THE BEST INSIGHTS ON BUYING AND SELLING SMALL BUSINESSES

IBBA insights

MAGAZINE

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IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®

Setting Our Sights High

***By Kyle Griffith**, 2023 IBBA Chair*

Plus Insights on:

+ Selling Your Business
+ Understanding the New SBA Rules
+ Getting Inside the Mind of a Seller
+ Keeping Egos from Derailing a Sale
+ Legislative Updates

and More!

IBBAinsights

The best insights
on buying and selling
small businesses

In this Issue

Setting Our Sights High

KYLE GRIFFITH | CBI, CM&AP | 2023 IBBA Chair

As we step into the second half of 2023, it's an ideal moment to reflect on our journey, celebrate our achievements, and set our sights on future goals.

We take pride in witnessing the remarkable growth of our IBBA family, now a robust community of over 2,700 members. This expansion is not merely about numbers, but signals increased diversity and inclusivity within our association.

Our association has evolved into a dynamic blend of wisdom, fresh viewpoints, and diverse gender representation. The encouraging increase in female business brokers and the influx of young professionals have broadened our membership base and enriched our collective perspective. This increased diversity, in which we take immense pride, enhances innovation, promotes a forward-thinking environment, and drives growth within our organization.

The year 2023 marks a significant milestone for our industry - the passage of the Brokerage Simplification Act. This legislation removes specific regulatory requirements for M&A brokers, making business transactions more seamless and efficient. It's a testament to our advocacy efforts and dedication to promoting smooth business operations.

The annual IBBA conference in Orlando, Florida, was monumental, marking our largest assembly of top business brokers worldwide. This platform facilitated a dynamic exchange of ideas, best practices, and strategies through various workshops, masterminds, and courses. The successful amalgamation of knowledge sharing, networking, and collaborative learning underscored our unwavering commitment to providing top-tier educational opportunities and setting industry benchmarks.

At the conference, we celebrated our members' achievements, recognizing a record number of award recipients from over 1,800 deal submissions. This notable increase in awards mirrors our members' success and reflects the growing recognition of business brokers' pivotal role in successful business transfers. Every award symbolizes hard work, persistence, and professional excellence, which we should all take immense pride in.

Our constant endeavor to raise awareness about the business brokerage industry continues to bear fruit. We are attracting new brokers and boosting our profession's visibility. Our strategic vision aims to cultivate a culture that encourages growth and gives our members essential tools, resources, and support to succeed.

Looking ahead to the remainder of 2023, our resolve is unshaken, and our optimism is high. We remain focused on strengthening our global footprint, offering unparalleled value to our members, and advocating for business brokers.

Our journey so far has been shaped by your dedication, commitment, and faith in the IBBA. Your success is our success, and together, we aim to build an even more robust, valuable, and quality-focused association.

Thank you for your unwavering commitment to the IBBA. Here's to forging an even brighter future together!

Best regards,

KYLE GRIFFITH | CBI, CM&AP | 2023 IBBA Chair
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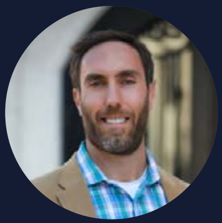
Selling Your Business This Year: 5 Key Preparation Steps



DAVE DECAMELLA
CBI, Transworld Business Advisors

A new year brings with it a slew of changes and new beginnings. With this you might be making some major business decisions and reevaluating your career goals — whether getting ready to retire, considering another job, or merely wanting to sell for personal reasons.

Surprisingly, January can often provide one of the best opportunities to sell, as ambitious entrepreneurs with big New Year's goals kick off their company search. As with any successful commercial sale, meticulous planning and certain preparations are key — from getting your books in order to getting your space (literally) in order — before you can even start looking for a potential buyer. Think about the following tips to make sure your business is in tip-top shape when the time comes to truly sell:

TAKE STOCK OF YOUR GOALS. Before you get too ahead of yourself, first ask a few simple questions: Are you looking to hand off the business to a devoted employee or close family member? Would you rather sell the business in full at closing and leave with a wad of cash? Does maintaining the company brand matter much to you? Would you be content to keep working for a couple of years as a company consultant? Before getting too wrapped up in the sale, first consider your own needs and desires.

