Arthur Hamel

Business Seminars

Interview Series

How To Get The Money You Need For Your Business

Michael Senoff Interviews
Business Buying Financing Expert

Michael Senoff's HardToFindSeminars.com

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Michael Senoff's
HardToFindSeminars.com

Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web, I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

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Hi, this is Michael Senoff with HardtoFindSeminars.com. Here's a recording I titled, "How to Get the Money You Need Fast For Your Business When the Bank Says No." If you're a small or medium sized company requiring financing for growth, acquisition or turnaround, this interview with Barry will open your eyes to some new possibilities. In this interview, you'll hear how Barry has carved a special niche in the financial industry. While many banks will not or can not help a business to grow a business by assisting in the acquisition of another company, or assisting in the turnaround of a business who is experiencing financial difficulty due to some circumstances, these banks will send them to Barry and his team. In this interview, Barry gives you an in-depth explanation of each of their services along with example case studies of successes where they acted as the intermediary to the process. Their ability to structure and arrange financing that facilitates the achievement of their clients' goals has created strong relationship within the financing community. This allows Barry to deal directly with the decision makers of lending institutions. This is a fascinating new approach that will broaden your knowledge of the requirements necessary to engage a person with connections like Barry to help you achieve your desired personal growth. The bottom line is this, if you need money for your business, and you've been turned down by banks and other traditional lending avenues, you need to hear this recording. Barry is one stop shopping to help you get the money you need, to facilitate acquisition or to facilitate capital to grow your enterprise. Enjoy!

Music

Michael: What is it that you offer that others don't offer, and what are some of the services that you provide?

Barry: It basically has been in business since 1986 specifically representing the small to medium sized companies which we define as companies with revenues of about five to ten million on the low end to about 100-150 million on the top end.

Michael: And, these are gross sales?

Barry: That's gross sales, gross revenue. We've been representing these companies primarily to facilitate their working capital needs through growth, turnaround and acquisition. Basically, we are involved in arranging senior secured working capital lines of credit. These are revolving lines of credit typically secured by accounts receivable and inventory, as well as term debt secured typically by fixed assets, not just the machinery and equipment but to a certain extent real estate.

The primary reason companies use is usually when they're existing lender or perspective lender says, "No, we don't want to finance your growth." "No, we don't we want to finance your turnaround." Or "No, we don't want to finance your acquisition." That's typically when companies come to us.

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Since 1986, we just recently completed our 106th financing. That's out of about 1,214 that we've taken on. So, we have a very high success rate.

Michael: What are some of the reasons a bank will turn someone down that they're not willing to risk that you're willing to do? How are you able to get around the problems that the banks aren't willing to risk on?

Barry: Typically, the banks are concerned with the company's too highly leveraged. Maybe the company is in an industry that they don't feel comfortable and they don't have an expertise in. Maybe the perspective borrower is not as profitable as they require. So, there's a variety of reasons.

Michael: Are the banks somewhat rigid looking at they have to meet these certain criteria across the board or it's just no deal?

Barry: Typically, the banks are more conservative. They're looking for more stable companies that are not highly leverage and have consistent profitability that don't experience a lot of bumps in the road. Getting back to your other question a moment ago, "Why do companies use us?" – there's really two keys to our success. One – the relationships we have with lenders across the country. These are typically asset-based lending institutions which are either dependent. They're either subsidiaries of major banks, finance or insurance companies or industrial.

Michael: What's an asset lender?

Barry: Asset based lender is a lender that's typically against the receivables and inventory. They're looking at that as the source of repayment for the loan as opposed to banks who are typically more balance sheet and cash flow oriented.

Michael: So, these lenders are lending based mainly on receivables coming in and secured assets of the company?

Barry: Right, typically in receivables and inventory.

Michael: Do they lend on a one to one basis? What's their ratio?

Barry: Typically they'll advance up to 85 percent of the receivables, and typically they'll advance up to 50 percent of the inventory.

Michael: And, how does this come into play in differentiate from factoring?

Barry: Factoring is where a company is actually selling their invoices. Asset based lending is you create basically a pool of receivables that you're borrowing

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against and it's just kind of done on a bulk gross basis as opposed to an individual invoice by invoice basis.

Michael: So, it's pretty secured lending by the time you do your due diligence.

Barry: Correct, and most companies including Fortune 1000 companies are borrowing though asset based lenders. So, it's a very established form of lending. So, basically the reason companies use us is our relationships with asset based lenders around the country, our relationships are typically with the president or EVP or Senior VP of those lending organizations, and therefore these are the senior decision makers. Most borrowers typically do not have access to the key decision makers.

Michael: And, how is that you have that access to them? How did you establish these relationships? Where did this all start? And, does that give you some kind of edge on other lending institutions?

