

Why the Delta Solution is NOT “too good to be true”

When business owners and potential buyers learn how the Delta Solution is rewriting the rules for business selling, giving them an opportunity to sell their businesses more quickly, with fewer hassles, while creating a lifetime stream of income, they are usually skeptical.

After all, most of us have come to believe the old chestnut, “If it seems too good to be true, it probably is.”

The idea that one company has workable, proven solutions for **all** of the problems plaguing the sale of a business causes some buyers and sellers to become a bit skeptical.

I can understand that. After all, I’ve gone on and on about how the Delta Solution solves all of an *owner’s* concerns when *selling* a business. That’s true enough, but there are also lots of problems for a potential buyer. How does Delta address issues that buyers have that often result in “sale fail?”

Let me give you a snapshot of a few of the top issues facing those who want to buy successful businesses.

The growth cycle for businesses mirrors the growth cycle for people. They’re born, they grow quickly, hit adolescence (which is a pretty funky time), and then reach young adulthood where they can usually take care of themselves without someone watching them every second of the day. Young adulthood is followed by middle-age, where everything starts firing on all cylinders. Businesses have similar experiences in this “prime” period.

Then, something strange happens. People experience a “mid-life crisis,” a time when life seems to be an endless treadmill where one neither advances nor retreats and where longings are difficult to define and nearly impossible to satisfy. In business, this

period of angst-filled transition is called “*No Man’s Land*”. It is a place where boulders can roll down on both sellers and buyers.

Let’s take a look at some of the more obvious barriers to a successful sale and see exactly why the Delta Solution is the best, indeed the only, way to overcome them.



1. Falling into the “Capital Gap”

The capital markets are interesting creatures. I’ve been operating in the capital markets for the better part of 25 years now and even won a ***National Champion of Fundraising*** title. I can tell you unequivocally that capital likes what it likes, and hates what it hates. By that I mean deals have to meet certain criteria to attract particular types of financing, and if they do, there are usually many sources. But the ones that don’t meet all of these certain criteria usually can’t attract a single source of capital.

This makes financing for businesses (the life blood of a selling a business) in the “Capital Gap” a tricky proposition.

There are three general categories of businesses: small, medium, and large. Small businesses get financed mainly by commercial banks that view business loans as individual loans and qualify the business owner based on personal criteria. These banks can make some loans, but only up to certain limits—no more than the borrower can personally repay. Those are critical words...“personally repay”. For most banks, there is a limit of \$500,000 for bank loans, and this constitutes the “floor” of the capital “gap”.¹

For large businesses, the opening financing amount for capital tends to be about \$5 million (the “ceiling”). Institutions interested in financing these kinds of business deals are mainly commercial banks (the commercial division), venture capital companies, corporate financing arms, and private equity companies.

The problem for these institutions is that loan acquisition and servicing costs combined with risk-adjusted returns to the investors prevent these institutions from profitably making loans at anything less than a 25% rate of return (interest rate). Obviously, this is a non-starter for businesses as these usurious costs of capital would put the enterprise into a chokehold.²

“So what does this mean, Heath?” you may be asking. Well, what I am about to tell you is the sad truth for mature small and medium businesses who are stuck between the floor and the ceiling.

There is simply no capital for your deal. Zilch, zip, nada...

It’s a sobering reality, and it underscores **the number one problem for business buyers**.

It is a big problem too, because the logical extension of this reality is that not having capital for buyers also means that there is no capital for sellers either. Both buyer and seller are in a world of pain due to this fact. The Delta Solution addresses this lack of capital in a real way by eliminating the middlemen (banks, brokers, finance companies) who drain the capital well dry.

¹ No Man’s Land, by Doug Tatum, Ch. 5 pp. 125-126.

² No Man’s Land, by Doug Tatum, Ch. 5 pp. 126.



2. You can't structure a deal to make sense

Even with an “all cash” deal structure on a \$1 MM cash flow acquisition (which NEVER happens by the way), a seller would get, say, \$3 MM in cash up front and pay at least half of that to brokers, lawyers, accountants, lenders and tax authorities leaving them with about 1.5 MM (if they're lucky).

Only if a seller is then also very good at investing and minimizing broker/transaction fees on the investment they then buy, they *might* be able to net \$150 K per year (10%), which is then taxable and subject to inflation. Going from \$1million in income a year to

\$150,000 is a big hit. I'm fine with downsizing, but I don't think anyone wants to downsize that much!

Even if a seller took back a 5-year seller note at a market rate of interest, they would get approximately \$360 K for the first five years, but the tax authorities would take out taxes on the capital gains and income taxes on the interest, leaving a seller with "skin and bones". Oh, and did I mention it was only a 5-year note? The checks stop coming at that point and the asset column becomes bone dry.

Conversely, out of a buyer's 1 million in cash flow comes the \$360 K in debt service to the seller and approximately \$600K to the bank, leaving a paltry \$40 K net for the first five years for a buyer to put in his pocket— no joy for any professional business buyer, particularly given the risks involved. In this instance only the broker, the banker and the taxman make any money on the deal. Delta eliminates this situation by cutting out the middle men altogether. After all, why should the broker, the banker, and the tax man get all of the profit from your hard earned efforts?

3. A buyer has to make personal guarantees to a bank or other lender.

Another issue buyers must deal with is that they have to make personal guarantees to banks and other lenders.

Such guarantees provide zero benefit to sellers. Any astute buyer will structure their finances in such a way that a deal going bad won't sink them.

Bankruptcy protection ensures that sellers won't get paid out of a personal guarantee. Banks know this but use it as a limitation on loans, and will often only loan to wealthy people with exposed assets.

This really puts the buyer at risk **for 200% of the guarantee**—100% from the business plus another 100% from additional assets at risk. Delta's response to this untenable situation is **to collateralize its guarantee**.

By doing this, we minimize the risk of default for the seller and ensure that the assets pledged aren't protected via the bankruptcy statutes, as they would be with a personal guarantee. This makes it real and ensures that it won't take lawyers to get recourse if a deal goes sideways.



At Delta Business Services, we knew we had to fix the financing issues for buyers and sellers in order to solve a big problem in the market place. With Delta, the financing is built right into the deal, which greatly streamlines the entire process for both buyer and seller.

The reason we're willing to do this is simple: it is a great deal **for us** as well as for the seller. Our unique proprietary selling platform allows both buyer and seller to avoid the hassles and stress of the sale and achieve their mutual goals.

And now you see how the Delta Solution is not “too good to be true”. It’s a real solution to real problems.

Thanks for reading and learning. See you soon!

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