reduce your salary to \$160,000, so a deal might work.

I am not suggesting that you buy the biggest business you can afford (although there tends to be safety in larger businesses), the goal at this point is to give you and the broker you are speaking with some guidelines so that when they are bringing a business to market they know not only what you are looking for but what size deal you can likely complete.



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### **GET SBA LENDER PRE-QUALIFIED**

I suggest that you also immediately speak with at least 3 SBA lenders and an SBA broker. Talk to them and have them tell you what size business transaction they would pre-qualify you for. Do not 'have conversations' - they are meaningless. Get pre-qualified and have each of them prepare a Lender Pre-Qualification letter for you and send that to every broker you speak with along with your acquisition criteria.

Regarding down payments and having an investor backing you: as brokers we are not especially keen on buyers who have to rely on an investor for their down payment. The reason is that unless that investor is involved from the very start and participates in every call with the broker and the seller, it simply adds complexity and an extended transaction process. Essentially, we have to sell the deal twice - once to you as the buyer and then again to the investor. Transactions are complex enough with one buyer. If you are intent on using an investor, then you and that investor should be in total agreement of how much they will invest from the start. Even better, you and the investor should spend a few dollars establishing the purchasing entity, and they should be providing the SBA lender with their personal financial information at the same time that you are.

### **BROKERS NEED TO REMEMBER YOU**

I've mentioned brokers a few times. When you inquire on a business that is listed on either one of the public platforms or on the broker's website, and you have a conversation with that broker, you should share the lender pre-qualification letter which shows that you are financially qualified. When the conversation turns to 'what are you looking for', provide them with your matrix of industry preferences and your transferrable skills sets. Do not send them your actual resume at this point as that will tend to have the broker determine what businesses you are qualified for. Don't let anyone make assumptions about the next job you are qualified for. You already have a job - you are looking to escape that madness by using your experience and skills to be a business owner!

Now, when you call a broker to get on their list/in their database, you can present them with a robust understanding of your acquisition criteria and your financial qualifications so they can contact you with a listing that might meet your requirements.

### **EARLY ACCESS TO NEW LISTINGS - STAYING TOP OF MIND**

Remember that with all of the other prospective buyers that brokers have in their database, that you are likely to only get contacted when they contact all of the other buyers as well. The ideal situation is to be contacted before anyone else. How? The key is to remain top-of-mind with the broker. I encourage buyers to keep in touch on a regular and consistent basis so that when I have a new listing coming to market, I will think of them first, or at the very least you will be in the small group of preferred buyers. The best way to do this is to send an email (or call) once a month just to remind them of 'who you are, your acquisition criteria, and continued interest in their listings'. If you do this on a monthly basis you are unlikely to miss out on a new listing and you will be demonstrating that you are a serious buyer. Brokers like everyone else remember those who stay in contact. I explain this to every buyer I speak with yet only 5% make the effort to remain in contact with me, and those are the ones that get the deal. The other 95%? I assume that they were never serious buyers.

Investors? You may think that having access to investors will make you a more credible and serious buyer. As mentioned above, while you believe this makes you a better buyer, in reality, successful brokers are not impressed.

### **FINAL WORDS**

Business Brokers are extremely busy and are always managing multiple priorities. They remember those who stay in touch and those who have the courtesy to follow-up after they have been sent the offering document (CIM or CBR). If you ask to see the information, make sure that you review it without delay and communicate your interest or lack of interest within a day or two. Be sure to also include the reasons why it was not a good fit - you always want to educate the broker about yourself, and this will also ensure that if you made an incorrect assumption about a business the broker will have a chance to clarify.

I hope that this short guide will help you to properly prepare yourself for this journey. Finally, remember that good businesses engage multiple buyers very quickly. You must be ready to act so that you have a chance to participate in the sale process. Act with a sense of purpose and urgency and do not expect a competent broker to chase you. Great brokers are far too busy to chase buyers because buyers are chasing them!