



Choosing **HOW** you fund your business is just as **IMPORTANT** as the business you choose.



***Benetrends has been helping visionary entrepreneurs successfully launch their dreams for nearly 30 years, with proven and innovative funding strategies that make the most of every opportunity, while minimizing risk.***

**\*Original architect of Roll-over Business Start Up Funding**

**\*Comprehensive suite of products**

**\*Get you the funding you need.....*quickly, safely and economically***



*Today's* AGENDA

 *The Current  
Lending  
Environment*

 *Traditional  
ways to fund a  
business*

 *Additional  
Funding  
Options*

 *The  
Rainmaker  
Plan*





- ❁ Lending environment has gone through a dramatic change
- ❁ Less money and it has become harder to access that money
- ❁ Forced to find other ways to fund a business










\* SBA Loans & Home Equity Loans most traditional

\* But....they are not the only options out there














## **The 7A Loan**

-  Most common for business start-ups and existing businesses
-  "any legitimate business purpose"
-  Currently, the rate is around 6%
-  Typical loan amount is from \$100k to 5 Million
-  Loan can typically take 30 to 60 days

## **The 504 Loan**

-  Less common than 7A loans and the requirements to qualify are very similar
-  Some key differences:
  -  The loan must include real-estate or equipment
  -  Not usually for startups
  -  You typically put down 10%
  -  The bank takes a first mortgage of 50%
  -  The SBA guarantees 40%
  -  Most 504 projects are in the \$500k to \$5 million plus range
  -  Longer terms/amortizations are available

## Eligibility Requirements



- \* You need strong personal credit
- \* Usually 20% to 30% down
- \* Most lenders want you to have industry experience often 2 years
- \* You may need to provide collateral
- \* You will need to write a Business Plan
- \* You have to provide 3 years of tax returns
- \* A Resume
- \* Personal financial statement





✿ Unsecured Business Lines of Credit

✿ Equipment Leasing

✿ Securities Based Financing

✿ The Rainmaker Program

– 401(k) / IRA Rollover Financing







- \* The most accessible type of funding
- \* Funding ranges from \$25K to \$150K
- \* No business financials are required
- \* Applies to new and existing businesses

# Equipment Leasing



- \* From \$5K to \$150K
- \* No additional collateral
- \* Simple application
- \* Potential tax advantages
- \* Fixed payments and longer terms
- \* Existing businesses and franchises; start ups on a case by case basis



# Securities Based Financing



- ✿ Uses current investment portfolio as collateral for a loan
- ✿ Interest rate usually lower than SBA or home equity loan
- ✿ Keep all appreciation and dividends from your portfolio
- ✿ Borrow approximately 70% to 80% of your investment portfolio
- ✿ Historical return is 9%. You are borrowing at 4%

# The Rainmaker Plan

*The original retirement  
funding plan  
that changed the  
game forever.*







## Types of retirement plans that qualify

*401(k) Plans*

*457 Plans (Government agencies)*

*Cash Balance Plans*

*Employee Stock Ownership*

*Money Purchase Plans*

*SEPs*

*403(b) Plans*

*Annuity Plans*

*Defined Benefits Plans*

*IRAs*

*Rollover Plans*

*SIMPLE Plans*

***Roth IRAs do not qualify***

*Most Employers require employment termination prior to using retirement funds.*

***\*Other plans may qualify***



*In essence, you are simply investing all of your retirement funds into one company – your own.*





## What are the benefits ?

- ✿ Reduces emotional and financial concerns
- ✿ No Loan payments
- ✿ Does not affect one's debt ratio or credit rating
- ✿ Current credit score not a factor
- ✿ Saves money
- ✿ Builds wealth
- ✿ Can be used as capital injection for SBA



It's always been part of the American Dream to own  
your own business

*Many different ways to get the  
funding you need*

*To learn more about, please call  
us at Benetrends*

*We have almost 30 years of  
experience helping visionary  
entrepreneurs launch their  
dreams*







>> Capitalize your dreams.

**For more information,  
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representative at**

**866-423-6387**

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# Be Your Own Boss!

