

THE ART OF THE DEAL

Loan Structuring for Success

Real Estate and Equipment Purchase

Real estate, economic development financing, term & sellers note

- Original request: \$268,530 project.

- **Proposed sources /**

- \$30,000 cash injection
- \$130,000 bank loan
- \$100,000 JCDC loan
- \$8,530 equipment contributed

\$268,530

=?

- **uses of funds included:**

- \$57,053 equip/FF of restaurant
- \$36,981 Inventory & supplies
- \$125,000 purchase CRE
- \$30,966 goodwill

\$250,000

- **Final sources /**

- \$30,000 cash injection
- \$117,900 SBA CRE
- \$50,000 JCDC 2nd mtg & UCC
- \$52,100 seller note

\$250,000

- **uses**

- \$131,000 CRE (appraised value)
- \$57,053 equipment/FF
- \$36,981 Inventory & supplies
- \$24,966 goodwill

\$ 250,000

NOTE: No value given to contributed equipment without appraisal

Debt Restructuring

Classified Asset Debt Restructuring and Permanent Working Capital using SBA 504 Refinance Program

Company has existing mortgage debt of \$528,000 and LOC of \$610,000. Land & Building appraised at \$1,145,000. Acc./Rec. & Inventory values of \$500,000. Classified asset with incumbent bank due to declining NP, but current on all payments.

SOURCES

Bank (43.6%)	\$ 500,000
SBA 504(40%)	\$ 458,000
Equity (16.4%)	<u>\$ 187,000</u>
SUBTOTAL	\$1,145,000
New LOC	\$ 300,000
TOTAL	<u>\$1,445,000</u>

USES

Payoff Mtg. Debt	\$ 528,000
Payoff LOC (w/504)	\$ 430,000
Payoff LOC (w/LOC)	\$ 180,000
Working Capital	\$ 120,000
Land Equity	<u>\$ 187,000</u>
TOTAL	<u>\$1,445,000</u>

Do I Have a Deal for You!

- The Transaction:
 - Seller = Home Health Care Company
 - \$4M Annual Revenues
 - \$650K EBITDA
 - Consistent Performer
 - \$3.4M Purchase Price (5.2x)
 - Buyer = Husband & Wife Team
 - Dental Office Manager & RN
 - No Real Estate, No A/R, No Cash, No Liabilities Included
 - 20% Equity Injection
 - 5% Seller Note

The Importance of Perspective

- Be Sensitive to What Preceded You
 - DON Resigned – Buyers Fear of a Key Person Lost
 - Lack of DON Non-Compete
 - The DON Replacement Plan
 - Seller Deal Fatigue – Already Had a Busted Deal Over Asset vs. Stock
 - Seller is Tired of the Super Freaks
 - The Seller Note Beat Down
 - Buyer Deal Fatigue – Already Turned Down Twice for Financing and Left at the Altar Once
 - Attorneys Have Been Here

Problems & Solutions

- Problems

- Mostly Intangible Value
- Lack of Business Collateral
- Lack of Post-closing Buyer Liquidity
- General Overall Buyer Stupidity

- Solutions

- Increase Seller Note
- Family Member Take a Minority Position
- Family Member Provide a Personal Guarantee
- Sell a House

Leverage The Left Side of Your BS

- An Intermediary Can Be Your Biggest Asset & Your Best Salesperson
- Intermediaries Have Intimate Details About:
 - Deal History
 - Buyer & Seller Personalities
 - Pain Points
- We Have \$imilar Interests

Help ME... Help YOU!

- Always Remember...
 - I've sold this deal AT LEAST 3 times!
 - It's too late for RULES!
 - I get paid when the deal gets DONE!
 - Time KILLS all deals!
 - I come back to YOU when YOU help me SOLVE problems!

Business Acquisition—Asset Purchase

Real Estate & Equipment Acquisition and Working Capital

- Young entrepreneur with horticultural degrees and limited work experience purchasing the assets of an existing nursery and landscaping company with historically strong cashflow. Total purchase price of \$750,000.
- Real estate consists of a brick residence, several out-buildings and farm land planted in nursery stock on 14 acres. Appraised value of real estate is \$466,500.
- Equipment consists of trucks, tractors & miscellaneous farming equipment. Appraised value of equipment is \$114,000.
- Borrower is in need of working capital financing to purchase spring inventory. He also needs assistance in financing closing costs.
- Borrower has limited cash of \$87,000 which was received in the form of a gift from a family member.

WOULD YOU FINANCE THIS TRANSACTION?

HOW WOULD YOU STRUCTURE IT?

Final Structure:

Bank, SBA 504, Economic Devel. Financing, Seller Financing & LOC

SOURCES

Bank (50%)	\$ 290,250
504 (35%)	\$ 203,175
Equity (15%)	<u>\$ 87,075</u>
SUBTOTAL	\$ 580,500
WCCED	\$ 100,000
Seller Note	\$ 80,000
LOC	<u>\$ 50,000</u>
TOTAL	<u>\$ 810,500</u>

USES

Real Estate	\$ 466,500
Equipment	\$ 114,000
Goodwill	\$ 140,000
Working Capital	\$ 80,000
Closing Costs	<u>\$ 10,000</u>
TOTAL	<u>\$ 810,500</u>

Thank you

- **Scott Mashuda**, CBI, Managing Director, Rivers Edge Alliance Group. 412-894-3244. © 440-915-3082
- **Rebecca MacBlane**, Regional Development Funding Corporation (RDFC) & WPASGL Board Member. 412-471-1030.
- **Steve Bilko**, First Commonwealth Bank & WPASGL Board Member. 724-853-2863.