SN VALUATION
SN CAPITAL SN CONSULTING SN ENGLISH

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SN Capital: Small Business Acquisition Series

We are in the valuation business for this sole purpose – to acquire a portfolio of small businesses. Real estate, bonds and equities boils down to cash flow and asset value. The base is the assets. As long as the cash flows are positive, the floor price for a business will be the liquidation value of the assets minus outstanding liabilities. The growth piece is the cash flow generated from the use of the assets and employees. The same goes for the value of a company – the entity as a whole is valued through EV and it is then allocated first to bonds then the residual is owned by equity holders. The same goes for a real estate property – the floor price is the value of the land and the cost of constructing the building. Should the value exceed the outstanding amount of the mortgage, then the residual is owned by the owners.

Small business acquisition requires the proper valuation of both 1) real estate and 2) the business. For example, a car wash requires the valuation of the 1) land and building and 2) the business – equipment and cash flow. In order to properly value the mentioned assets, a number of important items need to be assessed and due diligence executed.

- Leases
- Licenses
- Market
- Competition
- Labor laws
- Tax

The most important consideration is the required involvement by the owner, in order to run the business. If the net profit is $50,000, but the owner is required to work during the weekday, then the owner must forego working a day job and make the business the primary source of income. The risk/benefit of owning the business is probably the most important consideration. This is probably why real estate investment is popular, since it requires relatively less attention to realize a similar cash flow. If I could purchase a property for $500,000 and receive $50,000 in rent, then I would rather purchase a home than buy a car wash for $500,000 and work there 60 hours a week to generate the same $50,000. Or better than the real estate might be fixed income products which distribute interest monthly.

Yet, businesses have much more potential for growth, i.e. franchising, growing revenues by 50% annually. So our view right now is business acquisition should be done only if there is potential for growth, a catalyst for growth and a proven business model and clients. Coin laundry, video store, etc, have consistent cash flow, but growth is not available. The invested capital could receive similar cash flow with fixed income or real estate investments.