

Business Opportunities for Sale

Use your SBA 7(a) knowledge to mine business brokers for leads

By **Harlan A. Friedman**, president, Lightning Commercial Funding Inc.

MOST SMALL BUSINESSES LEASE their office space. When the owners decide to sell their business, they aren't selling a building. They are, however, selling the current operation's assets, as well as the furniture, fixtures, equipment, inventory and good will.

Small-business-owners often rely on business brokers for help selling their company. Business brokers represent their business-owner clients throughout the sale process, whether they're helping sell the local deli or an automotive-manufacturing plant. Throughout the United States, there are a plethora of business brokers, from major franchises to a single person's shop.

If you use Small Business Administration (SBA) 7(a) loans, then you can help business brokers understand the intricacies of closing the sale. You should consider offering your guidance to them on how SBA 7(a)s work.

Just because they sell businesses and not real estate does not mean that they are not a great source of referral business. Indeed, business brokers can be a great center of influence for client leads. By offering your guidance, you could be creating a fruitful business relationship.

Getting started

The SBA 7(a) loan program finances business opportunities. A "biz op," as business brokers more frequently call it, is the sale of a business that does not include any real estate holdings.

When you're trying to market yourself to business brokers, remember that the primary question that all business brokers must answer is, "Is this a doable deal?"

By offering to sit down with them and review the business's tax returns, profit and loss state-

ments and interim financials for the past three years, you can answer half the question. The other half of the question has to do with the prospective buyer.

If you only know the seller's information, you may only be able to tell the business broker that the business may be eligible for financing. By performing a quick and dirty tax analysis, applying simple debt-service-coverage ratios (DSCRs) and looking at the growth trend for the past three years, however, you can at least give the broker a feel for the eligibility requirements.

Let your business brokers know that most SBA lenders require a DSCR of at least 1.25 for a biz op. Lenders also expect to see a growth trend in gross sales. In addition, they typically will require a positive net income after applying basic add-backs of depreciation, amortization, interest expense and nonrecurring extraordinary expense.

Standing out

In many biz ops, the same business broker represents the buyer and the seller in a transaction. You can become the tie that binds the buyer and seller together.

Without demonstrating allegiance to either party, you can serve as an intermediary when structuring the deal. While the business broker represents both parties, you in essence represent the deal.

If you really want to distinguish yourself from competition, you should let the brokers know that you are willing to meet with their prospective clients on short notice (if you can). They want to know you will work your hardest to help them structure a deal that makes good economic sense to the buyer and the seller.

Strive to sit down with the business-broker's

clients at the inception of the transaction. By guiding the buyer and the seller, you become indispensable during the transaction. Further, by working with both parties, the buyer may be less likely to go directly to a lender for financing.

You will be acting as a consultant to the transaction throughout the entire sales process. You may even consider helping the business broker prepare a marketing plan to be presented to the lender for approval during the loan submission. **!**



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