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Retirement funds boost small-firm acquisitions

John Seelmeyer, 8/22/2011

Would-be entrepreneurs who want to boost the earnings in their retirement funds increasingly look to buy small businesses to include in their portfolios.

But the good-performing businesses that are available for purchase sometimes are difficult to find these days, say business brokers in northern Nevada.

The brokers who match buyers and sellers of small businesses saw a sharp upturn in activity at the end of 2010 after a months-long drought during which their phones seldom rang.

Bradley Bottoset, owner and broker of The Liberty Group of Nevada LLC, says 2011 is on track to be the strongest year since 2008 for the Reno-based business brokerage.

Katrina Loftin-Winkel, managing director of BTI Mergers and Acquisitions in Reno and Sacramento, says activity at the two offices has doubled in the past year.

A growing number of the potential buyers are folks who want to diversify the assets in their 401(k) plans, says Dennis Grundy, the regional developer in Reno for Murphy Business & Financial Corp.

Acquisition of a small business generally carries too much risk for small retirement accounts, Grundy says, but often makes sense for the owner of a large account who wants better returns than those available from more conservative investments.

Also helping to buoy the market for small businesses, Loftin-Winkel says, is the creation of several private equity groups that are scouting the region for acquisitions.

"They think we've hit bottom," she says.

Bottoset says the pool of potential buyers also includes a significant number of experienced businesspeople who lost their jobs during the recession.

"They're replacing their income," he says. Potential buyers often are seeing a better quality of small businesses for sale.

"The strong have survived," Bottoset says. "The good businesses are making money again."

That doesn't mean, however, that sellers always will be happy with the prices they're getting.

"The values of businesses have declined dramatically," says Murphy.

And owners who see signs of an upturn in sales from an economic recovery aren't likely to have much luck turning their optimism into cash from a buyer.

"Potential has no value," Murphy says.

Buyers may decide to keep a recovering business off the market until its earnings history justifies a higher selling price. And some owners may decide to keep operating a business simply because they don't know what else they would do with their time and money, brokers say.

Either way, the inventory of small businesses for sale in the region shrinks. The biggest issue that stymies would-be purchasers of small businesses is the lack of available capital.

Five years ago, rising home values provided a large pool of equity that could be tapped for a business acquisition, says Murphy.

"But when home equity went away, the buyers went away," he says.

The number of banks making Small Business Administration loans in Nevada has declined during the recession, but Loftin-Winkel says BTI is seeing signs that banks are more interested in lending for buyers who bring industry-specific management experience to an acquisition.

"Banks are definitely lending," she says. "It is getting better."

Almost always, sellers need to carry back some financing — at least 10 percent of the price — to close a deal, Loftin-Winkel says.

The types of businesses in demand from buyers varies widely.

"Manufacturers always have been hot for us," says Loftin-Winkel. She says BTI also has seen resurgent interest from potential buyers of retail businesses.

Murphy, meanwhile, says businesses in demand include automotive repair shops and health-related businesses, especially those that serve an aging population.

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