"Coronavirus - Best Practices at This Time For Buying & Selling A California Small Business"

Authored by William F Ziprick, as featured in BizBen in March of 2020.

A few early observations on the Coronavirus' impact on business sales, drawn from numerous recent conversations with lenders, business brokers, valuation experts and hopeful sellers and buyers of businesses:

1. One of the toughest issues will be determining the impact on the valuation of a business. For example, say you have a very healthy business for sale, a restaurant with strong historical financials. It temporarily shuttered its doors some days ago, and let go (at least for a while) a well trained staff. With valuations using past performance to project future cash flow, how can you get a handle on this situation? It is certainly challenging.

2. You may need a strong dose of flexibility and creativity in getting a deal done in this environment. 3rd party lenders, who are obviously risk adverse, are going to most likely have very conservative underwriting occurring, making it very hard, at least in the short run, to get 3rd party financing. The best alternative is seller financing, or at least a significant amount of the financing being a subordinated (lower priority for payments & security) carry-back Note to the Seller, which would provide greater protection for the 3rd party lender. The appetite of a seller for considering such a deal will be dependent on a variety of factors, such as how strong is their desire to sell, the amount of the down payment that the buyer can make, the business-specific experience that a buyer brings to the table (which hopefully will increase the odds of success), etc.

3. The question I am being asked repeatedly by potential buyers is how do you deal with the uncertainty of what the cash flow of a business will be in the coming months or years -- will the business come back strong, or will it struggle for a more prolonged period, especially if important staff are lost in the process? And how do you factor that in when determining a fair price for both the seller and the buyer? If you have seller-financing as referenced above, a deal structuring possibility is the potential for discounts being applied to the Note if the business does not operate as strongly in the future as the parties anticipate (or hope for!). You are trying to spread out some of this risk between the Buyer and Seller, and finding ways to do this will be essential to successfully close many deals.

4. Certainly another aspect is identifying businesses which are "essential", as so far specified by the State government: health care, auto maintenance and repair, construction, etc., to name a few -- these are operational for the most part, and accordingly should have less negative impact on the bottom line. For other "non-essential" businesses, there may be opportunities for buyers to get more attractive pricing for a period of time. Careful due diligence and assessment will be critical to try to differentiate between businesses that may temporarily be hurt, and those that are going to be significantly impaired for a lengthy period.

5. One final thought - depending on the lender, there may also be the opportunities to get some long-term financing at very attractive interest rates (if you can qualify the deal) for a period of time. Lower long term debt service for a Buyer can certainly help weather a period of reduced profitability while a business gets up to full steam again in the future.