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For Buyers and Sellers of Businesses- \$0-100MM Revenue

Business Team Newsletter

Spring Edition



Due Diligence- A Case Study by Ian MacLachlan

Due Diligence, often referred to as “Book Check”, for smaller transactions is, in most cases, a critical part of a decision to move forward to a business purchase. The majority of businesses with a purchase price of \$5MM or less are bought by first-time buyers who will typically have some business management experience but no direct previous involvement in the type of business being purchased. Many business sellers are certain that a buyer without experience in the type of business he/she is selling is destined to fail but statistically, this is not the case and in fact, often, the buyer improves and grows the business! The **Small Business Administration** provides financing for almost all purchases of \$5MM and under businesses (80-90%) and does not require direct experience. The SBA has found that the lack of experience does not have a bearing on the buyer's success rate. There are, however, instances where the lack of direct experience may enable a seller to defraud a buyer who does not perform a sufficiently vigorous due diligence. The following is an actual recent event:

Buyer is very experienced in reviewing financial statements of a wide variety of types of businesses. The business being purchased is a commercial janitorial company. Buyer reviews the business financials, comparing bank statements, tax returns, and all the various other government agency reports. It all checked out- the company was making the profit that the seller had claimed. The bank that provided the SBA financing did its own due diligence, obtaining the business tax returns directly from the IRS. However, soon after the sale closed, the business began to lose a number of major customers and then began to bleed red ink.

What happened?

In an attempt to improve margins by reducing labor costs, the business owner began skimping on work that was included in the customer service agreements, reducing the frequency and eliminating some tasks altogether. Some customers did not notice the changes right away; some did and began complaining. This went on for a year before the sale took place but soon afterward dissatisfied customers canceled contracts. Substantial revenue was lost, and payroll rose as a percentage of revenues as the new owner added staff in an effort to improve service and try to retain the remaining customers.

The buyer became aware of these problems immediately upon taking possession not only from customers but staff as well whose loyalty shifted to their new boss. Litigation resulted, a settlement was reached but the buyer now has the considerable chore of rebuilding both morale and profit. In due diligence, what could the buyer have done to have discovered this ticking time bomb?

- If the buyer was steeped in the industry, he might have noticed that the labor costs were exceptionally low.
- If noticed, the change in labor as a percentage of revenue between the last two years and the time before might have led to more investigation.
- The surest and perhaps the easiest would have been a due diligence customer satisfaction survey. These can be performed by a third party and is especially important when there are clients or customers with large percentages of the company's revenue.

Celebrating 40 Years

2021 marks the 40th year of BTI Group- a significant milestone that few companies achieve. This is also a year where the world is facing an unprecedented global health crisis. While it's not a time for celebration, it is still important for us to reflect on the past, and more importantly, to focus on the future. BTI Group was founded in 1981 by President Ian MacLachlan. Since then, BTI has become the largest regional intermediary for small and mid-sized businesses with 15 offices in the Western United States and over 7,000 completed transactions.

We are all prepared to overcome the challenges resulting from this pandemic and will continue to provide as much support and knowledge as possible.



To all our staff, customers, and friends – thank you for your continued commitment to Business Team!

JUST SOLD



B2B Commercial Equipment Dist. with \$24M sales

Sale Date: 2/26/21

Business Team means "Teamwork". Massoud Ebhrami in our Pleasant Hill office represented the seller, Lee Allen in our Stockton office, the buyer, a private equity group. Congratulations, Team!

Web: Business-team.com



JUST SOLD



Modern Coffee Shop w/ Beer + Wine (ABC 41)
Listing Price \$150,000
Date Sold: 2/9/2021

Web: Business-team.com



JUST SOLD



Iconic Downtown Bar
Listing Price \$99,000
Date Sold: 2/4/2021

Web: Business-team.com



JUST SOLD



•SOLD

Breakfast & Lunch Café

Listing Price \$35,000
Date Sold: 2/5/2021

Web: Business-team.com



JUST SOLD



•SOLD

Online STD Testing Service

Listing Price \$950,000
Sold Date: 2/05/2021

Web: Business-team.com



Specialized Construction Supplier

Listing #:10149
Category: Building and Construction
Location: East Bay
Gross Sales:
\$12,057,576
Adjusted Earnings:
\$1,223,870
Asking Price: N/A



Metal Fabrication, Design, and Build Services

Listing #:SF1140
Category: Building and Construction
Location: San Francisco
Gross Sales:
\$4,262,991
Adjusted Earnings:
\$1,221,342
Asking Price:
\$3,000,000



CNC Machine Manufacturer and Prototyping Service

Listing #:10124

Category: Manufacturing

Location: South Bay

Gross Sales:

\$1,323,943

Adjusted Earnings:

\$591,929

Asking Price:

\$2,000,000



Almost \$500,000/Year Earnings SF Auto Repair

Listing #:SF10044

Category: Auto Repair

Location: San Francisco

Gross Sales:

\$2,531,317

Adjusted Earnings:

\$497,488

Asking Price:

\$799,000

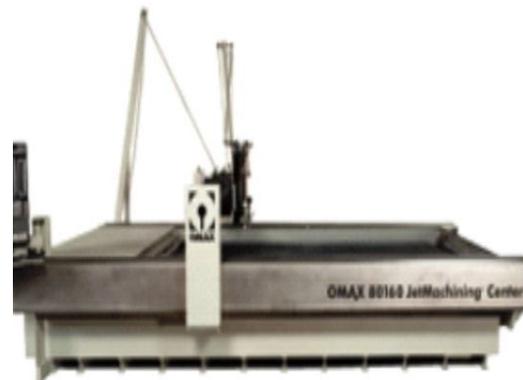


A Thriving Tire Store Franchise

Listing #:10356

Category: Franchise

Location: N/A



Precision Metal Product Manufacturing

Listing #:SE10077

Category: Manufacturing

Gross Sales:
\$1,358,279
Adjusted Earnings:
\$288,061
Asking Price:
\$795,000

Location: N/A
Gross Sales:
\$1,278,488
Adjusted Earnings:
\$60,582
Asking Price:
\$1,200,000



Highly Profitable Pet Supply Store

Listing #:ST10433
Category: Retail
Location: N/A
Gross Sales:
\$2,515,920
Adjusted Earnings:
\$468,558
Asking Price:
\$970,000

Top Volume Franchise Bakery Café

Listing #:10324
Category: Cafes
Location: N/A
Gross Sales:
\$1,152,883
Adjusted Earnings:
\$161,954
Asking Price:
\$895,000



If you have any questions or would like to schedule a viewing, please visit our website.

www.business-team.com



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