

Kismet Business Brokers  
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kismetrei@earthlink.net  
www.kismetgroup.com



*Welcome*

## Welcome to Kismet Business Brokers!

WE ARE VERY HAPPY TO BE WORKING WITH  
YOU. ENCLOSED IS SOME BASIC INFORMATION  
ON THE SUBJECT OF SELLING A BUSINESS.

WE HOPE YOU FIND THIS INFORMATION  
USEFUL.



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## Business Brokering - An Overview

*Being in business for over 30 years, Kismet has an extensive database of both buyers and sellers. This database is always being improved and extended.*

The buying and selling of businesses is an involved subject.

Simply stated, we are talking about connecting up buyers and sellers for the mutual benefit of both. The essential points of business brokering are:

1. The number of communication lines (prospects) one has and can use to connect up buyers and sellers
2. Pricing a business correctly to sell, which is based on how skilled one is in establishing the actual value of a business and
3. The ability to keep the parties negotiating until a common ground can be found.

The President of the company has been a negotiator for 30 years and has successfully kept buyers and sellers together in thousands of deals.

We are also very knowledgeable in determining the value of any business quite rapidly, and at no charge to the parties.

So, if you are interested in buying or selling a manufacturing business, service business, paint & body shop, fast food restaurant or any other type of business, we can help you.

*We have connections in just about every industry sector and as such are in a very unique position to arrange to buy or sell a business for you.*



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## Valuing Your Business

*A business with high profits would have a higher price multiple applied to it. A business with low profits would be assigned a lower price multiple.*

There are many different ways to work out the value of a business. For the small to mid-size business, there are 3 main approaches that are used more than others. These are the Income value, Market value and the Asset value.

In brief, these would be described as follows:

**Valuation based on income:** Here one is looking at the potential earning power of the business into the future. Past earnings, expected future growth, owner compensation adjustments, and specific risk factors, such as customer concentration, weak management and lack of diversification are all taken into account when income based valuations are used.

**Market Valuation:** This method of valuing a business is similar to the way one values a house when selling it. What is being looked at here is what the market will pay for the business in question. Basically, one collects information on the sale of comparable businesses within the industry that the business is in.

In both Income valuations and Market valuations, we will find a price multiple. This is usually price divided by gross sales and price divided by earnings. The applicable price multiple is selected primarily on the profitability of the business. For example, a business with high profits would have a higher price multiple applied to it.

A business with low profits would be assigned a lower price multiple. When using this approach, one gets a more accurate result when one uses a minimum of about a dozen comparables.

**Asset valuation:** This valuation procedure assumes that a business is worth the fair market value of its tangible (physical) assets plus its intangible assets. Then from these total assets, liabilities or debts are deducted. To value a business that has intangibles, several methods are used. The method that is most employed in this area is the 5-step excess earning calculation. That calculation deals with tangible assets, intangible assets, liabilities and adjustments thereof, to arrive at an estimated value for the business. It figures out what the reasonable return is on the assets of the business should be. If the profit is greater, then the business has some intangible assets that are making the excess profit.

If the company in question is not making a lot of money, then there will be no intangible. In this situation, the asset valuation method is usually used when a business has capital tied up in equipment and other tangible assets and the other valuation methods come up with a price below the actual asset value, without any good will. A seller wants to get at least what the equipment is worth; so then this method is used.

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*There are many different ways to work out the value of a business.*



## Selling Your Business - What's Involved

*Over 70% of all business owners who try to sell their business in California, fail to do so.*

There is a statistic with regard to selling businesses in California that is well worth knowing. Over 70% of all business owners who try to sell their business in California, fail to do so. Why is this? The various aspects as to why businesses do not sell should be of interest.

First and foremost, lack of preparation and an unrealistic selling price have been cited as the main reasons for this failure. Valuing a business correctly tends to resolve the unrealistic selling price problem. But, what about the preparation points?

Lets discuss the various factors that can help you get fully prepared when selling your business.

**The decision to sell:** People decide to sell their businesses for many different reasons. My experience shows that the main reason is because of a failed goal or purpose, of some sort. The seller feels that he or she has not been making it or their original goal has not been achieved. Another truly legitimate reason is a business owners health is getting poor or that it is just time to retire, and play golf or travel.

Whatever your reason, it is important to identify exactly what the reason is that you want to sell your business. You can be totally honest with yourself and others on this point. The reason you might be selling your business does not adversely affect the selling price, but it may help the marketing for the agent and make the final negotiations go easier.

**How to sell it:** The next part of being prepared, is to make the decision to "sell it yourself," or use a business broker. The main advantage in selling the business yourself is that you save on the commission. Brokers, usually charge 10% of the sales price for businesses priced at less than \$1 Million Dollars. If you do the marketing yourself, you would have to cover all cost of advertising the business and take all the time necessary to talk to every inquiry.