Barry: Yes, we've been doing this since 1986, and prior to that, our firm, we were direct asset based lenders. So, those are relationships that we've developed over the years. A lot of these lenders have our existing clients in their portfolio. So, when we get retained by a company, our reputation's on the line every time we do a financing. So, we're really credentializing the borrower based on our track record.

Michael: So, before this, you were one of the asset based lenders.

Barry: Right.

Michael: So, that's how you got the expertise in learning how to do it.

Barry: Exactly, and everybody in firm were typically either CPAs or ex-lenders. The second thing that has allowed up to be successful is we do a very detailed underwriting of every transaction and by that I mean we basically put together a book that is a format that the lenders are used to seeing, and analysis that is critical to them whereby we are doing a complete analysis of the company not only collateral but also their financial condition, projections and so forth and so on. At the firm here, we have a team of underwriters who do that.

Michael: Let's say I'm one of these companies looking for financing, and let's say I'm local in LA near where you are, and your team is going to come out at my location and sit with me and go through all the numbers.

Barry: Go through all the numbers and we'll put together a book that is really geared to the senior lender that it's going to go through.

Michael: So, how does this differentiate from executive summary in a business plan.

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Barry: It's more focused to collateral and credit, and the lenders really aren't concerned that you're selling a product into a market that's a billion dollar a year market.

Michael: They just want to know they're covered, and how long is this book? And, what's in it? What's important for your team to put together in this?

Barry: The background on this company, the management, and then the critical part is – what's the collateral? How does it perform such as how quick do the receivables turn? Are there any major customer concentrations – and things like that – inventory, how much of it is finished goods versus raw materials or work in process? And, then a complete analysis of the financial performance of the company – if they've lost money, were the able to turn it around. If they are profitable, are those profits real? A complete analysis that instead of format that the senior lenders are used to seeing. The purpose of the book is really to do the lenders homework for them so it's easier for them to make a decision.

Michael: You're presenting them a package there.

Barry: Exactly.

Michael: How long is it?

Barry: Depending on the deal, the size of the deal and the complexity, it can run anywhere from ten to twenty pages geared towards the president or EVP of the lending organization to be able to read this in about twenty minutes or so.

Michael: So, he's looking at lots of these.

Barry: Yes, and usually not as well prepared as ours, but reading our book takes about twenty minutes. After that period of time, they can pretty much a decision that this is a deal we want to go forward with.

Michael: Does that give you an edge because you know how to put these books together right?

Barry: That's extremely important to them. Most CFOs, they're not in the business of raising capital all day long. They're in the business of trying to run their companies which is a big enough challenge, and trying to find money for a company can be a full-time job, and that's the responsibility that we take off their shoulders is really finding the capital. And, we have clients all over the country. We do lenders on a nationwide basis. If you're sitting in Denver, you may not have access to lenders back East. They may not know who you are and so forth.

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Michael: Let me ask you this. Can you give me two or three components in that book that you're able to put in that most other perspectives would fall short on and how that gives you an edge?

Barry: Sure, probably the critical one is the collateral analysis – really analyzing how the receivables perform, turnover, dilution, concentration, aging, inventory – how does it perform – and then also we do what is probably one of the most critical pieces of the whole deal, or the whole write-up, is what is called "Loan Source and Use" section, which basically takes the proceeds of the collateral pool, what the receivables yield at 85 percent advance or inventory that you can total proceeds, what you're using those proceeds for, use them to pay off an existing lender, usually bring accounts payable current, fees and so forth, and really determine if there's excess availability which is a very critical part of the analysis because if there's no excess availability, then typical a lender is not going to lend into the deal because they're not providing any value, and actually could be lending into a deal that could be challenged if they company ever filed bankruptcy. So, there's various issues regarding while availability is so critical.

Then, also we do what is known as a borrowing base projection, which is really what the lenders are focused on seeing how much the collateral's going to grow, turn and perform, and therefore how much they're really going to be borrowing over the next twelve to 24 months.

Michael: Now, how much time does it take to put one of these things together, the book?

Barry: It typically takes about a week on average, not a full 40 hours. A lot of it is stop and go because you need additional information from the company and so forth, but it takes you about a week.

Michael: When you bring your team into these companies, do you get in there and sometimes find that their books are all screwed up, and so do you aid in getting that together? Or is it if they're so messed up, let's say they're not keeping good records and there's missing stuff, what do you do, simply ditch it?

Barry: What we would do in that case is refer in a CFO for rent to help them get their books and records in order, and then send in an outsourced due diligence auditor, somebody that the lenders would typically use to come in and do their due diligence audit. We'll send them in ahead of time so the books are really auditable, and if so, then we feel comfortable that now we can go back in the market and present the deal to the lenders.

