



Small Business connections

Volume 2 • Issue 2

Circumventing the “Perfect Storm”

2008 Trends in Business Lending from
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People frequently use the term “The Perfect Storm” to describe a simultaneous series of events whose chance combination produces a far more powerful impact than that of any single contributing event. By their nature, perfect storms are rare – conditions must be just right and the slightest change to any one component of a perfect storm can lessen the overall impact.

One could argue that conditions are right for our nation’s economy to experience a perfect storm in 2008. Some of the catalysts causing this turbulence include:

- Liquidity concerns resulting from substantial losses in the sub-prime mortgage market
- Declining real estate values, once used as collateral or equity for many commercial loans
- Waning consumer confidence
- Concerns over inflation
- Tax rate uncertainties due to the upcoming presidential election

Individually, these events are manageable, but collectively they could have significant implications for your business

sale or acquisition plans and your ability to obtain the necessary financing. Despite these factors, the United States Small Business Administration (SBA) and its network of Certified and Preferred lenders can help business buyers and sellers navigate these waters by structuring business acquisition loans in a way that requires less up-front cash from the buyer than might otherwise be necessary.

The SBA must adhere to certain lending parameters in order to manage risk. One such parameter governs the amount of equity that a business buyer must contribute to a business purchase. While the minimum required level is ten percent of the purchase price, in reality most lenders require between fifteen and twenty percent.

Proactive SBA lenders can find ways to mix and match seller notes not only to meet their equity requirements but also to allow deals to get closed. In doing so, lenders may supplement a buyer’s up-front cash with “equity” from a seller note.

In order to be considered “equity”, lenders will require that the seller note standby (i.e. no principal repayment) for a period of time ranging from two to ten years, depending on how much up-front cash the buyer is contributing.

An example of how this would work is when the manager of a company is seeking to buyout the current owner. Assume the bank requires that fifteen percent of the purchase price be in the form of equity. *(Continued on Page 3)*



A NEW LEADER IN FRANCHISING EMERGES

For the first time in over a decade, Subway® did not top *Entrepreneur's* annual Franchise 500® rankings. For 2008, it was the 7-Eleven® Inc. convenience store franchise that pushed the sub sandwich franchise back to second place.

Rounding out the top ten franchises for 2008 are: Dunkin' Donuts®, Pizza Hut® Inc., McDonald's®, Sonic® Drive In Restaurants, KFC Corp., Intercontinental Hotels Group, Domino's Pizza® LLC and RE/MAX® Int'l Inc.

Each year, *Entrepreneur* examines franchise companies that submit full Uniform Franchise Offering Circulars (UFOCs) or Canadian disclosure documents. The franchise must have at least ten units, at least one being U.S.-based, be actively seeking new franchises in the United States and cannot be in Chapter 11. All companies are judged by the same objective criteria, which includes financial strength and stability, growth rate and size of system.

In addition to the 500 list, *Entrepreneur* also evaluates the franchises in specific categories, such as low-cost, global, home-based, fastest-growing and new franchises.

Employees Seek Work/Life Balance

Monster®, a leading online global careers network, has found that 89% of workers believe that work/life balance programs are important when evaluating a new job.

The 2007 Monster Work/Life Balance Survey also found that three-quarters of employees also believe that programs such as telecommuting and flextime create more loyal and efficient employees. In addition, younger employees place more value on work/life balance

programs than their older counterparts.

In contrast, only 49% of human resource professionals believe they acquire more qualified candidates because of programs that support a healthy work/life balance. Similarly, about half of the HR professionals surveyed also believe that work/life balance programs are important initiatives for their companies.

The 2007 Monster Work/Life Balance Survey, conducted in August 2007, was an online poll of 506 human resource professionals and 830 workers.

SEC Supports SOX Extension for Small Business

United States Securities and Exchange Commission (SEC) Chairman Christopher Cox gave small businesses some relief on December 12, 2007, telling members of the House Small Business Committee that he supports an additional one-year extension—until 2009—of small business compliance with Sarbanes-Oxley Act (SOX) Section 404 reporting requirement. This is significant because unless the SEC or Congress takes action, small public companies will have to begin complying with parts of SOX as early as 2008.

While making the announcement at a House Small Business Committee hearing, Cox stated, "I intend to propose to the commission that we authorize a further one-year delay in implementation for small businesses." The "decision to proceed cautiously" stems from the fact that "the cost of regulation falls heaviest on smaller companies," he added.

Small firms worth less than \$75 million face a higher burden than larger firms in complying with the Sarbanes-Oxley regulations. In 2006, restatements of financial results for large companies decreased by 20 percent, while restatements for the smaller firms increased by 42 percent due to the disproportionately higher cost and time needed to comply.

Earlier this year, Senate Committee on Small Business and Entrepreneurship Chair John Kerry (D-Mass.) and Ranking Member Olympia Snowe (R-Maine) held a hearing focused on the impact of Sarbanes-Oxley regulations on small businesses, and wrote three letters to the SEC seeking additional time for small firms to comply while preserving the intent of the 2002 law. Repeated calls for a postponement have also come from House Small Business Committee Chairwoman Nydia M. Velázquez and it was during her most recent hearing to examine the regulation's impacts on small firms, that this victory was finally achieved.