GET YOUR FINANCIALS IN ORDER. Some buyers will be looking for at least two or three years' worth of detailed books, and the more organized your financials are, the better off you'll be in the long run. Compile all of your tax returns, financial statements, employment agreements, supplier contracts, projections, etc. Why? Because poorly kept books are likely to ruin the business sale before it even happens. Begin gathering this information as soon as possible to leave ample time to make adjustments.

DETERMINE THE WORTH OF YOUR BUSINESS. Enter a third-party business valuation, which can be crucial in estimating your company's value. Just like you may take your car to the mechanic for a tune-up, business brokers are experts when it comes to the buying and selling of businesses. A qualified business broker will review all aspects of your business (as well as the competition) in order to make a detailed and accurate assessment

— and then they can assist in making that successful sale happen straight through closing.

TIDY UP THE SPACE. You will want your company to make a great first impression, appearing clean and presentable when meeting with potential buyers. This includes (but is not limited to) making any minor or major repairs, purchasing new furniture, and/or applying a coat of paint to any physical stores. Also, be sure to evaluate your inventory needs and clean out any excess baggage. This also serves as a great opportunity to make website updates and get other digital assets organized.

GET YOUR TEAM TOGETHER. Keep up with sales preparations and avoid any unwanted surprises by getting your team of trusted advisors together before listing the business. This could include your bookkeeper or accountant, your CPA, any legal team members, a business broker, and any other key players who should be involved in the big sell. Collaborating with a tight-knit team of specialists can better prepare you for listing and selling your company.

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SAVE THE DATE

IBBA 2024
ANNUAL CONFERENCE

SATURDAY, MAY 11 - SUNDAY, MAY 12, 2024

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EST. 1778
KENTUCKY
AT THE GALT HOUSE

