Live Oak Bank

GUIDE TO BUYING A BUSINESS

Live Oak Bank's guide serves as a comprehensive overview for prospective buyers.

DEDICATED TO THE DOERS™

If you're considering purchasing an existing business, Live Oak Bank can help guide you through the process. With our dedication to efficiency, collaboration and deep knowledge of acquisition financing, we'll take you where you need to go. Note that acquisition is simply a more formal banking term that's used when talking about the purchase of a business. This guide outlines what you should consider and prepare when acquiring a business.

Capital is just one way we invest in you.

Why Live Oak

Service
We strive to provide unmatched service and an unwavering dedication to your success.

Know-How
We'll take you where you need to go with our deep industry and product expertise.

Efficiency
Our commitment to efficiency and transparency helps you avoid costly mistakes.

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BUSINESS TRENDS AND OPERATIONS

When acquiring a business, you want to make sure it is the right fit for your personal and business goals. Consider the following questions to determine if the business you are acquiring is a good fit:

- Is the business growing? If not, can you identify and implement improvements?
- Will the business support your current lifestyle? The business will be your source of income.
- Is the business located in a place where you will be happy living?
- Do you have a similar leadership style and philosophy to the current owner? As the new owner, you can make improvements, but an understanding of the former owner's leadership style can help you ease any apprehension from the staff.

MARKET TRENDS

Many of the business trends will be driven by market trends, so it is important to understand the demographics in the area as well as trends in the industry.

- What are the demographics of the area?
- What competition do you face in your local community?
- Is the local population growing?

PREPARING FOR OWNERSHIP

As you prepare to purchase the business, you will need to write a business plan. The business plan is your blueprint for success. It will help you think through decisions as you approach ownership and will serve as a guide once you are in the day-to-day operations. You will also share your business plan with your lender, business partners and key employees.

Be clear and thorough when writing your business plan. Include a formal title page, and make sure your writing is grammatically correct. Make an accurate and professional representation of your capabilities and objectives.

Your business plan should include the following six components:

I. Executive Summary
II. Business Description
III. Market Research
IV. Financial Forecast
V. Operations
VI. Marketing Plan

I. Executive Summary

The Executive Summary introduces you and your business venture to readers and is often the first impression of your project. This section should be concise, providing the "what, why and how" of your undertaking, but also compelling enough to persuade lenders and others that your acquisition plan is viable. You may want to tackle the Executive Summary last, as much of the information for this section is extrapolated from the rest of your business plan.

- **Business Overview**
  Provide a brief overview of the business, your background in the profession, and the specific services you will offer.
- **Mission Statement**
  Outline your business philosophy. Define your goals and where you expect to be in five or 10 years.
- **Financing Requirements**
  Summarize the amount of capital you will need to achieve your acquisition goals.

II. Business Description

The Business Description goes into greater detail about the structure of your business, qualifications for managing the business and business resources. This section explains why you have the personal know-how and professional means to build long-term success.

- **Professional History**
  Describe your professional experience to date such as your business background, any professional experience in the industry, and where and when you attended school, degrees earned, and any related courses taken.
- **Management Team and Key Personnel**
  Identify the principals who are ultimately responsible for the financial performance of your business, your key team members and their roles, and any professional advisors who will be instrumental in providing input and guidance. Determine whether your target business has any licensing requirements.
- **Organizational Structure**
  Define the legal entity for your business (Sole Proprietorship, LLC, etc.) and ownership details.

III. Market Research

A certain amount of research is required to ensure the local market has the appropriate demographics and income to support your business. The Market Research section demonstrates to a lender that you understand your community and that you have considered the competition in this area.

- **Market Description**
  Describe who lives in the community surrounding the business and what sort of growth or changes are predicted for the area over the next five or 10 years.
- **Target Customer**
  Describe the ideal customer or family for your business, including demographics such as age and income level.
- **Competitive Analysis**
  Define the other businesses in your local market, what kind of services they offer, their advantages and disadvantages.
- **Competitive Advantage**
  Finally, define the competitive advantage your establishment offers that your competitors do not — for example, services, location, price points, etc.

IV. Marketing Plan

This section allows you to be a bit more creative as you describe the marketing activities you will use to create visibility for the business and support ongoing business growth. Be sure your marketing plan is realistic and addresses the following issues:

- **Budget**
  Approximately how much are you budgeting for marketing activities during the first year or two?
- **Differentiation**
  How will you set yourself apart from the competition? For example, will you offer special events or sponsor community events?
- **Marketing Mix**
  What is your marketing mix — the balance between print and television advertising, referrals, social media and other channels of marketing?

V. Operations

The Operations section of your business plan details the day-to-day needs and functions of the business, demonstrating that your future success is based on well-thought-out ideas about how you intend to run your business. Include the following:

Location and Premises
Describe in detail the location of the business, why you chose it, and whether you will own or lease the space. Detail the equipment and inventory necessary now and in the future, whether the equipment will be owned or leased, and who your major suppliers will be. Describe the visibility of your business to surrounding foot and vehicle traffic.

Days and Hours of Operation
Describe the days and hours you will be open and how you will handle holiday and after hours calls.

Staffing
Outline any staffing changes that will occur after the acquisition. Define the roles of staff members, compensation and personnel policies.