Since smaller firms face higher costs to comply with Sarbanes-Oxley, this delay will help reduce the regulatory burden on small firms. It also enables the SEC to fully consider the economic impacts on small, publicly traded companies and make any necessary changes.



Third Quarter Shows Venture Capital Still Strong in 2007

The 2007 third quarter *MoneyTree™ Report* by PricewaterhouseCoopers and the National Venture Capital Association suggests an ongoing stability in funding from venture capitalists. While the first six months of 2007 boasted the highest level of deals reported since 2001, the third quarter produced \$7.1 billion invested in 887 transactions; down slightly from the \$7.2 billion invested in 1,000 deals last quarter.

Software and life sciences (biotechnology and medical devices) continued to attract dollars with a combined \$3 billion invested in 362 transactions. These two sectors represented 42% of the investment dollars for the quarter. Internet-specific companies garnered \$1.1 billion of funding for 195 deals, a 17% increase from the prior period. The Media and Entertainment sector also experienced growth this quarter with \$509 million invested in 96 deals, compared to \$464 million going into 77 deals last quarter.

Despite a 15% decrease in Seed and Early stage investment dollars, the average Seed and Early stage deal size increased. Seed deals averaged \$2.4 million, compared to \$2.0 million last quarter, and Early stage investments



increased to \$5.6 million from last quarter's average of \$5.0 million.

Total expansion stage investing increased from \$2.3 billion to \$2.7 billion. The average size of an expansion deal also increased significantly to \$9.2 million from \$7.8 million in the second quarter.

Later stage investments modestly declined in the third quarter. This quarter noted 288 deals totaling \$3.0 billion compared to the 303 deals totaling \$3.2 billion last quarter. The average transaction size also decreased, falling from \$10.6 million to \$10.5 million.

First time deals (companies receiving venture capital dollars for the first time) reported steady investment with \$1.7 billion invested in 273 deals in the third quarter, compared to the same amount going towards 347 transactions in the second quarter. This quarter, first time deals averaged \$6.3 million, a substantial increase from the last quarter, in which the average investment totaled \$5.0 million.

Receiving nearly \$2.5 billion of the venture capital funds in the third quarter, Silicon Valley garnered more investment funding than any other region in the United States. New England, Los Angeles, Texas and New York City rounded out the top five areas for venture capital investments.

(Continued from Cover Page) In this case, however, the manager can only contribute five percent in up-front cash. In order to get the deal closed, the SBA lender can work with the seller to make up the difference by having the seller hold two separate notes. The first note would be for five percent of the purchase price and would be on full standby for the life of the SBA loan (ten years). The second seller note would also be for five percent but would have a shorter standby period, given that a full 10% of the purchase price would be invested for the life of the SBA loan.

There are two major reasons why this type of loan structure can be effective in today's "Per-

fect Storm" environment. First, the owner will stay involved with the business and can help to transition customers and employees to the new owner. Second, with the turbulent home equity market, bifurcating the up-front equity requirement between seller note(s) and buyer cash will allow more buyers to qualify for financing.

Regardless of the "weather" or "whether" conditions, knowledgeable financial partners can find ways to satisfy their financial requirements and, at the same time, help buyers and sellers meet their goals and objectives. To learn more about the SBA and its loan requirements, visit www.upscapital.com or www.sba.gov.

SUNBELT BOOK CLUB

McIlhenny's Gold: How a Louisiana Family Built the Tabasco Empire. Jeffrey Rothfeder, a former *BusinessWeek* editor, recounts Tabasco's journey into the 21st century. Since the company's inception in 1869, the McIlhenny family has controlled the Avery Island, Louisiana company.

Rothfeder details the structure of a family owned and operated company struggling with the pressures of doing business in the 21st century. He thoroughly examines the question: Can a company survive on family tradition alone? *McIlhenny's Gold* retails for \$24.95.



Hug Your Customers: The Proven Way to Personalize Sales and Achieve Astounding Results. Jack Mitchell, co-owner and CEO of the high-end Connecticut clothing retailer Mitchells/Richards, details the customer-centric approach to doing business.

Mitchell believes that personalizing service outweighs having the most inventory or the best location. He also employs the "no problem" attitude to keep customers coming back. This book retails for \$19.95.

SUNBELT PROFILE: Middle Market

Sunbelt® was founded in 1978 and during the past three decades has rapidly grown to become the world's largest business brokerage firm. Today, we have approximately 325 independently owned and operated, franchised offices with nearly 1,400 transaction professionals located in North America, Europe, Asia, Africa, South America and Australia. Collectively, our transaction professionals managed close to 4,000 business sales during the past year.

As the world's pre-eminent business brokerage operation, Sunbelt historically specialized in representing sellers of privately-held businesses with a value of \$1 million or less. During the past five years, as Sunbelt's footprint has expanded and the Sunbelt brand has

become more widely recognized, our local offices have managed increasingly larger transactions. This trend has been accelerated by our expanded service capabilities, our growing international presence and the propensity for national and regional investment banking firms to increasingly focus on "mega-deals."

Sunbelt's presence in the \$2 to \$20 million transaction market has steadily expanded so that, at any given point in time, our offices are collectively involved in managing approximately 100 transactions in this range. To the best of our knowledge, our organization is now handling as many or more of these sales transactions than any other Middle Market transaction firm.



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