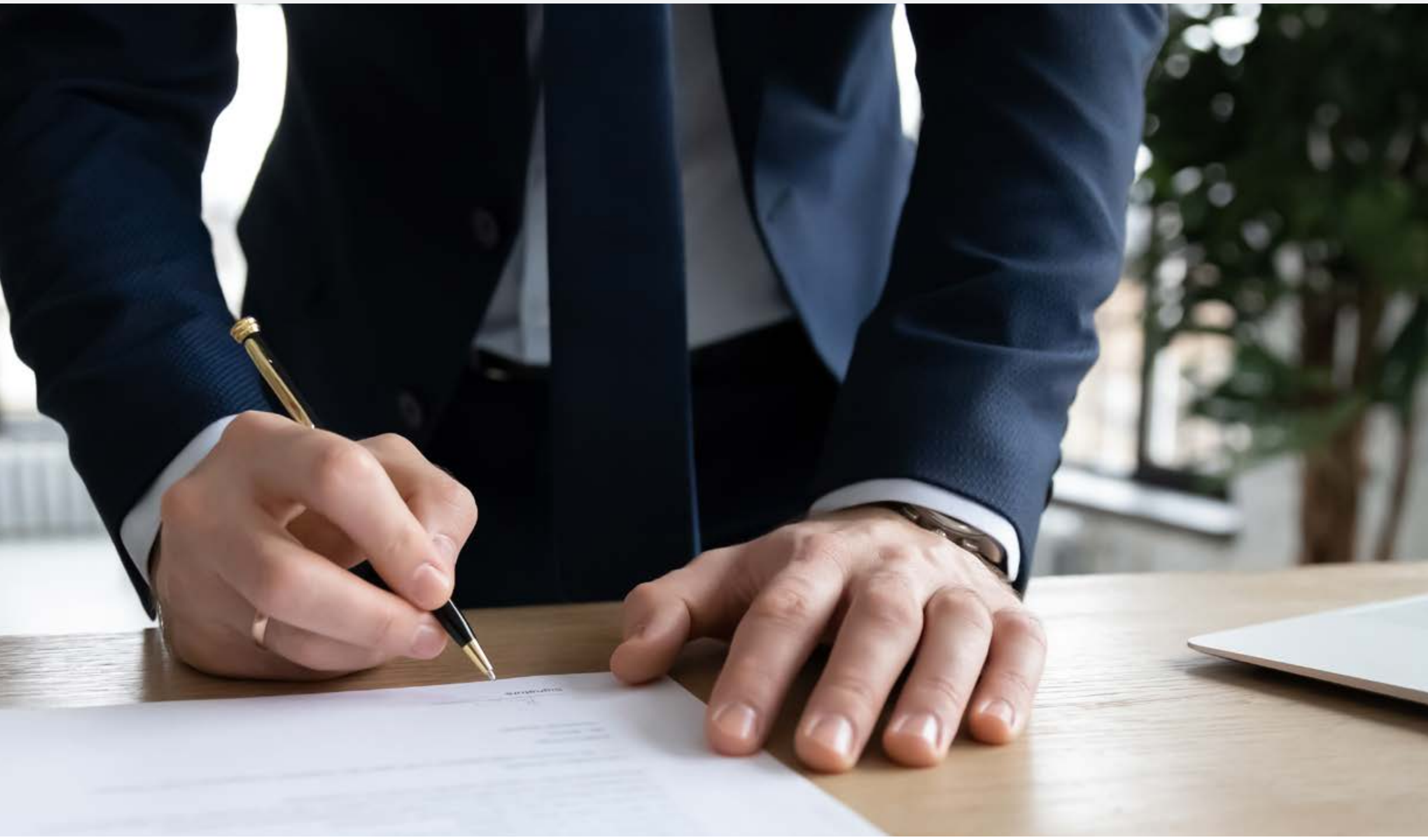
IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®
2024 ANNUAL CONFERENCE

BUILDING SUCCESS THROUGH THE SHARING OF INFORMATION

The New SBA Rules and Their Effects on Your Transactions!

These matter to you on so many levels, please read.

STEVE MARIANI
Owner, Diamond Financial Services Advisors



If you include SBA financing in your transactions, then you must have heard about the many changes going into effect on August 1st of 2023 in SOP 50-10-7. Many posts are promoting these changes as beneficial to our industry, but today I will explain the good, the bad, and the ugly about these changes and what they can mean to every American taxpayer. Note that this information is as of today, and much of this may change prior to the actual release date of August 1st, 2023.

Let us begin by outlining a few of the major changes in case you have not read these yourself.

1. Partial changes of ownership now allowed. (Current rules state it must be a 100% change of ownership)

2. Seller note contributions toward downpayment can be on standby for only 24 months. (Not the entire life of the loan)

3. Seller notes can now contribute 100% of the down payment amount. (Previous maximum was 50% of D/P)

4. Seller's may stay on as "Key" employees moving forward. (Now is only 12 months allowed and cannot be "Key")

5. Franchise eligibility approval is now left up to the lender to determine. (SBA Franchise registry has been removed)

6. Personal liquidity rules and limits removed. (Liquidity limits were in place)

7. Business affiliation changes from 20% to 50%

Once this SBA memo was released on May 9th, I began speaking with lenders around the country to better understand their initial thoughts and how we should expect underwriting policies to be adjusted. It initially appeared that these rules, although extremely aggressive, provided lenders with additional avenues to assist our clients to secure acquisition financing. What I missed in these first memos was the granting of 3 Fintech licenses to unregulated websites. The SBA was now going to allow algorithm-based lending, as was done for PPP loans in the past. The premise is to provide lower served communities the access to start-up capital loans ranging from 25K to 100K with very little criteria, and no personal interviews or communication. Congress has heard testimony from community banks that typically provide this type of loan, but buyers must qualify for them. The local community banks go on to explain how they work for many months with potential start-ups to help create business plans, compile projections, and provide valuable advice through the first years of operation, to ensure success. This level of advice and guidance is critical to the repayment ability of our borrowers and greatly decreases our defaults on this type of financing.