The advantages in using a broker are many. Brokers have established line that allows them to offer your business to lots of people, in a short period of time.

They know the market and are well versed in all the potential pitfalls involved in selling a business. They handle all costs associated with marketing and packaging the business and they are only paid if and when the business sells. So, you need to decide, are you going to sell it yourself or use a competent broker?

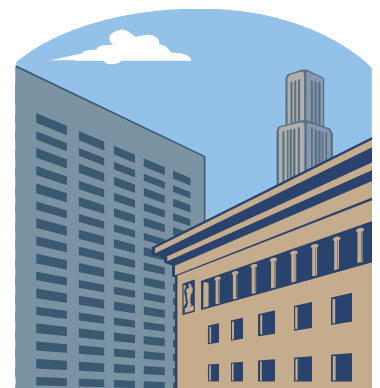
**Who you should not try selling it to:** When people think about selling their business, they often think of selling it to their competitors or employees. This is actually not a good idea. A competitor's value of your business is based entirely on advantages they would be achieving, if you were not in business and therefore not hindering the expansion of their business. They look at what the net effect would be if they owned your resources (clients, territories, inventories, etc.)

Also, competitors historically are only willing to buy a similar business, for way below the retail price that an outsider would value your business.

continued over...

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## Selling Your Business - What's Involved... (Cont)

*When employees know that a business is for sale, they usually start looking around for a new employer.*

This is because the insider knows the headaches of your business and discounts the price because of them. Also many competitors will appear to be interested in buying your business, as a way to find out trade secrets. Many times they really have no interest in buying at all.

Your employees, when buying a business, like the idea of all the perks of ownership, but in truth, they do not like the responsibilities and potential liabilities that come with ownership. When employees know that a business is for sale, they usually start looking around for a new employer. So, when selling your business, it is not a good idea to go to your competitors and / or employees, as a starting point.

### **Things that will help with the sale:**

A part of being prepared is to have good records available and complete. This will make it much easier to get started on selling the business and to close a deal quicker. Try to put together the following before you start;

3 years of profit and loss statements for the business

The most recent twelve to eighteen months of sales – listed by month

List of all equipment, with estimated market value as used equipment in place, not at fire sale prices.

Current list of inventories – if any

Copies of any property lease, equipment leases and other business related documents, such as current health department certificate as in the case of a restaurant, or OSHA spray booth permit.

List of all perks you personally get out of the business (these, added back into the financial reports, increase the profit figures for the business, thereby making the business more valuable).

A brief description of the business; what it does; the area it covers and the future expansion possibilities.

**Negotiation and flexibility:** One of the reasons some brokers are worth their weight in gold, is because they are very good at negotiation and know how to be flexible. They keep the deal going and work to get the business sold. You should be prepared to be flexible in selling your business, also. Do not for example insist on 'all-cash for the business and nothing else'. This sort of inflexible approach will usually kill a deal before it gets started. Also, let your broker do his or her job; do not discuss price and terms with prospective buyers directly. Let your broker know what points you are willing to negotiate and which you are not, in advance of getting offers. This will help to get more offers.

Most of all you want to do everything you can to make sure a deal to sell your business is concluded as quickly as possible. There is a maxim in selling a business. The more time that passes, the harder it is to sell a business, and the easier it is for a business deal to fall apart. So, do what you can to expedite the sale of your business and work with your broker.

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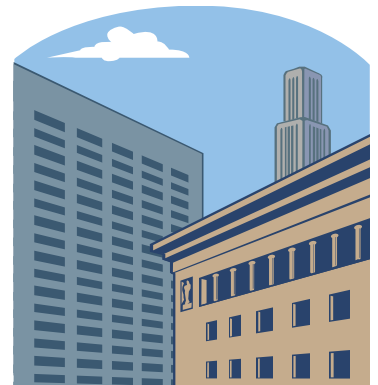
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## Financing A Business

*The financing of a business is a relatively straightforward process, if you are aware of what lenders are looking for*

The financing of a business is a relatively straightforward process, if you are aware of what lenders are looking for and generally what they will and will not do. They will be looking at your credit, your experience and the sort of down payment you have and information about what sort of note the seller is willing to take back when selling you the business.

As has been stated, the down payment on a business can be anywhere from 25% to 100% of the selling price. Lenders will not lend you this down payment money on the business itself. You will usually need to get this money from other sources, such as your personal savings, a family member, a retirement plan or other.

Your credit should be sorted out well before you start on buying a business. You want to handle any negative reports on your credit fully. You do not want anything that is negative showing up when a lender is checking your qualifications. Negative credit reports make them nervous.

Once you decide on the business you want, a business plan on the business is essential before approaching a lender. They will want to see that you have some familiarity with the industry of the business and that you have some sort of management experience.