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Michael: Okay, let's go a step before this book is put together, how is someone going to get to you to where you make a decision to even invest the time and effort in putting the time together to come into the business and actually put this book together. What are they going to need to get your attention to get to that point? What are you looking for ideally?

Barry: We're looking for a company that needs to borrow a minimum of a million dollars, typically, and then we will go out and meet with them, and they will provide us with their last two to three years worth of year end financial statements and interim financial statements, receivable and payable aging, projection if they prepared one. We will basically take a look at that, do our analysis, and then if we feel comfortable, then we will issue them an engagement agreement letter basically specifying what we think the terms and conditions of the line of credit are going to look like. We'll talk about our retainer and success fee. At that point, if they feel comfortable and they agree with what we see, then we sign our agreement, get our retainer check, and then we start going to work.

Before we ask anybody for any money, we will do our own due diligence on our own time.

Michael: You have your traditional lenders, all the banks and stuff, but how many companies are there like yours that are as qualified as yours? Are you a unique bird in the marketplace?

Barry: We're fairly unique. There's a lot of investment banking firms that are more focused on sell-side M&A transactions.

Michael: What is that?

Barry: They're mergers and acquisitions.

Michael: So, you're not a merger and acquisition company.

Barry: We will do it. It's not our primary focus. Our primary focus is representing buyers who want to acquire companies and arranging the capital. So, we're more buy side. And, then companies that need revolving lines of credit or term debt to faciliate growth, turnaround or acquisition.

Michael: Is there anything you enjoy working with most? Or does it all come to whether you can get the money?

Barry: We have clients in a variety of industries from low-tech to high-tech leading edge technology companies.

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Michael: Let's get into some examples because illustrating examples helps me understand the whole process. Can you talk about some of your most recent financing? Let's talk about one and we'll get into a little more detail.

Barry: We had a client based in Texas who exports meat and sugar to Mexico.

Michael: How did you even initially hear about them or how'd they contact you?

Barry: Typically, companies come to us. They're typically referred by their attorneys or accountants or existing bankers or consultants.

Michael: All right. So, this company's an exporter of meat and sugar products to Mexico.

Barry: Correct. So, all of their receivables are due from Mexican companies, which is problematic for most lenders here in the United States because they are foreign receivables, and we are able to mitigate that by putting in place an insurance policy that basically will insure the collectability of those foreign receivables.

Michael: Okay, so there's a company that will insure foreign receivables.

Barry: Yes.

Michael: Very interesting. Does it insure you or them?

Barry: The actual Mexican companies. It's credit insurance.

Michael: Credit insurance.

Barry: Yes.

Michael: How big of a company was this?

Barry: This year they'll do about, I'd say about $150 million in sales.

Michael: All right, so what was their situation that brought them to you? They needed capital?

Barry: They needed an increase in their working capital line of credit to support the growth in sales, and their existing lender would not increase their credit facility. It was a small bank based in Texas. So, they just didn't have the capacity.

Michael: Did they seek out additional financing? Do you know?

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Barry: Yeah, that's how they got to us.

Michael: Okay.

Barry: So, we did an accounts receivable line of credit as well as an inventory line of credit.

Michael: So, you were able to insure the receivables. What else made this look like a good deal for you?

Barry: An excellent management team, the company had been doubling sales every year. They were profitable.

Michael: Let's talk about a management team when you're looking at one of these. What do you need to see in a management team? What makes an excellent management team for you guys to move on with something?

Barry: First and foremost is integrity.

Michael: How do you do the due diligence on that?

Barry: Typically, we're referred in by one of their trusted advisors. So, they're pretty well credentialized by the referral source and after you meet with them, there's the things we've learned over the years, certain questions to ask and see how they respond.

Michael: Give me a couple of them.

Barry: If it's a company that's going to turnaround, you kind of examine their lifestyle. Did they cut back their lifestyle or are they still draining their company? Things like that.

Michael: I see, lifestyle meaning are they taking a bunch of money out of the business.

Barry: Yes.

Michael: So, when you're looking at management, you want to look at the person.

Barry: Exactly.

Michael: Do you want to look at how long they've been there?

Barry: Yes, they like to tie their expertise in their industry.

Michael: What happens if you see that maybe the management team maybe moving on or breaking up in the near future? Is that a big risk?

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Barry: It can be, and it has to be addressed. Maybe at that point, we would recommend that they bring in a new key executive to fill the position that's being vacated.

Michael: What happens if there's a crisis? Let's say you've got this revolving credit for this meat and sugar exporter, and let's say there's problems going on. Let's say the main management guy has a heart attack and dies. Do you guys assist in putting out fires and keeping everything good? Is that part of your service?

