

— Preliminary —

RESULTS OF NATIONAL POLL

**Of the sellers of small or midsize businesses
you meet or represent, how many of those sellers
offer seller financing to business buyers?**

February 12, 2010
NORTH PALM BEACH, FL.

Of the sellers of small or midsize businesses you meet or represent, how many of those sellers offer seller financing to business buyers?

None	17%
1% - 10%	17%
11% - 25%	8%
26% - 50%	33%
51% - 75%	11%
75% or more	22%

The demographics of the target audience and respondents to the poll are what make the results particularly important. The location of the respondents varied, with all regions of the country being represented. This poll was conducted online and via email, targeting owners of small and midsize businesses and the people that serve or evaluate these businesses, such as business brokers, buyers, sellers, professional advisors, dealmakers and sources of financing.

The poll began January 19, 2010 and continues beyond the date of this preliminary report.

You can cast your vote on the homepage of BESTBusinessesforSaleONLY.com.

Herein are the results as of the date of this report. The polling venues included LinkedIn, BESTBusinessesforSaleONLY.com, PartnerOnCall.com, the blog, BusinessBuyerAdvocate.com and the free e-newsletter: [The Business Buyer Advocate](http://TheBusinessBuyerAdvocate.com) ®.

The survey was commissioned by ["Partner" On-Call Network LLC](http://PartnerOnCall.com) and administered by BESTBusinessesforSaleONLY.com.

For additional information about becoming or being served by a *Business Buyer Advocate* ®, contact Ted J. Leverette or visit PartnerOnCall.com.

Please see the rest of the report, which begins on the next page.

Of the sellers of small or midsize businesses you meet or represent, how many of those sellers offer seller financing to business buyers?

Shown below are some of the comments submitted by people in response to our poll.

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Ted Leverette,

The Original *Business Buyer Advocate* ®

I don't know about you but too-few of the sellers known to me are willing to provide sufficient seller financing to worthwhile buyers. This despite hardly

any other financing available for business acquisitions. Go figure!

Kelly Shaw, Business Intermediary Bristol Group

If the seller won't finance I won't take the listing.

Steve Whitfield, CBI-Sunbelt Business Advisors of the Ozarks

We are fast approaching the place where we may not list a seller that is not willing to discuss owner financing (especially on a borderline cash-flowing biz).

John Ball, Principal, Verto Group LLC | M&A Advisory

Steven Bell - the reason seller's should remain cautious about seller financing has been covered herein; subordinated position, terms, and ability to claw back. We experienced similar phenomenon 8-10 years ago where buyers could not service the note and (smart) sellers retained their businesses to perhaps sell again and (less smart) sellers simply limped off into the sunset. While we accept seller financing (when representing sellers), if the seller is prepared to stay with the business, we promote retained equity (NOT earn out).

Steven Bell, Corporate Finance Associate at Hart Shaw

John: I agree if we were acting for the Seller we would look at a retained equity stake. I think what it shows is that the Seller and Acquirer need good advice and when push comes to shove it is all negotiable.

Steven Bell, Corporate Finance Associate at Hart Shaw

I agree that if it looks like an earn out, smells like an earn out, it is an earn out. We recently completed a transaction purchasing a non-core subsidiary from a PLC/ Private Equity joint venture. Because of the uncertainty on the future performance (it had deteriorated in recent years and the Vendor had stated it would stabilize) we had offered a deferred element (around 20%). The Vendor wanted a clean deal and therefore we offered a cash alternative that was a significant discount from the total deferred. As with anything in M&A I do not think there is any black and white, it is all grey and anything is negotiable, you just need to understand the other party's motivations.

Tom Thompson, Managing Director, Schwartz Heslin Group

I think Steven Bell's comment is very apt on this topic. However it's called, the seller becomes (except under Tim's alternative) an unsecured (or at best highly junior) creditor of the buyer. As another poster said herein, it all depends on the negotiations, usually right at the end of the process. As seller representatives, we expect our client to be willing to assist the buyer for some period of time, and to be realistic about valuation and expected buyer return. As buyer representatives, we expect the seller to do the same, and our buyer to put any and all of the "expectation gap" into instruments contingent on performance.

Steve Boylan, Business Brokerage - Mergers & Acquisitions, Business Valuations and Buyer's Agent

I don't see how you can get any deal done these days without seller financing.