About Fintech lending, (and yes, I had to Google it at first) a description that I found is as follows:

Fintech lending uses digital technology to enable lenders to issue loans through websites or mobile applications.

Many Fintech lenders appeared during the PPP loan years to assist small business expedite their assistance loans. The issue here is that the Fintech lenders produced significantly higher PPP loan fraud and default levels and had little to no oversight or regulation at all. These are not federal registered banks and do not have to abide by federal banking laws or regulations or oversight. The concern that many SBA lenders have today, is that these Fintech lenders will create historical levels of default never experienced in the SBA's 70-year history. If the percentages come remotely close to the PPP default levels, then in just one year the entire program is expected to exhaust all funds available to provide guarantees for our acquisition loan requests.

A few highlights and positive changes in the new rules that do affect our industry. Now sellers can provide 24 months of seller financing on stand-by, and this can now be included as down payment. Prior to this change, a seller that was holding a seller note that contributed toward a buyer's down payment must have had to be on full stand-by for the entire life of the loan. This is a more palatable repayment term, and I would expect many more sellers to be open to agreeing to assist buyers with their down monies. The lenders I have spoken to seem to embrace and accept this rule and allow this structure to be included as of today.

Seller staying on as a key employee is another rule lenders may embrace. Something SBA said they would never allow in the past but now appears to be a possibility. Here is why these matter to our industry. Just think about all those businesses that require a specialty license, such as Electrical contracting, Construction, Plumbing and HVAC to name just a few. If the seller is now allowed to remain indefinitely with this business as a key employee, then it appears that they can hold the license moving forward. This has not been accepted by our lenders and does not take effect until August 1, 2023. Something to watch as we move forward as it can have a significant effect on your specialty listing options.

Allowing seller notes to contribute the entire down payment may take effect in August, but lender feedback is that most lenders will not approve a loan without some level of buyer injection. We are again monitoring this rule to see if A) if this takes effect, and B) what and how lenders will approach this. We expect there to be certain exceptions under lender policies to allow no down payment acquisitions for specific case scenarios.

Personal liquidity test removal is a substantial change for our firm, and maybe for yours also. The current rule in place only allows a borrower to retain a certain level of "Liquidity" post-closing, and if their liquidity is too great, they can become completely ineligible for SBA financing. The removal of this requirement now would allow any level of high-net-worth individual to secure financing for an acquisition. This level of buyer is typically looking for the larger size businesses and can now become financeable under the 7a program.

The bottom line for most brokers and Americans to understand about these changes is the exposure and increased chances for defaults. You may view the current SBA rules in place today as too strict, but I can assure you that if these new rules are implemented, that the SBA program itself will be in jeopardy. Based on the expected defaults, if these become law, we can all be picking up the tab and funding the SBA 7a program either through your taxpayer dollars (SBA has not been government supplemented since 2001) or the performing SBA small business loans will be costing much more to secure.

If you would like to learn more specifics and view the actual congressional hearings, please use the links below to view session part I and/or session part II. These are highly informative views from lenders, NAGGL and independent SBA providers presenting to the congressional small business committee. I have also included direct links to the SBA informational notices that were sent out on May 9th if you would like to read specific verbiage.

As we understand the lender interpretations, and the effects on business acquisitions, I will be sharing with the industry to keep you informed through future newsletters and webinars, so stay tuned.

To increase your success, direct your buyers to one of our highly trained SBA managers for their pre-qualification letter (at NO COST) and we will be happy to assist in the screening and closing of your transaction. We guarantee a YES or NO answer within 3 days of file submission. Try us and see the difference that personalized service, along with top level advice and lending sources, can make. We do not pay fees; we increase your commissions!