Barry: Well, we will. That's post financing. Typically, most of the companies we're lending into or taking on as clients, they have pretty good management teams. So, let's say the CEO dies and that's obviously a material adverse change in the business, but there's usually a management team and people that can keep the business running until a new CEO is found or the business is sold or whatever may be the resolution for that.

Michael: All right, let's talk about another example. You've got here a $3.7 million revolving credit facility and term loan for a family owned specialty printing company. Now, where are they out of?

Barry: They're in Los Angeles.

Michael: What kind of volume were they doing?

Barry: Five, six million a year.

Michael: It's a printing company. The margins don't sound like they can be that spectacular.

Barry: They've been in business for about forty years. The grandfather had found the company, and it's multi-generational. The father and son and daughter running the company presently, and the business has gone through a lot of changes and they've made a big capital investment in a big piece of equipment that was not performing right and caused them to lose money. They started stretching their payables.

What we did there is we did two things. They were not financing their receivables. So, we put in a line of credit to basically facilitate their working capital on a short-term basis, and then we refinanced their equipment loan which was with the SBA by – the equipment loan was secured by the building which had a lot of equity in it. So, we were able to structure a term loan where we were able to increase the amortization period from ten years to twenty years thereby improving their cash flow.

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Michael: So, they were somewhat in trouble. You come in as a turnaround expert, but you're looking at all their existing loans and financing and with your expertise, you're able to move things around, get better financing, bring more cash in. That's your expertise in making it work, right?

Barry: Exactly.

Michael: That sounds pretty good.

Barry: There's a lot of value added whether it's a growth situation or a turnaround, we're really helping them position and get ready for the financing and try to take care of the issues and come up with a solution for whatever issues we find before we start going to the lending community.

One thing I should point out is we typically only send books to about three to five lenders. So, we know pretty much for each dealt hat we take on who the three to five most likely lenders are for that company based on that company's size, borrowing requirements, and credit and collateral characteristics.

Michael: I see. So, you know what lenders are looking for, and you'll match up your books to those.

Barry: Exactly.

Michael: Some lenders like different deals better than others, right?

Barry: Some only do deals ten million and above, and some only do deals one million to five million. So, there's a lot of variation there.

Michael: Let's talk about this six million in senior debt and equity financing for the acquisition of a branded consumer product company.

Barry: Yes.

Michael: Tell me about this one.

Barry: This was a deal where a very seasoned consumer brand product executive wanted to acquire a specialty company that basically provided for the cosmetics industry.

Michael: So, it's an acquisition.

Barry: Acquisition, and they were selling their product primarily to the major retailers – Walmart, Target – as well as the drug store and grocery store chains.

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Michael: The company they were acquiring, or their existing company?

Barry: The company they were acquiring.

Michael: Okay.

Barry: The target company. So, our client was putting up a certain amount of her own capital, and we went out and raised equity capital as well as senior debt. Besides doing a revolving lines of credit, we also will raise subordinated debt and or private equity.

Michael: Subordinated debt and private equity?

Barry: Yes.

Michael: What is subordinated debt?

Barry: Subordinated debt is sometimes known as mezzanine capital and basically if you look at the capital structure of a company, you have senior debt which is usually has a claim on all the assets, and then you have equity. Mezzanine debt comes into between there where basically it performs like debt but has the characteristics of equity. They're unsecured. They typically get an interest rate from the money, but they also usually get a warrant to purchase equity in the company.

Michael: When you go into these businesses and you bring your team in, is one of the hardest parts really evaluating what the business is worth?

Barry: On an acquisition, yes, because the seller has one opinion of what his business is worth, and the buyer may or may not have a good idea of what the business is truly worth, and one of the people on our staff is a CVA which is a Certified Valuation Analyst. So, we do a lot of business valuations. So, we can pretty much determine what a business is worth, and what a fair range is to pay for a business.

Michael: In your experience, what you come up with what it's worth and what the owner thinks it's worth, is there usually a difference there? Are they pretty open to your analysis?

Barry: What we are doing is validating whether the seller is being reasonable, and finagle the term and the range of value for the business. If that seller is within that range, then it's probably a fair transaction. In this particular case where we thought the business was worth six million and the seller really thought it was worth nine million, that's a pretty big gap. They had to justify the nine million.

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Michael: Do you go look at competing businesses in the marketplace around the country? Is that like you evaluate a house in that way?

Barry: Exactly, you do public market comps.

Michael: You've provided me a brief list of some common issues facing buyers of companies. Let's go through some of these and expand on these. Number one, providing enough time to develop a relationship with the seller. Explain what this is. Put it in perspective here.