Steven Glaser, The Schroeder Group, S.C., Attorneys

When we start talking about the uncertainty of future performance and bridging the expectation gap, I start thinking that we are really talking about price and value issues, not financing. If it walks, talks and looks like an earn-out, then it probably is an earn-out rather than financing. Although many sellers believe in their businesses, it may not always be reasonable to project that faith onto the post-closing operation of the business by a buyer; faith in one's own abilities is one thing; to require that same faith in someone else's (usually an unknown third party) is entirely another. I have seen many buyers fail not because of the business they purchased, but because they did not understand the business, the market, overestimated the synergies, etc. - matters outside of the seller's control. To put that risk on the seller for a 5-8% subordinated return is a lot to ask. I agree with the point regarding having a seller that is willing to step back into the company, but with many sellers, this is unrealistic given their goals (getting out of the business), especially if the buyer has fundamentally changed the business. And if you are negotiating the terms of the financing with a view to retaining the seller's ability to take over the business if (when) things go bad, it gets the buyer thinking about whether they need more protection or whether they are paying too much - a slippery slope. That's why when I represent a seller where seller financing is involved, I have to look at it as contingent purchase price rather than financing.

Mark Borkowski, Owner, Mercantile Mergers & Acquisitions Corp

In this current environment, banks are not an active participant in our M&A process. Even Canadian lenders have gotten cold feet and sitting very tight. Why lend at such low rates for such a high rate of risk? Vendor take back notes secured in a second position on the assets of the business are a strong proposal. Not popular, but it can work. In my opinion, deals do not fall apart over price; they fall apart over security on holdbacks. This is my solemn experience over 24 years as a divesting intermediary. Whether being paid out in a structured earnout or Vendor take back note, having a second charge on the Assets is a compromise. Nothing less usually stands up unless it is a desperate or distressed seller. The problem with Private Equity firms is that they bring in Mezzanine Funding Partners below the Bank and leave the owner with nothing more than a third charge on any security interests. Deeply subordinated are dirty words to private company owners. People walk away from these types of deals over this clause. Is there a better compromise? Another solution? Please advise me.

Tim Vlamis, Adjunct Professor of Business at Benedictine College
Mark- I understand your comment about banks. One advantage of the 453 CLP structure is that it allows banks to make standard commercial loans with no impact on their liquidity position (no big checks pass at closing, so the bank doesn't need to fund the loan). The seller agrees to take payments over time typically mirroring the loan payments the buyer is making (and also

deferring any capital gains). The bank makes the spread between the rate that the buyer is paying on the loan and the seller is receiving. I understand that only motivated sellers would be willing to allow the bank to collateralize the buyer's loan with through a position on their payout, but for high cash flow businesses without much in fixed assets, there may not be a lot of choice. This often happens where the buyer is an insider or family member and doesn't have the cash or the hard assets to fully secure the loan. Private Equity isn't much of an alternative for a lot of situations. I understand your comment about security on holdbacks, but plenty of deals do fall apart over price (and lack of buyer ability to finance an otherwise supportable price). Take a look at the 453loan.com site and let me know if you have further questions. I really think it's one of the few structures out there that addresses the particular market conditions we're experiencing right now.



Mark Breheny, Assistant VP, Generational Equity
Per my vote, "more than 75%."

Mark Kuether, Business Broker in Wisconsin

Of the deals our office did last year, only two were without the aid of seller financing. Most were either sellers carrying enough to make the bank happy (read over-collateralized) or eliminating a bank altogether. I agree with Jeffrey that sellers who want to see top value should finance. Most sellers are too risk-averse to hold a note - especially if it's 60-70% of the deal value. Of course, this is assuming a seller has a balance sheet that allows that much paper in the first place.

Joanne Jolin, VP-SBA Lending Specialist, HomeBanc

I've financed many small to mid-sized businesses and seller notes are often part of the total financing package. It serves two purposes; reduces lender exposure and shows commitment from the seller for a smooth transition to the buyer. The seller is on the hook and wants the buyer to continue successful operation of the business. Seller notes are very common in business acquisitions and an informed seller is usually agreeable to a reasonable note especially in a limited or no tangible asset purchase. A win-win situation for all parties involved.

Jeffrey Smith, *Business Buyer Advocate* ®

With the financing markets we have been facing for the past 14 months, most sellers understand that the only way to get a deal done is to provide some seller financing. And by providing this financing, they are able to keep a higher value for their business than what would be available without it. Buyers like it that the seller has some skin in the game, especially in this economy. Sellers get a decent rate of interest on the financing, which can be a lot less risky than the stock market, especially for those people selling due to age.

Jeff Ribman, Business Broker at Barker Business Brokerage Ltd

Last year many more vendors were looking at vendor finance options because the banks had tightened up on business loans and many of the qualified buyers were sitting on their hands waiting for something to happen. The banks have opened up the doors more this year. We don't find many obstacles when asking a vendor if they are open to finance. They believe in their businesses and have been quite reasonable when it comes to short term lending.

Michael Bertelli, President, United States Management Group
Greater than 90 % but you try to limit it to 10 to 20% max; in this day and age it is required by most lenders

Steven Bell, Corporate Finance Associate at Hart Shaw

In general when we act for acquirers we would always look to include some form of Vender Deferred consideration (Seller Finance). In the current climate there is generally a lack of visibility on future performance and therefore we see the Seller Finance as a way of bridging the expectations gap. If the Seller really believes in the business and the underlying earnings why wouldn't they be willing to provide finance to facilitate the deal? If

the Seller is unwilling to provide any finance it provides an opportunity to negotiate on price.

