

Acquisition Capital Needs

How much money do I need to buy a business?

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We are frequently asked this question. After you decide what kind of business you want to buy, you must decide how much money it is going to take to complete the transaction and insure your success. The money you will need is comprised of these components:

Down Payment This amount will vary depending upon the type of financing you arrange. An SBA loan requires a minimum of 20%. This money cannot come from borrowed funds. The loan is secured by a combination of the business assets, and the borrowers personal assets. The collateral is usually 30% of the loan amount. This can vary so be prepared. Seller financing typically requires at least 30%. The seller note is collateralized by the value of the business and a personal guarantee. Sellers almost always value the business higher than a lending institution. A conventional bank loan or other lending institution will often require higher down payment and collateral percentages.

Working Capital Almost all businesses require cash to finance operations until revenues are received. It may seem obvious, but the cash in the business checking account does not come with the business. It is imperative that the business have sufficient working capital, or the business will fall behind on payments and might fail altogether. Prior to making an offer, consult your accountant to determine the working capital required. Do not rely on the business owners word. Many small business owners treat the company checking account like it was their personal account and therefore have a distorted view of the working capital requirements.

Transaction Fees There are a number of fees that you will need to be prepared for to close the transaction. Professional fees include accountants, attorneys, appraisers (real estate, equipment, inventory, etc.) bank fees, and loan acquisition or guarantee fees. The SBA charges a loan guarantee fee of about 2.5%. Loan brokers charge about the same. Total fees for a \$1,000,000 can easily exceed \$30,000.

Most brokers have resources to help determine and manage the financial components of a business acquisition. Your bank, financial advisor, and numerous books are other good sources of information and guidance.