VI. Financial Forecast

For most business owners, the Financial Forecast is the most challenging section to complete. For your lender, it can be the most important. Your bank loan financing is based on the numbers in your financial forecast, so it is critical to make these calculations as accurate as possible. Work with your CPA or financial advisor to ensure your forecast is viable and reflects the business accurately. Your forecast should include:

Income and Cash Flow Projection
The financial projection should cover at least 36 months of operation of your business.

Capital and Operating Expenses
These are the total funds needed to acquire and operate your business. Try to be as specific and realistic as possible. Include loan payments, staff salaries, rent, utilities, supplies and other minor expenses. It is better to be conservative and overestimate your budget.

Project Financing
Detail how much you need in financing to purchase the business and consider your preferred terms. Include any personal or investor funds that will be contributed to the project. Include purchase price details such as real estate value and whether the transaction will be an asset or stock purchase.

THE ACQUISITION PROCESS

There are multiple steps involved in purchasing a business. With Live Oak, you get a partner who believes in your success, and is willing to take the journey alongside you. Here's the process we'll take together:

Gather Your Team
Before you embark on an acquisition, it's wise to have a team of trusted advisors, including a CPA and an attorney. It's advisable that they have prior experience in acquisition financing.

Explore Financing Options
Lenders who understand the unique aspects of a business will be able to structure the loan to best benefit both the buyer and seller.

Determine the Purchase Price/Deal Structure
Agreeing on the purchase price is a fundamental step that should occur early in the process. The purchase price should be based on a combination of asset values, annual revenues, multiples of earnings and other intangible assets. The building, land, equipment and furniture will constitute the tangible assets.

Sign a Letter of Intent
Sellers often require the buyer to sign a letter of intent, which is an agreement that prohibits the seller from negotiating with other potential buyers. It also prohibits the buyer from discussing any details of the business to outsiders.

Secure Financing
A lender will look at the buyer's personal credit in addition to the financials of the business. How someone manages his or her personal credit is typically a strong indicator of how he or she will manage the business's credit. When preparing for financing, the buyer should take steps to protect personal credit and avoid making any purchases that will affect his or her credit score.

Financials
The lender will ask for the following requirements from the buyer:

1. Three years of business tax returns
2. Year-to-date (YTD) income statement and current balance sheet
3. Comparable income statement and balance sheet from previous year
4. Projections for at least the first three years under new ownership

Due Diligence
As you navigate through the due diligence period, this is the time where the serious research and analysis is done. Make observations and inquiries related to:

1. Historical financial statements
2. Business tax returns
3. Customer/client lists and applicable contracts
4. Supplier/vendor list and applicable contracts
5. Monthly sales breakdown to determine seasonality
6. Current pipeline
7. Inventory list
8. Employee handbook, organization chart and any employee contracts
9. Competition and market share
10. Current marketing strategies

Close the Deal
At this point, the deal is done and there is no room for further negotiations. There's a fairly robust closing checklist that the buyer will need to complete before closing the sale. Once closed, it's now time for the buyer to focus on their comprehensive post-acquisition plan.

WHAT LENDERS LIKE TO SEE

From the Business

The lender will consider the following criteria to ensure that it's a viable business for them to fund.

Positive Trend
Lenders like to see positive trends when examining financials. A decrease in sales or revenues can be a red flag. If the business has negative trends, be sure you can identify the problems and include ways to increase business in your business plan.

Key Employees
When purchasing a business, the reputation of the business can be considered an intangible asset. The staff and community relationships play an important role in the success of the business. Lenders like to see key employees continue working with the new owner, as it diminishes risk.

Seller Training
Lenders want to see a well-thought-out transition plan. The transition and training period can range from one to 12 months, depending on circumstances. Work with the seller to negotiate the training and transition and clearly define them in the purchase agreement.

Seller Financing
When a seller finances even a small portion of the deal, it shows the lender that the seller is confident in the new owner's abilities and leadership. The terms of the seller carry note are negotiated between the buyer and seller.

Working Capital
Lenders may analyze the operational and transitional working capital needs of the company.

From the Buyer

The lender will need a clear picture of you to confirm that you are suitable to run a business set up for success.

Personal Credit History
Anyone who will own 20% or more of the business will need to have acceptable personal credit histories. If any of the guarantors have a history of delinquencies or bankruptcies, that could negatively impact the chance of obtaining financing.

Business Plan
Buyers have to provide the bank a business plan for the business they are acquiring. Lenders want to see that you have a clear understanding of the business you are buying. Include ways to improve the business where you see fit.

Equity Injection Funds
The buyer's equity injection funds cannot be borrowed. It can come from the buyer's savings, an equity investment from a third party or a gift from family or friends.

Transferable Management Experience
Lenders want to know that buyers have the necessary skill set to own and operate the business. Whether it's previous small business ownership experience, sales and marketing, human resource management or financial understanding – this demonstrates that the buyer has what it takes to run a successful business.

CONCLUSION

We're acquisition experts at Live Oak Bank. Across all regions and in nearly every industry, Live Oak's lending team can accompany you on the journey to buying a business. From due diligence to closing and beyond, we're committed to your success. You deserve extraordinary service and expert advice. Let us guide you through the acquisition process and together, we'll create a unique financing plan to help you and your business thrive.

To learn more, visit liveoakbank.com

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