SBA basics for Business Buyers

**John Thwing**  
**“The SBA Guy!”**  
**612-316-2501**

# Who is “The SBA Guy!”?

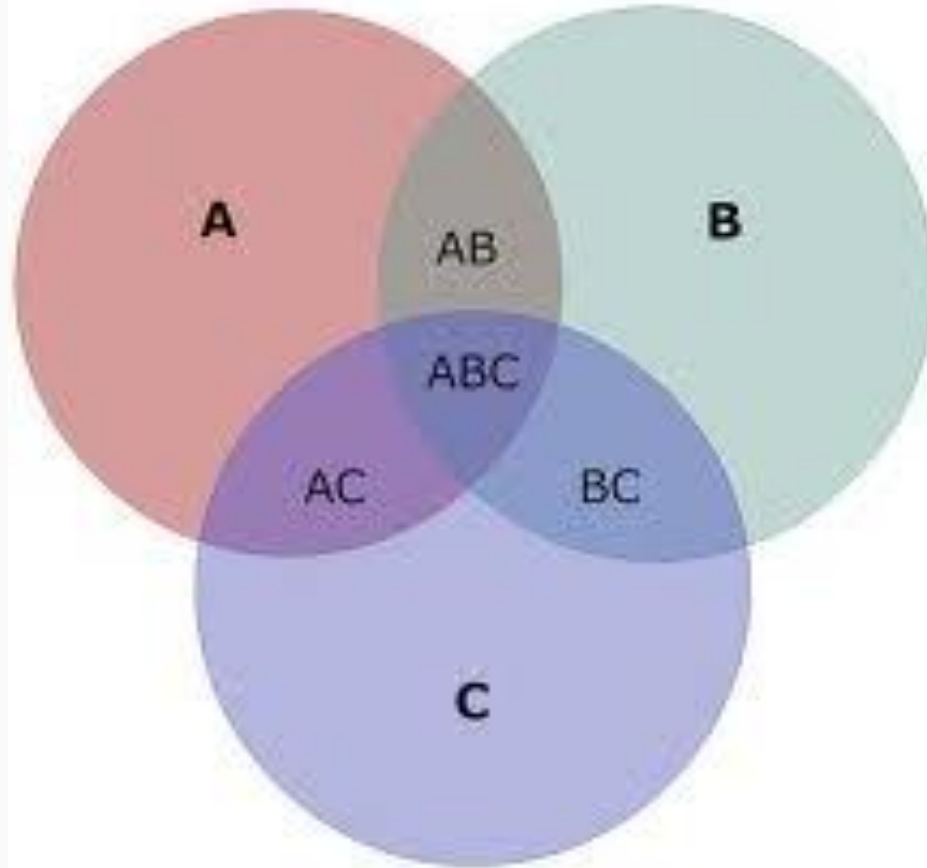
- Over 250 SBA deals closed
- Business acquisitions, commercial real estate, and franchise
- Not a Banker!

# What must the business DO?

- Pay you
- Pay the lender(s)
- Have wiggle-room!



# How do I make a deal?



# OK – tell me more

- Cash flow
  - DSC of 1.25+
- Value
- WC/Liquidity

# Leverage your \$

- At least 10% cash down
- “Post Injection” liquidity
- Seller carried financing

# Experience

- Lead the horse to water...



# What's the bad news?

- PG
- Personal assets
- Ouch!

# Financing Scenarios

- See the handout!
- How much goodwill?

# When do I start making money?

- Timing
- Bumps in the road
- People that can mess up your deal

# Bottom Line

- We want to:
  - Make loans to good buyers
  - Give money good sellers
  - Find the common ground

# Contact Info

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“The SBA Guy!”

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# Be Your Own Boss!

- Welcome!
- Goals
  - Self-Employment Choices
    - Start your own business from scratch
    - Purchase an existing Business
    - Purchase a Franchise License
  - Understand if business ownership is for you
  - Equip yourself with the tools you need to explore options





# Big Picture

- 1,900,000 households in Minnesota
- 124,000 businesses
  - 107,000 of these are small businesses (<20 employees)

*(Source: InfoUSA)*
- Only 5% of Minnesota households are business owners
- According to the Small Business Administration (SBA), small business generates 50% of Gross Domestic Product and employs 50% of the nation.



# Should You Join the Five Percent?

- What is your motivation?
  - Income replacement
  - Corporate burnout
  - Investment
  - Growth through acquisition
- Are you independent?
  - Most people will tell you NOT to buy a business or franchise
- Are you willing to take risks?
- Are you a visionary?
- Do you have the financial resources?
- Do you have the right experience?