STEVE MARIANI
Owner, Diamond Financial Services
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ADDITIONAL RESOURCES

Full Committee Hearing: "Examining the SBA's Changes to the 7(a) Lending Program Part I" - YouTube

Full Committee Hearing - "Examining the SBA's Changes to the 7(a) Lending Program Part II" - YouTube

SBA Information Notice 5000-847027

Procedural Notice 5000-846607 - Implementation of the Final Rule on Affiliation and Lending Criteria (sba.gov)

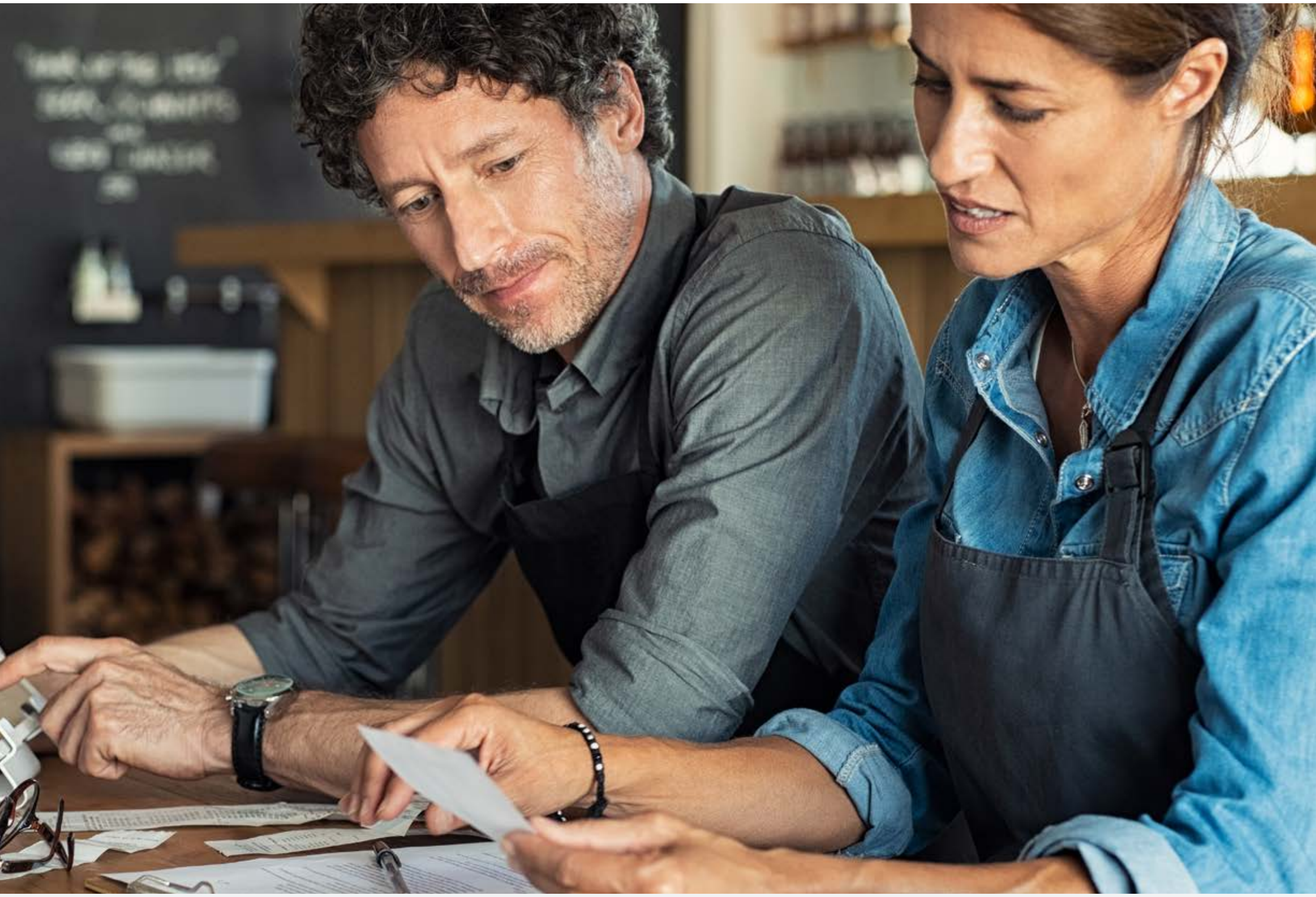
When You Want to Work with the Best, Look for a CBI

