



THE ACQUISITION STRATEGY

RMD outlines the process of buying a business. The more you know about this process, the more satisfied you will be with the ultimate decision. At RMD, we explain what to look for, what to question, what to expect throughout the transaction, and therefore help you fulfill your dream of business ownership. Many reasons exist for buying a business:

- Job security
- Financial independence
- Control your own destiny
- Wealth creation
- Personal growth and satisfaction
- Pride of ownership
- Creative freedom

Why Buy an Established Business?

Most established businesses continue to be successful. Why?

- A proven location
- The right products
- Management
- Established customer base
- Existing cash flow

Buying an existing business has allowed someone else to take the high initial risks and investment and go through the start up phase. Buying an established business provides you with two of the necessary components of success – a proven location (customer base) and the right product. You provide the third ingredient – management.

Government surveys show over 75% of new businesses fail within the first 3 years.

Why?

- Under capitalization
- Low product quality
- No management skills
- Poor location
- Unable to develop customer base
- Competition from established businesses

Purchasing a quality business with a proven track record can decrease your risk, increase your lifestyle, and often the purchase can be financed.

RISK vs PRICE

Some buyers look for the “perfect business” (high profits, low risk, great potential, easy to run, no problems). If they can ever find a business like that the price will be very high, and they will be competing with well financed industry professionals and corporate buyers to purchase the business.

Other buyers look for very inexpensive businesses, often closed down or failing. These businesses are very risky and may involve a significant additional investment to make profitable. They are usually best left to industry professionals or corporate buyers who can afford the cost and the risk.

Most of the businesses RMD sells are in the “Safety Zone”. These businesses are priced lower than the “perfect business”, if it exists, but are less risky than the closed or failing business. These businesses also offer equilibrium between potential and risk. The key is to locate a business that is well established, but has some identifiable opportunities to improve. This way the business will be affordable and you reap the benefits and profits from the improvements you have implemented.

PRICING A BUSINESS

Price is usually related to cash flow and varies with the financing terms agreed upon. Price will also depend on the type of business, the value of the assets, general attractiveness of the business and future potential, among other factors. True market value is what a buyer agrees to pay and a seller agrees to accept (without undue pressure). Most small business owners have used every legal trick in the book to minimize taxes; therefore, their books and records must be Recast or Normalized to reflect the true picture of the businesses money-making capabilities



(Discretionary Earnings, or DE). This means working between the lines to add back to profitability all of the legally taken charges to expenses that weren't absolutely necessary. Your RMD Business Intermediary will be happy to explain this process in greater detail to you if necessary.

There are many methods of pricing a business. The most commonly used are:

Cash Flow Method

A multiple of the annual cash flow (which we refer to as Discretionary Earnings or "DE", or Earnings Before Interest and Taxes or "EBIT"). This multiple can vary widely depending on the business, the economy and the industry trend.

Asset Method

A combination of "Furniture, Fixtures and Equipment" (FF&E), the inventory and multiple of Discretionary Earnings (DE).

Gross Sales Method

3 – 12 months gross sales; again depending on the business, the economy and the industry trend.

Comparable Sales/Market Method

This method compares sales of similar businesses and also the valuation multiples from these acquisitions. An adequate number of comparable companies are necessary to produce credible results. The RMD proprietary BizEx system has the largest database of comparable sales available in the industry.