# Buying an Existing Business

- Benefits
  - Immediate Revenue and Cash Flow
  - Proven Products or Service
  - Established Brand/Reputation
  - Trained Employees
  - Vendor Relationships
  - Training from the Seller
  - Control
  - Financial Reward
  - Build Long Term Equity



# How to Find the Right Match

- FOCUS ON YOUR RESOURCES (Financial, Experience & Skills)
- Stay open minded on industry
- Sometimes it is easier to identify the type of business you know you would NOT buy
- Seek a business where you have transferable SKILLS
- Most owners will provide significant training
- Flexibility on location could reveal a great business and in some cases even a business that can be relocated



# How to Find the Right Match – Earning Power

- The earnings of the business must do three things:
  - 1) Pay the new owner's minimum salary needs
  - 2) Service the acquisition debt
  - 3) Have a “cushion” to allow for working capital, capital expenditures and investment back into the business to drive growth (most banks like a 20% “cushion”).



# Determining Earnings for a Small Business

- Most business owners do their taxes to NOT pay taxes
- Net income on the tax return never tells the whole story
- Seller's Discretionary Earnings (SDE) measures the true earning power of a business
- SDE includes:
  - Net Income
  - + Depreciation and Amortization Expense
  - + Interest Expense
  - + Owner's Salary
  - + Owner's Discretionary Benefits
  - + One Time Expenses (or minus One Time Income)





- SDE allows for an apples to apples comparison of the earning power of businesses:
  - Example 1: Net Income of \$100,000
  - Example 2: Net Income of \$0



# SDE – Recasting

- SDE allows for an apples to apples comparison of the earning power of businesses:
  - Example 1: Net Income of \$100,000. Owner takes a salary of \$100,000. Depreciation of \$50,000. \$0 Interest. \$0 Perks.
  - Example 2: Net Income of \$0. Owner takes a salary \$300,000. Depreciation of \$50,000. \$0 Interest. \$50,000 Perks.



# Multiples

- Since most businesses sell for a multiple of SDE, understanding SDE is key
- What are you really buying? The future!
- How likely is it that the revenues and SDE will continue into the future?



# Multiples are Driven by RISK and GROWTH



Growing Industry  
Proprietary Product/High Barriers to Entry  
Strong Brand  
Intellectual Property / Patents  
Consistent Revenues and Earnings  
No Large Customer Concentrations  
Management in Place



Inconsistent Revenues and Earnings  
Heavily Dependent on Owner  
Low Barriers to Entry  
Few Assets  
Mature or Declining Industry  
Large Customer Concentration(s)  
Low Repeat Customer Factor



# Multiples

Main Street business multiples can range anywhere from 2 – 5+ times SDE, depending on Size, Industry, Risk and Growth factors.

Two Service businesses with the same revenue and earnings (SDE) might sell for much different prices depending on their customer concentration, market share, staff, intellectual property, years in business, reputation, management and other Risks and Growth Opportunities.





# Terms

- Most sellers want to be cashed out
- However, seller financing is very common
- Some sellers will finance a majority of the deal to:
  - Show confidence in the future of the business
  - Tax deferment
  - Interest earnings
- **IMPORTANT:** The seller is also the bank. Demonstrate why you are a good credit risk!



# LEVERAGE: Seller Financing and SBA Financing

- Seller Financing deals (no bank) typically require a much larger down payment from the buyer (30% - 80%).
- SBA financing gives a buyer more leverage with down payments around 20%. SBA financing is not easy to get.
- \$200,000 of buyer capital gets you...



# SBA vs. Seller Financing

Financing	Buyer Equity	Bank Financing	Seller Financing	Closing Costs/Time	Buyer Equity Leverage
SBA	20%	70%	10%	Yes	More leverage, 5:1
Seller	30-50%	0%	50-70%	Minimal	Less Leverage, 2:1 – 3:1



# Sources of Capital

- Cash
- Home Equity
- Securities
- 401k
- Lenders (SBA)
- Seller



# The Process of Acquiring a Business

- Meet face to face with a business broker and communicate your goals
- Sign a Confidentiality Agreement and review businesses that match your goals AND resources
- Select businesses that meet your criteria and arrange to meet with the seller to ask questions (reason for sale, transition, trends, growth opportunities, risks, key employees)
- Use Contingent Offers to control your legal and accounting costs
- Specify Contingencies (due diligence, financing, lease)
- Get help from an attorney and/or accountant who understands your goal is to buy a business and is well versed in business acquisitions (10 or more done deals)