Barry: Sure, if somebody's acquiring your company, I think it's important to have a successful outcome, the buyer and the seller, you have to develop a good relationship where they trust each other, they can communicate with each other, be open with each other, and that helps to facilitate a transaction. You don't want it to be adversarial, and you want the seller to be enrolled in the process.

Michael: When you're talking about a buyer and seller, for example, if I have a multi-million dollar business and I wanted to sell it and I had a potential buyer, could you help me facilitate that whole deal?

Barry: Sure, absolutely.

Michael: Okay, so when you're talking about enough time for the buyer and seller to establish a relationship, that's going to be myself and the buyer, correct?

Barry: Correct.

Michael: And, you're going to be the intermediary to help do all the services to make this deal work.

Barry: Exactly, raising the capital, structure the deal, and foster the relationship, and the due diligence phase.

Michael: Okay, that's great. Number two – which professionals to hire, examples investment bankers, attorneys, CPAs – put this in perspective for me.

Barry: A lot of buyers, when they go to acquire a company, especially entrepreneurs, what typically happens is you'll meet with the seller, and they negotiate a deal, then they bring in the professionals. Well, by the time they bring in the professionals, it's hard to undo some of the mistakes that they may have made. So, it's always good to get your team together at the beginning of the process as opposed to in the middle of the process.

Michael: Okay. So, if I was a buyer, and I'm looking for companies, could you give me just some of your personal advice, some tips on the order of how I should do

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things? Let's say I know I want to buy a multi-million dollar business, and I'm going to use you to help me put this deal together as far as financing. I'm out there. I'm looking at businesses. I'm contacting owners of multi-million dollar businesses that are interested in selling. First, let me bring this up. Let's say if I represent myself that I can pay all cash. Let's say someone's interested in selling the business. Do you do seller financing? Or are you focused on paying them out with the financing that you get paying the seller out all at once?

Barry: It can be a combination of both. I mean, sometimes what we'll do is if the seller's asking for X and the buyer says, "We can only finance Y." We'll get the seller to basically carry the difference back in a subordinated note. There's various ways to handle that.

Michael: But, are there some cases where you can pay him what he wants?

Barry: Absolutely.

Michael: All right. So, give me an order of what I should do. I'm contacting these sellers. They're raising their hands. They're interested. Their books are open. What's the first thing I should do if I'm really serious about this?

Barry: The first thing is basically once you've identified a target and it's come to some verbal understanding with the sellers to what the purchase price is going to be-

Michael: Do I want to tie it up with a letter of intent?

Barry: Exactly, and make sure that at that point have your attorney who has expertise in doing M&A transactions to put together a non-binding letter of intent which gives you a certain period of exclusivity to do due diligence, which during that time the seller can not go out and shop.

Michael: What's a typical time period? What do you recommend?

Barry: Usually 90-120 days.

Michael: So, tie it up for 90-120 days so I can do my due diligence?

Barry: Correct.

Michael: It's non-binding. Does any money trade hands?

Barry: Sometimes, yeah, you'll put up a good faith deposit.

Michael: When you say non-binding agreement, that means non-binding meaning I'm not committing to buying anything.

Barry: Right, subject to financing, subject to due diligence. At some point during the process, you'll enter into a formal purchase and sale agreement.

Michael: So, tie it up with the due diligence. Then, once that's done, do I start putting my team together?

Barry: Once, you've done the non-binding letter of intent at that point, it's important to have your accountants and investment bankers start getting involved in the process helping structure the due diligence at the same time.

Michael: Who should be on my team? What kind of attorney, business attorney?

Barry: Yeah, a corporate securities attorney.

Michael: All right, corporate securities attorney, and who else?

Barry: With expertise in secured lending and M&A transaction, a CPA, preferably a well-respected regional firm, and then an investment banker to help value the deal and raise the capital.

Michael: So, what do I do? I call each of them. I explain what I'm doing.

Barry: The potential buyer calls me and says, "Can you recommend an attorney and CPA?" I would put the team together for them.

Michael: Okay, you could do that service. You could do it all at once.

Barry: Sure.

Michael: Let's say I did call you, and what are you going to charge me to get going on this? Let's say I've got tied up for 90 days with a letter of intent. Everything looks good at least on my end. I'm ready to put my team together. What are you going to need from me to get going?

Barry: We typically work on a retainer and success fee basis. And our retainers will range anywhere from, a lot of it depends on the size and complexity of the deal. Typically, our retainers are in the ten to fifteen thousand dollar range.

Michael: How much service is that going to get me?

Barry: Quite a lot.

Michael: What is that going to do for me?

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Barry: Get the book together, the valuation of the business if this is an acquisition. If it's not an acquisition, really getting the book put together.

Michael: Your team will meet with the seller?

Barry: Sure.

Michael: Okay.

