



Case Study: Helping Your Customers Successfully Sell a Business

Create a win-win-win for the seller, buyer, and your bank

The Scenario

The entrepreneur in this case had achieved what many business owners hope to – through hard work and skill, he grew his business into a regional powerhouse in his industry. When he realized that he was ready to move onto a different business opportunity, he knew where he wanted his business to go: into the hands of a long-time, loyal employee with a keen interest in the business.

But, some challenges presented themselves. The purchase price of the business was high. The employee was only in his mid-30s and had not had time to accumulate the large required down payment – he could only bring 10% of the purchase price to closing. And, while the employee understood the daily operations of the business, he didn't have the financial background or management experience to make the lender comfortable loaning him a large sum of money.

The Objectives

When the parties turned to [VITAL](#) for help, we outlined four goals:

1. Get the business owner the needed sale price.
2. Help the proposed buyer qualify for financing and achieve his dream of purchasing a solidly performing business.
3. Structure a loan package that maximized the buyer's ability to repay, and minimized the disruption from the change in ownership.
4. Protect the bank from assuming too much risk.

The Action Plan

[VITAL](#) sat down with the lender and put together a comprehensive credit package. A [7\(a\) term loan](#) guaranteed by the Small Business Administration allowed the buyer to finance 100% of the sale price of the business, plus the expenses associated with the loan. His down payment could now be used for working capital.

As part of the debt structure, funds were set aside to pay for management and accounting assistance. With the help of an outside business advisor, the buyer learned the cost structures of the business, how pricing was established and what activities drove margins up or down. He learned to effectively manage various departments and processes, such as sales and marketing, accounting, purchasing and customer relations.

The loan was amortized for 25 years, providing a manageable loan repayment that allowed the new owner time to learn the financial aspects of the business. The ownership transition was facilitated before the business' peak time, giving adequate time to build and retain cash to sustain the slow period of the business cycle.

The Results

The lender set a goal for the business to build cash and retain earnings of at least \$500,000 in the first 36 months. In the first year, 80% of the goal was met. The buyer began his second year with a strong balance sheet and great cash position to handle any unforeseen problems. With a thoughtful debt and equity structure, and his new business acumen, the future is looking very bright.

Opportunities like this abound. Can you help the seller, the buyer, and your bank create a win-win-win scenario? Let VITAL help. Our extensive SBA/USDA lending experience, [proven processes](#), and friendly, knowledgeable [staff](#) make guaranteed lending both profitable and less complex.

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