# Summary & Questions



# What's a Franchise?

- Share trade name
- Share Operating methods
- Provide exclusive territory
- Collect an ongoing fee



# Buying a New Franchise License

- Benefits
  - Immediate Revenue and Cash Flow
    - Lower initial investment
  - Proven Business Operating System
  - Established Brand/Reputation
  - Trained Employees
    - Hire who you want with guidance from franchisor
  - Vendor Relationships
  - Training from the Seller
    - Training from Franchisor
  - Control
  - Financial Reward
  - Build Long Term Equity
    - When it comes time to sell reward yourself for the cash flow that you have built up!



Franchises command higher multiples

# Franchise Myth

No Freedom or creativity in a Franchise –corporate dictates everything!



# Franchise Myth

FALSE!

- Franchisor dictates the basic system—the framework—that's already proven successful.
- You are in charge!
- Hiring/Firing
- Marketing and Promoting Business regionally
- Franchise owners have the ability to think up new ideas and make suggestions to corporate...strong brands encourage it!
- New Bread Bites from Dominos Pizza was an idea from one of their franchisees in OH!



# Investment

- Franchise Fee
- Total Investment
- Royalty
- Ad Fee





## All Industries!

*1 out of 9 businesses - Franchise*



# Why Consider a Franchise

“Be in business for yourself, but not by yourself”

“Learn from the success and failures of others.”

“Franchising is a process of bottling success and giving it to other people for use in developing their own successful businesses.”



# Why Consider a Franchise – Reduce Risk

- The U.S. Department of Commerce states that 90% of franchises are still in operation after 10 years, compared to just 18% for other forms of small business.
- Reduce Costly Mistakes
- Ramp your Business Quickly
- Franchise vs. Independent Start-up
  - Group Advertising
  - Buying Power
  - Sharing Best Practices\*\*\*



# Why Consider a Franchise

- Proven Model/Systems
- Solid Training Program
- Ongoing Support

**\*BUILD BRAND\***



# Investment Options

- Single License
- Multiple License
  - 2+ territories, potential discounts (5-10K) for each additional license
- Area Development License
  - License to operate anywhere in area
  - Own and operate each location
- Regional Development License (Master)
  - Purchase rights to state
  - Local market partner with Franchisor
  - Award licenses/Share Franchise Fee and Royalty w/ Franchisor



# Master Franchise Candidate Profile

- Strong leadership skill sets
- Strong communication skills
- Team Player
- Enjoy helping others in business
  
- Financial Criteria
  - Net Worth ~ \$750,000
  - Liquid Resources ~ \$150,000



# Are You a Franchise Candidate?

- Can you follow a system?
- Relationship Builder?
- Like to minimize risk?
- Big Picture Thinker?





# Finding The Right Franchise

- Over 3000 different franchise companies and growing
  - Where do you start trying to find the right fit for YOU?



# Role of Franchise Consultant

- Help buyer efficiently zero in on models that meet their criteria
- Define the buyer's Criteria
  - Income Goals
  - Lifestyle Goals
  - Passion
  - Investment
  - Location
- Present franchise models
- Help buyer navigate thru the exploration process



# Franchise Evaluation Process

- Complete Confidential Profile online
- Initial Consult
- Discuss models that meet criteria
- Have initial call with franchisor
  - Receive FDD
- Have follow-up call with franchisor
- Validation calls
- Discovery Day



# Investing into a Franchise License Now

- Low Interest Rates
- Low Lease Rates
- Commercial Space Available
- \$ For Tenant Improvement
- Employees for Hire



# Common Questions

- How to determine revenue potential?
- How are you compensated as a Franchise Consultant



# Top Ten Mistakes Buyers make

- 1) Going it alone
- 2) No Written Plan
- 3) Understanding purchasing power and income requirements
- 4) Lack of Working Capital
- 5) Making decisions only based on numbers
- 6) Not willing to take leadership role – not giving financial info
- 7) Failure to ACT! / Analysis Paralysis
- 8) Buyer doesn't follow the acquisition process
- 9) No validation calls (Franchise) / Inadequate Due Diligence
- 10) Post Closing: Changing the business before understanding it