FIND A CBI NEAR YOU

A CBI has the ability to objectively guide clients through the intricacies of the entire marketing and negotiation process of a business sale, resulting in successful transactions and satisfied clients, while offering the most experienced professional representation available.

Inside the Mind of a Small Business Seller

JOSEPH NOBLIT
Founder and Former Business Owner,
a Teamshares Client Success Story



When I first thought about selling Yankee Mattress Company, I knew it was a long shot. Like most small business owners, I knew the statistics, and they were discouraging. 80% of small businesses fail to sell when the owner retires, and I was one of many owners who didn't have children interested in taking over. I also knew that most people who wanted to run a small business didn't have the money to purchase it and allow the owner to retire comfortably. Meanwhile, those who do have the money usually aren't interested in running the business themselves, which leaves the future of the business (and its employees) up in the air.

It didn't help my odds that I was unusual for a company owner. I had worked in all aspects of my industry before becoming an owner, which would be hard to replace. I started my career on the manufacturing side, working in a mattress factory to learn the ins and outs of quality craftsmanship. I transitioned into a sales role after years in the factory, a new experience that helped me to truly understand customer expectations and the value of great service. After working in it for decades, I knew the mattress business well, and I was very passionate about it. That depth of knowledge gave me the confidence to fulfill my dream since college: I started my own mattress company. It was a small operation for the first few years, and I do mean small: I made, sold, and delivered every mattress myself. Over the next two decades, I built Yankee Mattress into a full-size manufacturing and retail operation with four locations across Massachusetts. I didn't want my life's work to disappear overnight.

My longtime accountant recommended working with a business broker, strongly advocating for one broker in particular: Ron Ekstrom at George & Company. After years of collaboration, I trusted my accountant's input, but I needed to see for myself if Ron was the right fit for me. Our first meeting was all about learning his perspective and process and trying to see how well it aligned with my own. From the moment we met, Ron seemed like a nice, easygoing guy, and I was impressed by the depth of his questions and character. As we talked, a million different thoughts were running through my head, but I kept coming back to one in particular. I finally asked: "Will this company I've built be worth anything to anyone else?" He responded immediately.

"I THINK I CAN DO SOMETHING WITH YOU."

This was the start of a very fruitful partnership.

Yankee Mattress Company was the culmination of so many hopes and dreams—my life's work. I needed a buyer who understood that and a broker who would take the time to find that buyer. Ron proved to me that he understood what I was looking for. He took the time to walk me through the process and the expected valuation. He asked me hard questions that prepared me for due diligence, and he took great care in explaining the details of the different offers, as well as providing his honest assessment of the pros and cons of each.

Thanks to Ron's valuable perspective, I ended up going a route that I hadn't even considered when I first put the business up for sale. I sold Yankee Mattress to a company called Teamshares, which transitions small businesses to employee ownership without costing the employees a dime. I loved the idea from the moment I heard it. Their structure ensured that the company wouldn't be stripped for parts, keeping everything running while making sure that our 14 employees—many of whom were family (or felt like it)—would be taken care of. They brought in a president with a strong business background instead of attempting to find someone with my depth of industry knowledge. It seemed counterintuitive, but I quickly realized that Yankee's best new president would be somebody who respected our legacy, was eager to learn, and had the business skills to shepherd it through a new era and its next stage of growth.