Barry: The seller will most likely have an investment banker representing them, and help negotiate the letter of intent, validate the purchase price and then go out and raise the capital. At which time, once the capital is raised and the deal closed, we will get a success fee which will be anywhere from one to five percent of the amount of the capital raised.

Michael: All right. So, the retainer, it's an important thing for you to screen and separate the really serious people.

Barry: A sales commitment.

Michael: All right, very good. Number three – getting emotionally caught up in the auction process. What's this mean?

Barry: A lot of times, a seller will hire an investment banker to sell their business. So, what will happen is they will basically hold an auction. They'll have three companies bidding, five companies, ten companies, and a lot of times buyers will get emotionally caught up in trying to buy the company, and you just want to make sure you don't overpay.

Michael: So, this is advice that if you're buying, not to get caught up in the emotion. So, a lot of sellers will hire investment bankers?

Barry: Yes, if they're smart.

Michael: And, that's a good way if you want to sell your business?

Barry: Yes, because it's always better to have somebody else represent you as opposed to yourself. It's a lot more professional.

Michael: Like when you're selling a house, you get a real estate agent. How does an investment banker differ from all these business brokers out there?

Barry: Business brokers are typically selling very small businesses. Investment bankers are dealing with companies with minimum revenues of ten, twenty

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million, at least tens of millions of dollars. So, these are real substantial businesses from manufacturers, distributors.

Michael: So, that's the best way to go. If you want to sell your business, and you're doing millions, you would contact an investment banker.

Barry: Right, somebody would contact if they wanted to sell. They would sit down, do the valuation, and come up with a target list of potential buyers both financial buyers and strategic buyers.

Michael: So, you're like one-stop shopping.

Barry: Yeah.

Michael: We're not even finished yet, but it sure makes life a lot easier. So, I can focus on just putting the deal together.

Barry: Exactly.

Michael: Number four – establishing objective measures for pre-closing operations, example maintaining a minimum level of net worth, working capital etc. Let's talk about this.

Barry: As the buyer, you want to make sure that the seller doesn't start taking out a lot of money and deteriorating the net worth or the working capital of the business.

Michael: Are there some agreements that put all that in place?

Barry: Yes, it's typically in the letter of intent.

Michael: Is that common?

Barry: We've seen it happen.

Michael: Okay, so establishing objective measures for pre-closing operations. So, that's one of the measures making sure the seller isn't draining the company.

Barry: Exactly.

Michael: What's another typical thing as far as objective measures?

Barry: You want to make sure that the key management is still going to be there.

Michael: Can you sometimes go in and negotiate with the management to stay on?

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Barry: There's ways to. A lot of times if they want to stay on, we'll just make it part of the new management or vine group.

Michael: Can that sometimes spook the management that the company's being sold?

Barry: Sure, it's a very sensitive issue.

Michael: What's your expertise that alleviates the fear in the management? How do you handle that delicate subject?

Barry: Once the letter of intent has been signed by the CEO or CFO, basically at some point, shortly thereafter, you sit down with the management, lay out your vision, get them enrolled into the fact that even though you're coming in as the new owner that you envision things changing. That's why we're buying the business because of the good job everybody's done, and here's how we're going to help you guys grow it – so forth and so on.

Michael: You just lay it out for them.

Barry: Yes.

Michael: Okay.

Barry: Every deal's different obviously, but yeah you want to get them enrolled as early as possible in the process.

Michael: Okay, structuring earn-outs when the parties can not agree on price. What's an earn out?

Barry: Earn-out is basically if we can't agree on the price.

Michael: Between seller and buyer.

Barry: Right, because the seller is saying, "Well, the business makes a million dollars a year", and the buyer says, "Well, I've done my analysis and it's only making half a million." Then, what you do is you structure with the steps of earn out that if the business makes in access of a million dollars over the next three years, we'll give you fifty percent of that excess. So, basically what we're doing is you're getting the seller to basically be a believer in his own business that the business will generate what he says he's going to do. So, seller is really putting his money where his mouth is.

Michael: Okay, very good. Enrolling seller management and key employees in the process.

Barry: That's what we just talked about a moment ago.

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Michael: Okay, got it. Getting them on the side of the acquisition or the sale. Identifying cultural and integration issues, what's this about?

Barry: Basically, every organization has it's own culture, and you as the buyer need to get a good handle on that culture.

Michael: Do you have a specific example we could talk about? Like a situation that you dealt with where cultural issues were an issue?

Barry: Yeah, I think it's in each deal. Let's say you the buyer have an existing company. You're acquiring another company. You may have a whole different business culture than the company you're acquiring, and how you integrate that is very, very critical. There are some studies that have been done that show amongst the Fortune 1,000 it's something like two-thirds of acquisition do not meet the objectives set out at the beginning. In other words, they're not successful mergers or acquisitions and the primary reason is they were not able to integrate the culture of the acquirer with the acquiree.

