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## Glossary of Terms

### **Annual Sales – Total Revenues (AS)**

Annual Sales is all income the business received before any cost-of-goods or expenses have been deducted; normally this is the sales amount before sales tax has been added.

### **Asking Price**

The Seller's Asking Price for the Business. This is not to be confused with Sale Price.

### **Asset Sale**

The sale of a business under the caption "Asset Sale F/F/E" is for a business that the Seller has put on the market whereas they cannot prove profits, or there is no profit, or it is break even. The Seller cannot always prove the profits of many businesses that are cash driven. Many of these offerings can be excellent values for a Buyer with the vision to change or turn around a business. Many times the Asset Sale F/F/E price of the business is substantially less than if you were to go and buy the fixtures and equipment, do the build-out, and start from scratch. You will also enjoy some good ongoing sales from the previous owner. There is no book and record review in an Asset Sale.

### **Common Area & Maintenance (CAM)**

Additional Lease Fee often added on top of base rent. This fee is usually for the maintenance of the common areas shared by a multi-tenant property.

### **Days on Market**

Actual Number of Days on the Market before the business was sold or taken off the market.

### **Due Diligence – Books & Records Review**

The most critical part of the sales process of a business being sold is the Due Diligence Period. This is the time when a Buyer gets to review the details of the business, have their questions answered, and verify the Seller's claims. It is the current business owner's responsibility to prove claims used to solicit Offers for the Business. Due

Diligence begins with the first Buyer contact and continues until the Opening of Escrow. The majority of the Due Diligence is usually done after an agreed upon price and terms have been established between the Buyer and Seller. It is the Seller's responsibility to provide the documentation to prove sales and profits, and it is the Buyer's responsibility to perform Due Diligence to their satisfaction.

### **Furniture, Fixtures & Equipment (FF&E)**

All Furniture, Fixtures and Equipment that will remain with the business; this may include a POS System, decor elements of a showroom, Kitchen Equipment, computers and office machines, display cases, Tables & Prep Station, Alarm & Surveillance System, etc. FF&E value has relevance when valuing a business opportunity.

### **Franchise Fee**

Ongoing franchise expense paid by franchisees to the franchisor; usually a percentage of sales.

### **Goodwill Sale**

The sale of a business showing sales and profit is considered to be a Goodwill Sale. The fixtures and equipment are included in the sale unless otherwise specified. The sales and profit of the business must be proven to a Buyer through the review of the Seller's books and records during the Due Diligence period. It is the Seller's responsibility to provide the Buyer with documentation. If the business is not listed as an "Asset Sale" it is most likely a "Goodwill Sale."

### **Inventory (INVEN)**

Inventory Amount at the time of sale.

### **Market Value**

The amount of money a typical, well-informed, unrelated Buyer would be willing to pay for a Business.

## **Multiples**

A figure or measurement used to help establish the value of a Business Opportunity.

## **Ownership Type**

The type of legal entity that owns a business. Types of Ownership include: Sole Proprietorship, Limited Liability Company, S-Corporation, C-Corporation.

## **Owner Participation**

The Seller's current participation in the day to day operations of the business. Types of Owner Participation include: Owner-Operator, Semi-Absentee, and Absentee.

## **Payment Terms (Terms)**

Interest Rate and Terms of New or Assumed Loans/Encumbrances. Includes but not limited to: the Term of the Note, Interest Rates, Payment Structures & Expectations.

## **% Down (Percentage)**

Down Payment as a Percent of Sale Price. Relevant with Seller Notes.

## **Rent %**

Rent as a Percent of Sales. Annual Rent Paid as a Percent of Annual Sales.

## **Sale Price (SP)**

Actual Price Business Sold for. Not to be confused with Asking Price.

## **Seller's Discretionary Earnings (SDE)**

This is considered the most relevant figure in valuing a Small Business. This figure reduces the Buyer's speculation and reliance on projections and provides real numbers to use in Return On Investment analysis and confirm the business can cover their Income Requirements.

SDE = Net Profit before Taxes and any Compensation to the Owner plus Amortization, Depreciation, Interest, Other Non-cash expense and Non-business related expense, normally to One Working Owner (Owner Operator). The Discretionary Earnings figure is arrived at by recasting the profit and loss statements & balance sheets. This process adds back the expenses that are not necessary to carry on the business as well as one time expenses that are not anticipated to be incurred again.

## **Seller Note – Seller Financing**

This is when the Business Seller will take a Down Payment upfront then take the remainder of the balance at intervals over a period of time, like a traditional banking institution. The Terms of the note are negotiated as part of the Offer to Purchase. It is very common for the sale of a small business to include seller financing as part of the deal structure. Seller financing can oftentimes help a Buyer pay more for the business than the price that would be offered if the deal were financed only through traditional financing sources.