Greg Kells, President, Sunbelt Business Brokers

Our deals typically involve 30% to 50% seller financing at 5 to 8% spread over 1 to 8 years depending on the type of business.

Michael R. Blumberg CMC, Entrepreneur, and Deal Maker

I suspect that we will see more seller financing among Main Street and lower middle market transactions until the economy really turns around. My prognosis is that sellers in the higher end of the Middle Market will be willing to except more aggressive valuation and deal terms from the buyer but not necessarily agree to seller financing. We are advising our clients as such.

Larry Carnell, VP at BeneTrends

Oftentimes the issue is not whether they will offer financing but HOW MUCH. Quite often deals fall apart because there's not enough money or down payment by the buyer... or because FEAR scares away the buyer or seller. Even the seller recognizes that if the buyer uses all of their funds, they won't be in a good position to grow the business and ultimately make the loan payment to the seller (or worst yet, they may get stuck with the business again). Keep in mind retirement funds - They serve several advantages:

1. The Government assumes as much as 40% of the financial risk. That's correct you heard me! Unbelievable but TRUE
2. Available regardless of credit scores
- 3 Tax, Penalty and Debt FREE
4. Less debt means more cash flow which makes the deal look better - and enables you to get a better sale price
5. It's quick 2-3 weeks (no approval or underwriting process)
6. They can pay themselves a salary from day one.
7. You can use retirement funds to leverage the purchase of a higher priced business with more cash flow.

With more money down... seller is more willing to seller finance. Because the buyer now has more money, less bank debt they are less likely to default = meaning less risk to the seller to finance.

Steven Glaser, The Schroeder Group, S.C., Attorneys

It appears that there will be more seller financing out of necessity given the lack of alternative financing sources, but I would not expect too many sellers in the small and middle markets to "volunteer" the financing. Many of the sellers in the small and middle market are looking for some certainty as to payment - they are not interested in continuing to be involved in the risk. Many think to themselves, why sell if a good chunk of the price will remain at risk, especially since seller financing is often deeply subordinated to the acquisition debt? Plus, even if it is not included in the subordination, sellers providing financing will be forced to subordinate to operating capital (if no working capital, no payment on senior debt, so no payment on sub debt) - this is often a nasty surprise. In addition, many of the selling business owners are in no position to determine whether the buyer is a worthwhile credit risk and are often asked to provide financing at rates that a senior secured would get, while providing financing that is nowhere near being senior secured.

John Ball, Principal, Verto Group LLC | M&A Advisory

I must echo Steven's insightful comments regarding risk, subordination, etc. While we do see more sellers financing, the amount rarely exceeds 30% of EV, we often secure preferred rates for our sell-side clients. We have some success, discounting the value of the amount financed by assigning risk to both the gross amount and the prospect for payment. We might value a \$10 million note on a \$30 million EV by as much as 30% and subsequently go back for an offsetting increase in EV.

Tim Vlamis, Adjunct Professor of Business at Benedictine College

One of the alternatives that sellers may want to consider is a 453 Commercial Loan Program structure (www.453loan.com). This structure enables sellers to be subordinated to a bank (or other commercial lender) rather directly to the buyer. The bank can execute a "wrap around" collateralization on future payments to the seller if the buyer doesn't have the ability to fully collateralize

a commercial loan on the sales price (often the case when the business is "asset light".) This is very similar to seller financing, but there is no direct relationship between buyer and seller, which eliminates a lot of built in problems (buyer complains that the seller didn't disclose everything, seller complains that the buyer has "ruined the business" by making changes.) Title and control pass to the buyer. The seller is an unsecured creditor of the bank (instead of the buyer). The buyer has a standard commercial loan with a bank.

-END-

You can tell us and our readers your opinion on this and other topics at these two blogs:

- Blog: [The Business Buyer Advocate](http://www.businessbuyeradvocate.com/)
(<http://www.businessbuyeradvocate.com/>)
- Blog: [The Business Seller Advocate](http://www.businessselleradvocate.com/)
(<http://www.businessselleradvocate.com/>)

For additional information about becoming or being served by a *Business Buyer Advocate* ®, contact Ted J. Leverette.

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Poll Disclaimer

This poll is not intended to be a scientific sample of local or national opinion. It reflects the opinions of only those email respondents and internet users who have chosen to participate. Its purpose is for participants to share their views with people that have interest in the subject of the poll. We advised the poll's participants to only vote once but disreputable people might ignore our request. For these reasons, the poll may not be representative of the opinion of the general population of our target audience and/or readership, or any region or nation. We do not recommend the use of this information for any factual purposes and we cannot be deemed responsible for any inaccuracies in the results.

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