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Newsletter April 2017

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▶ **Whats Included in the Price of a Business**



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**Over 6,500 businesses sold!**

**BRE #01160661**



**IBBA** INTERNATIONAL BUSINESS BROKERS ASSOCIATION, INC. ®

## What's Included in the Price of a Business

By Ian MacLachlan  
President BTI Group



**California Association of Business Brokers**

**Selected Available Opportunities**

Over the last few decades, the practices

and methodology of business brokerage and Mergers & Acquisitions, (M+A) have, to a large extent, become the same. In the 1970's and earlier business brokers mostly sold very small businesses, the listing contract was just one page, and very little information was collected from the seller. A large transaction was \$300,000!

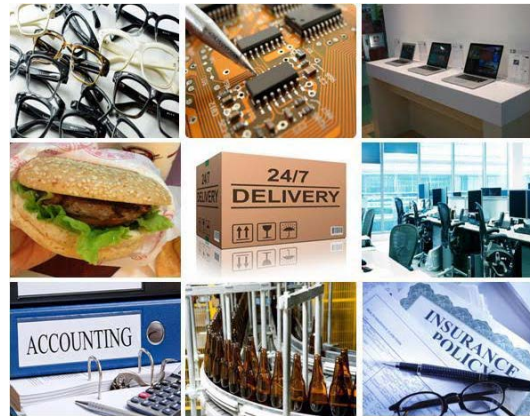
The offering price for most businesses did not include inventory which had to be bought by the buyer in addition to the price. No third-party financing was available so the seller, in most cases, was required to carry a substantial portion of the total. No transaction data was available (comparable sales) so valuation was by "rules of thumb".

In the eighties, business brokerage began to borrow some M+A practices such as collecting extensive financial information, performing financial analysis, often including a valuation or appraisal and putting together a comprehensive offering memorandum - a confidential business review (CBR).

Third party financing became available through the SBA (now up to \$5MM) and the sales prices of business sold by business brokers rose steadily. (The top sale price award given at the 2016 conference of the International Association of Business Broker was \$145MM!)

M+A buyers did their own analysis, of course, and usually their focus was to determine first the cash flow of a business and then what multiple to pay. Small business buyers and their brokers, as the transactions, grew larger and they became more financially sophisticated, adopted the same approach.

Industry	Revenue
Meat Wholesaler	\$25.3M
Online Retailer	\$13.2M
Transportation	\$10.3M
Food Distribution	\$5.8M
Piping Contractor	\$4.9M
Farm Produce Wholesaler & Distribution	\$4.7M
Electrical Contracting	\$4.6M
Instore & Online Jewelry	\$4.3M
Wholesale Floral & Craft Importer	\$4M
Commercial Vehicle & Truck Repair	\$3.4M
Sports Bar & Brewery	\$3.1M



## Selected Sold

Industry	Revenue
Grocery Wholesaler	\$10.1M
Electronic Manufacturing	\$8.1M
Manufacturing	\$2.8M
Catering	\$2.4M
Night Club	\$2M
Engineering & Consulting Services	\$1.7M
Screen Printing	\$1.3M
Wholesale GPS Tracking Devices	\$1.3M
Wholesale Bakery	\$1.3M
Car Wash Supply	\$1.2M

Buyers for businesses now expect the sale price to include all the assets necessary to operate the business. For example, in the past, a hardware store that had a cash flow of \$300,000 might be offered at \$900,000 (3x cash flow) but the seller would expect to include NO inventory. So if the inventory was \$500,000 then the total acquisition cost for a buyer would be \$1.4MM or 4.7 times cash flow. Today, neither the buyer or the bank would accept that valuation.

While the cash flow multiple may vary based on a number of factors (customer concentration, history, industry trends, etc.) buyers and appraisers today expect all the assets necessary to operate the business to be included - inventory, accounts receivable (accounts payable) work in process, etc.

To sum up, today's business buyers demand an "out the door the price" which includes not only the vehicle but the tires it rolls on as well!



## Office Locations

### Brea

135 South College Boulevard  
Suite 200  
Brea, CA 92821

**Tel:** (714) 987-6147

**Fax:** (714)482-4413

[Jeffreytait@business-team.com](mailto:Jeffreytait@business-team.com)

### Fresno

516 W. Shaw Ave Suite 200  
Fresno, CA 93704

**Tel:** (800) 622-0192

**Fax:** (925) 666-4796

[fresno@business-team.com](mailto:fresno@business-team.com)

### Long Beach

111 West Ocean Boulevard  
4th Floor  
Long Beach, CA 90802

**Tel:** (714) 987-6147

**Fax:** (714)482-4413

[Jeffreytait@business-team.com](mailto:Jeffreytait@business-team.com)

### Los Angeles

5670 Wilshire Blvd  
18th Floor, Suite 1800  
Los Angeles, CA 90036

**Tel:** (714) 987-6147

**Fax:** (714)482-4413

[jeffreytait@business-team.com](mailto:jeffreytait@business-team.com)



### Reno

### Monterey Bay

215 W. Franklin St. Suite 306

10659 Professional Dr. Suite B  
Reno, NV 89521  
**Tel:** (775) 828-5400  
**Fax:** (775) 828-5401  
btireno@business-team.com

### **San Francisco**

44 Montgomery St. Suite 3055  
San Francisco, CA 94104  
**Tel:** (415) 227-4411  
**Fax:** (415) 227-9422  
sf@business-team.com

### **Stockton**

5250 Claremont Ave.  
Stockton, CA 95207  
**Tel:** (800) 622-0192  
**Fax:** (925) 666-4796  
stockton@business-team.com

### **Woodland Hills**

21900 Burbank Blvd Suite 112  
Woodland Hills, CA 91367  
**Tel:** (818) 999-9621  
**Fax:** (818) 999-1148  
biz@business-team.com

Monterey, CA 93940

**Tel:** (831) 372-5888

**Fax:** (831) 536-1675

monterey@business-team.com

### **Pasadena**

155 N Lake Ave

8th Floor

Pasadena, CA 91101

**Tel:** (714) 987-6147

**Fax:** (714)482-4413

Jeffreytait@business-team.com

### **Pleasant Hill**

2300 Contra Costa Blvd. Suite 260

Pleasant Hill, CA 94523

**Tel:** (925) 609-9100

**Fax:** (925) 609-9994

Pamela@business-team.com

### **Sacramento**

3000 Lava Ridge Ct. Suite 110

Roseville, CA 95661

**Tel:** (916) 678-6777

**Fax:** (916) 678-6778

sacramento@business-team.com

### **San Jose**

4 N. 2nd St. Suite 560

San Jose, CA 95113

**Tel:** (408) 246-1102

**Fax:** (408) 246-2219

sanjose@business-team.com



**Marion Gloege, Editor**



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