Bank On It.

Hamilton Bank
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EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

How to Make a Smart Business Acquisition

By Bob DeAlmeida
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In last month's "Bank On It" I shared some useful tips on how to position your business for acquisition. This month, I'm addressing the flip side: how to make a smart business acquisition.

Know Your Banker

The acquisition of another company can be a quick path to growth. But it can also be a slippery slope. As you prepare for acquisition make sure you have a solid relationship in place with your banker. Why? Because there's a good chance you will need additional capital, like a bank loan, to make the purchase. Knowing your banker ahead of time will help expedite the process of securing funding.

Get a Value on the Seller

You'll need an independent source to value the company you want to buy. That way, you and your lender will be sure you aren't overpaying for a company. Most banks will require a valuation anyway so it's best to engage a valuation company during the due diligence period of the purchase process. Valuation companies will have the models in place to accurately value the potential business and can efficiently and affordably offer you a more detailed second opinion on the value of the investment you are looking to make. It is also important to note that an outside company is required to value the business, not your current CPA.

Look for an Honest, Forthcoming Seller

A sincere seller will be willing to put together a complete financial history packet that includes at least three years of business tax returns or financial statements, including what the owner is paying him or herself. You will want to see three years or more of these documents to identify trends in the business. For example, maybe last year was especially profitable but the prior two years were not. Or maybe last year had larger net income than normal because they began to sell off major items, such as equipment or real estate.

Your banker will also want to see the seller's intellectual property filings, nondisclosure agreements, a list of liabilities and assets, and any other documents that would help to create a full financial picture. Your banker can help you identify red flags as they review and analyze the seller's records.

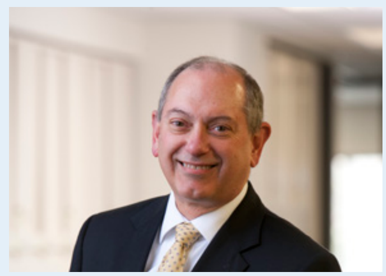
Develop a Business Acquisition Plan

A banker will also want documentation from you. For example, the contract for purchase along with a business plan that includes the incorporation of the new business. You may be focused on the fact that your business is doubling in size, but your bank is focused on the size of your new debt and the overall profit you will gain from purchasing this other business. The plan will most likely encompass at least three years and need to cover any other enhancements or efficiencies you foresee in the near future.

Make Time for a Thorough Examination

Allow yourself a due diligence period of at least 45 days to six months to have the seller's documents and your documents reviewed by your bank, your lawyer and your accountant. If this core group of advisors is comprised of true professionals who are experts in their fields, the investigations they perform will help ensure a successful acquisition. Remember, at the first thought of buying another company, talk to your banker. Your bank can help ease the process and offer you additional protection through the advice they can provide. For you, this may be a once in a lifetime opportunity, but for a bank this is what they help businesses do every day.

ABOUT BOB DEALMEIDA



Bob DeAlmeida is president and CEO of Hamilton Bank, which operates five Maryland locations and meets the complete banking needs of small businesses, retailers, consumers, and homeowners across Greater Baltimore.

MORE INFORMATION

Connect with a small business banker at Hamilton Bank.

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