



News You Can Use

Community Banks Have Money to Lend

If your business sports strong financials, community banks have plenty of money to lend—and they are aggressively courting small businesses, according to Paul Merski, chief economist and director of federal tax policy for Independent Community Bankers of America.

But due to increased regulatory scrutiny, all banks—not just those hammered by the subprime lending implosion--

are being forced to tighten their lending standards and are narrowing their range of acceptable borrowers. This is making it more difficult for many entrepreneurs to get the capital they need.

As a result, community bankers are seeking more support from the SBA’s government-guaranteed loan program. This allows bankers to provide funds with extended terms; some loans go out as many as 25 years.

Even though there is tightness in the overall credit market, community banks may still represent an entrepreneur’s best chance of being funded. But to succeed, you’ll need a good business plan, clarity of vision, solid financial fundamentals, and the ability to relate well with your community banker. If you can do this, there is money to be had.

Are Your Key Managers Willing to “Make you an Offer”?

Suppose you want to retire and a key group of employees want to buy your business. Do you know how to value your business and how to structure a fair deal to get it done?

Unlike large public companies, your small private business won’t attract as many buyers. This limits your ability to attract multiple offers and reduces your leverage to demand a lot of money up-front at close.

There is no single formula for valuing private companies but a fairly common method is to apply a multiple of annual

earnings, also called cash flow and represented by EBITDA. Three-to-five times your company’s cash flow is common.

If your buyer can’t get a bank loan for the entire purchase price, they’ll likely look to you to help finance the transaction.

This may not be a bad idea as it may drive a higher price in the long run and allow you to mitigate taxes by receiving income over several years. But be sure you get as much cash as a downstroke as you can.

And consult with your attorney and tax advisor prior to structuring a seller-financed deal. They will help you minimize legal headaches and maximize your net after-tax take – your ultimate goal.

Another option is to use a third-party private equity sponsor to team with your employees. They like management-owned businesses, they are well-funded and they will reduce your need to provide seller financing. And they are aggressively seeking successful, profitable businesses like yours!



Representative Transactions



CFP helped Trans-Alarm divest Automated Entrance Products. AEP is an installer of automatic swinging, sliding, handicap access and revolving doors. Stanley Access Technologies, a Stanley Works company (NYSE: SWK), acquired AEP. Trans-Alarm is in Arctic Capital's portfolio.



CFP helped ProGroup evaluate strategic options including a management buyout, selling to a private equity or strategic buyer. ProGroup ultimately sold to Novations, an industry leader in corporate training owned by a private equity group. This was a perfect fit for ProGroup's niche expertise in diversity training.



CFP assisted the entrepreneurial management team of this fast-growing fire protection business three times: 1) to access additional growth capital via subdebt; 2) to locate a larger sr. debt facility; and to execute a recapitalization with a large private equity investor, Prospect Partners of Chicago, IL.

Do You Really Need An Investment Banker?

Mike Sullivan, a seasoned M&A attorney with Gray Plant Mooty in Minneapolis, hears this question a lot.

"It's not uncommon for clients selling their businesses to challenge my recommendation to retain an investment banker", says Mike. "The chief concern is that the investment banker will not add enough value to justify the fees – especially when the client is convinced they already know the "perfect" buyer willing to pay a top price.

But I've learned that in almost every case it is more advantageous to retain an investment banker than not.

This results because *only competition from multiple interested buyers can elicit the best price and terms in a transaction.*

A good investment banker creates clear structure for keeping the momentum moving in a deal. Structure accelerates the sales process. By reducing the time it takes to close, substantial cost savings are realized as well as peace of mind. Once sellers understand the substantial value an investment banker can add, they are typically extremely grateful for the recommendation."

Mike Sullivan is a principal with Gray Plant Mooty and a member of the firm's Mergers and Acquisitions team. He may be reached at 612-632-3350.



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- Fire Protection Services
- Human Resources software
- Apparel Manufacturing & Distribution
- Real Estate Title industry
- Electronic Equipment Repair
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