Michael: Or the philosophies of the businesses, they didn't match?

Barry: Exactly.

Michael: It's like Sears bought Lands End, and now there's complaining because they're losing all kinds of money.

Barry: Right, and employees aren't happy because you have the Sears culture which is very bureaucratic, very inflexible culture compared to Lands End which is very creative.

Michael: Great marketing company.

Barry: Yeah, but see it's more free form or liberal culture meaning it's very difficult to integrate those. That's probably why there's not happiness on both sides.

Michael: Okay, well, you're out there looking for deals, aren't you?

Barry: Yes.

Michael: This is what you do. Where are you going to go first? If you had a hundred different businesses out there to look at, what do you find are the best kinds of companies – manufacturing, service businesses? What are some of the advantages and disadvantages of getting these deals done from each?

Barry: What you're going to find as a buyer if you're looking at acquisition opportunities, once you get passed the financial – is it making money, are the

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sales stable or growing – does the business have some type of compelling reason to be in business? Does it have a competitive advantage? And, you can tell that by the fact that they have good gross profit margins. They have gross profit margins of forty or fifty percent. There's something that they're doing that's providing value, that people in the marketplace are valuing, and they're increasing their market share. Something that they're doing is compelling.

If they have a gross profit margin because they're manufacturing something, the gross profit margin is only ten or twenty percent, they're more likely in a commodity oriented business which could be good. Don't get me wrong. It has to be very sales driven and you have to be able to control costs in order to make that thing successful.

So, for example, you want to look for is why does this business deserve to be in business?

Michael: Your turnaround expertise, you've got a lot of financing issues that give you a lot of strength in turning something around based on the assets and the real estate or what have you. What about marketing? When you're looking for companies, are you looking for undermarketed business and do you have in your firm some expertise in good marketing where you see some real golden opportunities that could, with some good marketing, really rev up the sales that the existing owner just didn't have a clue about?

Barry: Yes, I mean, sometimes you'll see buyers that have that expertise. They may be buying a company where the owners were in their '60s or '70s, and they just don't have the chops to keep growing the business, and you've got a guy who's the buyer who's a great marketing guy. So, yeah, I mean, there are those situations.

Michael: That's not going to really matter to you because your bread and butter is getting the financing. You're not going to get a piece of growth.

Barry: Correct.

Michael: So, you're not really looking for that.

Barry: Not particularly. We really more focused on getting the financing done, making sure it's a good transaction, and making sure that the buyer does not overpay and that the seller comes away feeling that he got a very fair price.

Michael: But, when it comes down to it, all of these deals are going to have to be secured by equipment, real estate, some kind of assets, good solid receivables and sales.

Barry: And, to the extent that there's not collateral, then that's when we would bring in subordinated private equity to bridge that gap.

Michael: So, if there's not enough of this collateral, you can bring that in.

Barry: Correct.

Michael: How do you just bring that in? Can you explain that?

Barry: It would be to approach private equity firms and mezzanine capital firms and lay the deal, do the same thing.

Michael: But, how do they protect themselves?

Barry: What they're looking at is the historical cash flows of the business, and they assume that those cash flows will continue and therefore the new management will be able to grow the business, increase the enterprise value. So, if they're buying the business today at let's say five million dollars, they hope in five years that the business is worth fifteen million. And, say the company fails or gets acquired by another company in five years, that's how they make their money.

Michael: Let's say you put a deal together, and the company grows in five years, and then they get bought up again. Do you have a lot of clients who come back to you to help facilitate that?

Barry: Sure, yes.

Michael: So, you're with them, I keep using the analogy of real estate. If you're with a client and you help them buy their first home, and then the sell and they move up to a bigger home and you just stay with that client as long as they're in business.

Barry: Yeah, we're all about developing long-term relationships. We've been in business 1986. So, we have a lot of clients that every couple of years come back to us for various things whether it's advice or to do financing or growth capital – whatever it may be, selling their company, buying another company.

Michael: Tell me about a screw-up. I mean, everyone's got to have one. Give me an example of something that didn't go so good for you, and the mistakes that were made and how you now corrected that so it didn't happen again. Let's talk about some reality situations.

Barry: We did one of the kind of niches also that we ended up arranging capital specialty finance companies. So, these are small factors that as the big lenders that are lending to very small businesses. So, we had a client back in I would

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say '90-somewhere in the mid-90s, '95 '97, that was at the time probably the largest minority-owned factors in the country. It raised a lot of capital. Their portfolio was basically – you had bankers that become factors and it was kind of a tough transition. Through our advice working with them, they were straightening out their portfolio. They took some big write-downs. So, we thought by the time we get the line of credit put in place that they'd have basically written off all the problems which was a couple million dollars worth so it was real money.