Information on the availability of management and executives in the business that is going to stay after you buy it and so on should be included in this business plan.

Also information on the training that the seller is committing to pass on with the sales of the business should be in this business plan.

If you handle these basics really well, it should be a relatively easy process to getting qualified for the funds to finance a business.

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## Closing Escrow On A Business

*In today's parlance, the word (ESCROW) describes the process whereby a property is deposited with a third party to be transferred to the grantee (buyer), when certain conditions are met.*

The final part of the whole deal is the escrow. The word is an old Anglo-French word which originally meant 'piece of parchment or fabric'. In today's parlance, the word describes the process whereby a property is deposited with a third party to be transferred to the grantee (buyer), when certain conditions are met.

There is a lot of paperwork involved in buying and selling a business. It can be a daunting task, just from the paperwork alone. It can also be very stressful. An escrow officer specializes in handling these things and ensures that the buyer gets everything he or she is buying, with no hidden debts on the business and that the seller gets their money.

The things to know about escrow procedures with regard to a business is that it differs from a real estate escrow in the following areas:

Date specified in escrow instructions for a business is 'on or after' the specified date. In real estate, the term used is 'on or before'.

When the seller is paying all or a part of the escrow fee, a deposit from the seller is required as well as the buyer's deposit. Usually the costs are split, but it is whatever the parties agree to.

If the sale in any way includes a liquor license, then all the money, including what is being paid for the liquor inventory must go through escrow. Also, no funds can be released before the escrow is closed.

Finally, Instructions must be written and signed by all parties along with all initial deposits before the notice of sale can be published. When the notice of sale has been published and recorded, there is a 12-day minimum period, which does not include holidays and weekends, in which, any creditors of the seller can file claims with the escrow company. If the business being sold includes the transfer of a liquor license, then the time is extended.

*Usually the costs are split, but it is whatever the parties agree to.*

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# About The Broker

## Willard Michilin Bio

### PROFESSIONAL EXPERIENCE

KISMET REAL ESTATE INVESTMENTS, INC.,  
KISMET MORTGAGE CO., KISMET BUSINESS  
BROKERS, KISMET REAL ESTATE PROPERTY  
MANAGEMENT

1975 to Present:

Responsible Real Estate Broker for firm  
Real Estate and Financial Distress Consultant  
Broker on the sale of over 150 single-family residences  
Broker on the sale over 20 apartment buildings.  
Property Management of Client Owned and Company  
owned Apt & Houses  
Investor in over 200 conventional and foreclosure  
properties.  
Handled properties, which ranged from \$50,000 to  
\$2,500,000.

Originated and marketed Second Trust Deeds  
Commercial Real Estate Brokerage  
Brokerage of Small and Medium Businesses  
Business Brokerage of over 25 Auto Body Shops

GENERAL PACIFIC PROPERTIES AND FINANCE  
2002 to Present

Responsible Broker for Downey, Santa Barbara and  
Ventura real estate offices

TOTAL MARKETING SOLUTIONS  
2002 to Present

Chairman of the Board and Founder

CHOOSE YOUR PEOPLE SERVICE  
2002 to Present

Chairman of the Board and Founder

### OTHER RELATED EXPERIENCE

Builder/Developer - Houses, Condominiums, and  
Apartment Buildings 1977-1987

### PUBLIC SPEAKING AND PUBLICATIONS

Real Estate Talk Show Host, KMNY, 1988, Weekly  
one hour show.

Real Estate Panel Guest on Mid Morning LA.  
Multiple Cable TV Show appearances. On subject of  
real estate

Candidate for 43rd State Assembly District 1993, 1994,  
1996

Candidate for 37th State Assembly District- 2000  
Business Lectures with over 30 public appearances  
Junior Achievement Lecturer to High School Classes  
with over 20 lectures

Paid Seminars on "Sales" delivered to Automotive  
Shops, Paul's Golden Hammer,  
Expo Auto Body,  
Professional Sales Trainer  
Articles for the Body Shop News

### PROFESSIONAL ASSOCIATIONS

Building Industry Association of Southern California,  
Local Chapter President, 1980-81  
Mortgage Brokers Association of California. 1983  
Toastmasters International- Local Chapter President  
1995, putting it in 11th place in the World.  
National Association of Realtors  
California Association of Realtors  
Professional Consultants Association  
California Avocado Society  
California Certified Organic Farmers-Local Chapter VP  
2000-03  
California Association of Business Brokers

### EDUCATIONAL DEGREES

California Licensed Real Estate Broker #00532830  
BA, Business Administration, California State University,  
Los Angeles.  
Graduate Work, University of Southern California.  
Passed Certified Public Accountant Exam.  
Degree in Business Consulting from Hubbard Collage of  
Administration

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