BUYING OR SELLING A BUSINESS

As of May 25, 2021

HIGHLIGHTS

- Analyze the company's financial performance.

- Is the company worth buying?

- How much is it really worth?

- Gather accurate financial statements.

- Based on those financial statements, perform a historical financial analysis.

- Request an itemized list of all assets included in the sale.

- Reach out to a business advisor for help analyzing financials, or as a neutral third party.

Buying a business is one of roughly five ways to get into business ownership: New Business Creation; Purchase an Existing Business; Employee-to-Ownership; Family Business Succession; and Franchising.

Each of these paths comes with its own challenges, ways to capitalize, and potential entity structures. There may also be some overlap, but at least three of the five relate to an existing business currently operating. In the case of buying someone else's established business, you'll get the good and the bad. It's important to identify good and bad.

Now is a great time to consider buying a business for two reasons.

First, the Baby Boomer generation contains a flood of entrepreneurs born out of the post-WWII era. This Silver Tsunami is populated by a group of people now looking to retire and move from entrepreneurship toward the next phase of life.

Second, the COVID-19 crisis is leading many entrepreneurs to consider moving on to something new as well. This could mean business closure rates at a higher than normal rate. It could also mean liquidation of assets may create lower costs associated with venturing into entrepreneurship.

So where to start? Start by analyzing the company's financial performance.

Therefore, it is critical to answer one primary question: Is this a business worth buying?

If the answer to question #1 is yes, step two is to answer the secondary question: How much should I pay?

To answer the first - and potentially - the second question, it is important to get your own fingers dirty and do some of the work. After all, you are the person who'll own and manage it. To make a well-informed buying decision and follow-on decisions thereafter, it's in your best interest to do some of the initial work yourself then rely on trusted advisors to help validate your assumptions, findings, and conclusions.

Here are recommendations to get you started:

- **Gather accurate and complete financial statements**
  - Three years of internally prepared income statements and balance sheets
  - Year-to-date internally prepared income statements and balance sheets
  - Three years of the selling company's tax returns

- **Historic financial analysis**
  - Enter the data, preferably, from (preferably) the internally prepared statements into the Historic Financial Analysis workbook available for download on our website.
  - As you're entering data, make notes of questions that arise or possible modifications to be addressed in the financial projections.

- **Request an itemized list of assets included in the sale**
  - Add two more columns to the value indicated by the seller: replacement value and fair market value.
  - Indicate which assets you're not interested in acquiring.

What comes next will be determined by findings of this initial step. We'll want to compare the company's performance with others in its industry. GFDA has access to industry financial benchmark reports to determine if the business is performing well, average, or poorly.

Next, advisors at GFDA can help you analyze what a potential offer price might be based on the financial performance and the assets being included in the sale.

In the end, a professional business valuation completed by a qualified professional will include three different approaches to valuing the business.

- The income approach analyzes the business' ability to generate cash.
- The asset approach analyzes the asset value of what's included in the sale.
- The market approach, like home sales, is a comparative analysis of recent sales in the same industry.

The Great Fall Development Authority (GFDA) is a regional public/private Economic Development Organization which focuses its efforts on the 13-county Great Falls Montana trade area, also known as Montana's Golden Triangle. We are a certified Community Development Financial Institution (CDFI) that provides gap and bridge financing to businesses, start-up entrepreneurs, real estate developers, and nonprofits.

We provide service to support existing businesses, startup entrepreneurs, real estate developers, nonprofits, site selection consultants, and businesses looking to relocate or expand in the Golden Triangle region.

Economic Development Services

- Get the debt/equity capital you need
- Grow sales, expand markets and increase profitability
- Find sites/properties for startup and expansion
- Assess the market and workforce with our proprietary databases
- Secure project approvals, grants and other incentives
- Develop Business plans and assess your current operations
- Grow into government contracting or exports
- Connect with a wide array of experts
- We provide SBA 504 loans statewide

For more information about this topic, contact:

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