So, we put the line of credit into place. The board threw out the initial CEO which was a mistake. So, they had written off a lot of their problems. So, we thought the portfolio was in very clean, very good shape by the time we put the line of credit into place. So, we closed the deal in June, and lo and behold one of the clients that they were lending to defrauded them and literally in September the lender was liquidating the company. So, that was one of our unforeseen situations.

Michael: So, whose fault was it? The due diligence on your part?

Barry: No.

Michael: It's just sometimes these things happen.

Barry: Exactly, as a lender it's very hard. If somebody's going to defraud you, they're going to get you. The only thing is catching it quick enough so it doesn't become overwhelming and you lose.

Michael: So, they liquidated the company and tried to salvage what they could.

Barry: Exactly.

Michael: Is there more money out there for good investment deals than there are deals? I mean, you've got a good idea. How much money is out there from lenders willing to put money into good investment deals? Are the deals are hard thing to find?

Barry: Yeah, the deals are the hard thing. There's plenty of money out there. That's not the issue. It's really good management teams and good companies. That's really what it comes down to. If you have a good management team with the company that they're either running or trying to acquire, if it hasn't been profitable and they turned it around and you can see that it's turning, there's plenty of money.

Michael: If I'm the seller, and you help me facilitate a sale to the buyer, do you guys take any kind of ownership in the business? How does that work? Do the

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buyer still have now all the control? You hear how venture capitalists, they own and control everything. They kick out the CEO.

Barry: A lot of those situations are early stage companies which are very high risk and they really haven't proven their business concept. That's a whole different entity, the capital spectrum. But, in a typical middle market transaction, if the owner or the buyer is putting in equity of his own and let's say he's putting in private equity or mezzanine, he's going to have a substantial piece of that company either from all the way from control or if he doesn't have control, he will have the ability to claw back to control based on performance.

Michael: What if a buyer doesn't have a lot of his own money? How much of his own money are you guys going to need to see that this guy has in it to do something like this?

Barry: Generally, you want to see the buyer if this is an acquisition as opposed to a refinance. If it's an acquisition, you want to see the buyer has at least somewhere between ten and thirty percent of the purchase price.

Michael: Okay, and to the business.

Barry: Right, because if he can borrow the rest on a senior revolver, that's a lower term debt, that's fine.

Michael: So, if he's got ten to thirty percent, what percentage ownership is he going to have?

Barry: He could end up with a hundred percent. It just depends how the deal is being financed.

Michael: As that company generates profits every month or every quarter, a piece of those profits go right to the investors.

Barry: Correct. What happens is they get a dividend or an interest coupon. The investors are really looking for the buyer to or the management that's acquiring the company to basically grow the value of the company over a three to five year period. So, at the end of the time they can have an exit strategy, i.e. sell to another company, go public, refinance, or do a recapitalization, whatever.

Michael: That is important for the investors.

Barry: Yeah, because they need to get out of the deal in three to five years.

Michael: So, what are some of the good exit strategies that they're looking to do? Is one of them going public and maybe investing in the stock?

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Barry: I'd say most likely, it's hard to do IPOs. Either what's going to happen is they'll probably be sold to another company. That's probably the path of least resistance.

Michael: So, they can make on that sale, those investors can-

Barry: Get cashed out.

Michael: They get cashed out.

Barry: Yes, or the management team can go back to the capital markets and refinance out those lenders and provide them their return that they were looking for.

Michael: Why is it only a three to five year stunt?

Barry: Typically, there's that investment horizon.

Michael: And, then they just look for new deals?

Barry: Exactly. They're managing a pool of capital and they've told their limited partner investors that we will have an exit strategy.

Michael: So, is that all structured in the deal that the financing is going to be for a limited amount of time?

Barry: Typically, yes. There's ways to handle that, but generally speaking, yes.

Michael: Okay, so when you're setting these deals up, the buyer needs to understand that there is going to be a three to five year, there is going to be an exit strategy.

Barry: What happens typically if there's not an exit strategy, i.e., the company at five years doesn't sell or recapitalize, particularly what will happen is the investors have the right to put their stock back to the company and the company has to buy it back.

Michael: Are you guys called in to help facilitate this thing?

Barry: Sometimes.

Michael: Okay.

Hi, this is Michael Senoff with HardtoFindSeminars.com. I hope this interview with Barry has been helpful and has given you some new ideas to get the money that you need

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for your business. If you'd like to be put in touch with Barry, please call me at 858-274-7851, and I'll make a formal introduction. Thank you.