STONEMILL PARTNERS

Enabling A/E/C Firm Growth, Value and Transition

Seller Financing in the Sale/Acquisition of a Business

-FACT SHEET-

If you're planning on selling your business and being acquired, you probably hate the idea of financing or holding a promissory note for the buyer. The main benefit to seller financing is to get a deal done!

Here are some reasons to rethink that and ways to get comfortable with seller financing:

- Seller financing is very common in private company acquisition agreements and deals.
- When selling a business, seller financing is the loan the seller of a business gives to the new buyer to cover a portion of the total purchase price.
- Buyers believe that seller financing is either essential or important to closing business acquisition deals in today's market.
- **In most all cases, a promissory note is required as part of the terms of the acquisition.**
- Most seller financing is in the form of a promissory note held by the seller for payback by the buyer.
- The promissory note outlines the amount financed by the seller, the interest rate, and the schedule of payments from buyer to seller.

- A bank is not directly involved with seller financing; the buyer and seller agree to the arrangements themselves.

- Money doesn’t flow from the seller to the buyer and then back again. The seller agrees to allow the buyer to pay a certain portion of the purchase price at some later date and/or over time.

- It is very rare for a firm to be acquired with all cash in the A/E/C industry.

- Benefits of seller financing – its more than give; it truly is give and take:

    - More buyers
    - Buyers affordability
    - Appearance of attractive business opportunity
    - Higher purchase price
    - Favorable tax consequences

- Typical terms for seller financing:

    - Loan amounts (seller financed amount): 40-60%
    - Term Length: 3-7 years
    - Interest Rates 4-7%
    - Repayment schedule – monthly – quarterly – annually

- **If you are not willing to accept a promissory note when you sell your business, most likely, you will not sell your business in the A/E/C industry.**

- **If you are not willing to accept a promissory note, this sends a clear message to buyers about your business: that the seller is not confident in the business’ short and long-term prospects for success.**

- The buyer and seller attorneys will work out the agreement legal language and the terms of the financing, with each other.

- **SIDE NOTE - EARN OUTS:**

    - Any kind of payment tied to some future measure of the acquired company's performance. A Buyer may agree to pay A higher price if the company achieves certain milestone goals in the future. Earn-outs may be based on top line revenues, operating profit, EBITDA, sales increases, etc. This may be a component of seller financing.

- **SIDE NOTE – SAFEGUARDING SELLER FINANCING:**

    - **Control of Business for Non-Payment -** A seller's biggest fear when providing seller financing is the buyer defaulting on the amount loaned. To avoid this from happening, sellers generally want terms that give them the right to take back control of the business within 60-90 days of the buyer missing payment.

    - **Collateral -** Sellers will want to file a blanket lien on business assets to secure interest in what buyers owe them. It is common for sellers to take a second position to a bank if you plan on using additional financing.

    - **Personal Guaranty -** A buyer can be asked to secure the loan and sign a personal guaranty. A buyer may be asked to offer personal assets as collateral, reducing the seller's risk

- A brief note about Stonemill Partners: Stonemill Partners is a mergers and acquisitions advisory firm working only in the A/E/C with companies like yours. We are looking to help others meet their transition objectives and to sell successfully. You can discover more about the Stonemill Partners' approach and see our listings at www.stonemillpartners.com.

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