The sale process and deal terms were different from a traditional third-party sale, but my broker helped me understand my options and lay it out in clear terms. With his help, I was able to see that this was the best path forward for myself, my business, and my employees. Ron's willingness to roll up his sleeves and get into the details of numbers, timelines, and assets made an enormous difference. The due diligence process was very thorough, and having a broker who truly understood the nature of the business was more important than I even expected. I leaned on him in those moments, and he always came through for me.

It's been almost two years since the sale went through, and I couldn't be happier with my decision to partner with Teamshares and make employees owners. We didn't lose any employees in the transition, and the new president is growing the business. I'm able to enjoy my early retirement with the peace of mind that my former employees will reap the benefits of the sale for many years to come.

As a former small business owner, my advice for brokers is simple: take the time to understand what we value most and consider buyers that may be a little out of the box. My company is so much more than a workplace to me, its employees, and its community and customers. It is my life's work, and it matters in ways that I still can't put into words. I'm incredibly grateful that my legacy lives on through employee ownership and that Yankee Mattress is here to stay.

***Joseph Noblit** is the founder and former owner of Yankee Mattress, a Massachusetts-based mattress manufacturer and retailer. After fulfilling his dream of starting and growing his own mattress company, Joe sold the company to Teamshares in 2021 in order to transition it to employee ownership. After decades of hard work, he is enjoying an early retirement.*

Teamshares

Founded in 2019, ***Teamshares*** is an employee-owned national financial technology company with a distributed workforce of 150 employees working towards 10,000 employee-owned small businesses and $10B in new wealth for hard-working Americans. The aim is to support a generation of business owners through confident retirement and create stronger, enduring companies through equity alignment and the Teamshares platform.

Don't Let Your Client's Ego (or Yours) Get in the Way of the Sale!

STEVEN BEAL
CBI, M&AMI, Beal Business Brokers & Advisors

We have all had difficult clients – both buyers and sellers. People can want what they want and refuse to hear what they don't want to hear. We need to know how to navigate clients who think they know how to do your job better than you, and tell you as much. Or their stubbornness gets in the way of them getting to the goal they ultimately want – to sell their business and fully retire.

I learned this the hard way with one of the first business transactions I did. There were five partners, and they were all well past retirement age, and they wanted to sell their entertainment business.

We went through the process – pricing, packaging, and – because there were five owners – I made sure I was dealing with the decision-maker who had the legal authority to sell. Because it was a unique type of businessi we had trouble getting buyers.

We started with good momentum but got a lot of tire-kickers with low-ball offers. The sellers used the standard "over my dead body" line, or, as one put it "I would rather burn the place down than sell it for that." After a number of months of marketing, we finally found the right buyer. He made a fair offer, below ask, but more-or-less what we told the owners we thought we would get. In the meantime, two of the owners had passed away (their "over my dead body" comment was unfortunately prescient). I was now dealing with the widow of the original decision-maker. Even though the offer was right in the zone, she balked at the offer "if we hold on to the business for three years, we could make that much money and still have the business to sell after that." – you know, the usual seller's objections. I felt like saying "Look – you have buried your husband and lost one of your business partners – how do you know you will still be around in three years?" Out of respect for her loss, I refrained.

We finally agreed on the price, but not without serious rancor on both sides. When we got closer to the day, a dispute arose over the counting of inventory – specifically the open bottles of alcohol in the bar. The Provincial regulatory dis-allows the transfer of partial bottles in a business sale, so the buyer was not going to pay for them. The seller figured, in that case, he would have one last party and invite his buddies over to drink them all (it would have been quite a party.)

That last issue was finally resolved, the deal was closed, and all parties were (reasonably) happy, but not without a lot of hand-holding and frankly, grief counseling in the process.

As business brokers, we have the privilege of walking with our clients through major life changes. These changes can be emotional and can make them (more) difficult to deal with. Little things can all of a sudden become deal-breakers. My favourite tactic when something arises is to quantify it – how much were those open bottles worth? $1,500? $2,500? Are we really going to kill a million-dollar sale over a couple of thousand dollars worth of booze? People's egos get in the way – they have to "win" at all costs. Whatever the issue is, they have to get the better of their perceived "opponent."

