



KDV



How to Maximize Cash and Minimize Risk When Selling Your Business

Presented by the Central Minnesota
Business Transition Advisory Group

How to Maximize Cash and Minimize Risk When Selling Your Business

Presented by Dan Mulvaney, Sunbelt Business Advisors



Closing Cash to Seller

Purchase Price	9,000
Net Working Capital Difference	(1,000)
Actual Purchase Price	8,000
How Can Today's Owner Maximize Cash at Closing?	
1) Reduce Receivables	
2) Reduce Inventory	
It is the Prudent Thing to Do	

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LOI Terms

EBITDA - Trailing-Twelve-Months	2,000
Price is	9,000
Includes:	
12 Month Net Working Capital Average	3,000

- Seller agrees to sell to the buyer all assets except cash
- Assets are receivables, inventory, equipment and intangibles
- These are the assets required to properly run the business
- These assets are what the marketplace expects to purchase
- Owned real estate is handled separately

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Working Capital Calculation

<u>Balance Sheet</u>	<u>12 Month Average</u>
Accounts Receivable	\$2,800
Inventory	1,800
Prepays	100
Working Capital Assets	4,700
Accounts Payable	900
Accrued Liabilities	800
Working Capital Liabilities	1,700
Net Working Capital	3,000

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Working Capital Calculation

<u>Balance Sheet</u>	<u>12 Month Average</u>	<u>At Closing</u>	<u>Difference</u>
Accounts Receivable	2,800	2,200	(600)
Inventory	1,800	1,500	(300)
Prepays	100	100	-
Working Capital Assets	4,700	3,800	(900)
Accounts Payable	900	900	-
Accrued Liabilities	800	900	100
Working Capital Liabilities	1,700	1,800	100
Net Working Capital	3,000	2,000	(1,000)

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100 Years of
Merger Volume

Presented by Steve Kutscheid, Gray Plant Mooty

Representations and Warranties

- Seller's Promises to the Buyer Regarding the Condition of Every Facet of the Business
- Three Purposes
 - Obtain Disclosure
 - Call the Deal Off
 - Damage Claims
- Seller's Shareholders or Members Are Generally Required to Guaranty Representations & Warranties

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Ways to Reduce Risks Associated with Representations and Warranties

- Limit Representations & Warranties
- Knowledge Qualifiers
- Materiality Qualifiers
- “As Is” Qualifiers
- Indemnification “Baskets or Deductibles”
- Caps on Liability
- Statute of Limitation Reductions
- Representation & Warranty Insurance
- Damage Limitations
- Residency; Retitling Assets & Asset Protection Trusts

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Risks Associated with Seller Financing

- Subordinated debt = unsecured creditor status
- Insolvency
- Bankruptcy

How Does the Marketplace Value My Business?



Ways to Reduce Financing Risks

- Personal Guaranties
- Security Interests/Mortgages in Assets Unrelated to the Sale
- Irrevocable Letters of Credit
- Solvency Opinions

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Presented by Chris Shorba, KDV



Balance Sheet	<u>12 Month Average</u>	<u>At Closing</u>	<u>Difference</u>
Accounts Receivable	2,800	2,200	(600)
Inventory	1,800	1,500	(300)
Prepays	100	100	-
<hr/>			
Working Capital Assets	4,700	3,800	(900)
<hr/>			
Accounts Payable	900	900	-
Accrued Liabilities	800	900	100
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Working Capital Liabilities	1,700	1,800	100
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Net Working Capital	3,000	2,000	(1,000)

- Financing Receivables
- Inventory Turns

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Asset Allocation – Tax Implications

Net Working Capital	\$2,000
Fixed Assets and Intangibles	<u>\$6,000</u>
Total Purchase Price	\$8,000

- Non-Compete Payments
- Goodwill
- Employment Contracts

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Tax Structure

- Entity Type (Corporation vs. Pass-Through)
- Asset or Stock Deal
- Stock Merger
- Seller Financing
- ESOP
- Tax Rate Changes

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Resources

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