The sooner you can help the seller (or buyer) to look at the transaction in a co-operative manner, the more ability you have to work together to a solution to any issue that may arise. The most successful deals are ones where, when a problem arises, both parties (with their broker's assistance) see it as a common problem to be solved together, not as an adversarial situation where there can only be one winner (and, by extension, one loser.)

STEVEN BEAL
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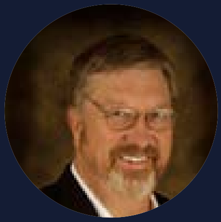
Legislative Update:

Now that the Federal M&A Broker Registration Exemption has been enacted, where do we go from here?



J. MICHAEL ERTEL
Co-Chair BIEF
Campaign for Clarity

By now most everyone in our profession is aware that the federal M&A Broker Registration Exemption has been officially enacted. This has certainly been a long time coming, and some have called this the most significant legislation affecting our profession in last ninety years.

It means that business brokers and M&A advisors who are not affiliated with a FINRA broker dealer, and who are not registered with the SEC as s securities broker, are no longer at risk of operating outside the law when they facilitate the sale of a qualifying, privately held business involving securities, or an earn-out, or even a seller's note. As sweeping a change as this is, there are two things that all business brokers and M&A advisors should keep in mind.

First, this is an exemption from registration only. It does not exempt business brokers and M&A advisors from full compliance with other aspects of securities law. This is particularly important when attempting to find a buyer for a fractional interest (>25%) of an ongoing business where general solicitation (e.g., internet advertising) is generally prohibited, and where some filing of the securities may be required by the SEC or state regulators.

Second, this is federal exemption only, which does not preempt any state registration requirements. As of this writing a total of 20 states have already adopted some form of registration exemption for business brokers and M&A advisors. More work is needed to urge all 50 states to adopt this exemption. **CLICK HERE** for a list of states that have already adopted some form of M&A broker registration exemption.

Since the situation varies by state, BIEF is unable to provide a cookie cutter solution that will work in each and every state. It is up to the individual state and regional associations to determine what the current climate is in their state(s) for adopting the M&A Broker Registration Exemption. **CLICK HERE** for a link to the NASAA webpage where you can click on your state for the contact person in the agency or department that regulates securities.

Beginning with a phone call to that person, you should determine: (1) Are they familiar with the Federal M&A Broker Registration Exemption? (2) Are they familiar with the NASAA Model State Rule? (3) Do they already have plans to adopt the NASAA Model State Rule in their state? (4) If they were to adopt the NASAA Model State Rule, do they anticipate they would do this via rule making or legislation? (5) Do they anticipate a lot of opposition to adopting this exemption? (6) What assistance, if any, would they appreciate from the state /regional association?

Once we understand the situation in a particular state, BIEF has assembled several resource materials which will be helpful in educating the state regulators and legislators as needed on the federal exemption and the NASAA Model State Rule. We can also put you in touch with other brokers who've had success in getting their state to adopt this exemption, and who can share with you what's worked for them.

Lastly, we still need to raise money to pay the outstanding legal bills that BIEF has incurred in the Campaign for Clarity, and to leave some dry powder in the BIEF Treasury for the next issue that comes down the pike and requires a profession-wide response. Our goal is to raise a total of $250,000 and we've already raised approximately $150,000 towards that goal. While cash, check and credit card contributions are greatly appreciated, you may be more comfortable contributing something now, and pledging to contribute more in the future, perhaps tied to your next big closing.

- **Click HERE for a BIEF Contribution /Pledge Card**
- **Click HERE for an up-to-date list of BIEF Leadership Contributors**

Sincerely,

J. MICHAEL ERTEL
Co-Chair BIEF Campaign for Clarity
mertel@transworldma.com

What's Your Next Step Forward?

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