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BUSINESS NEWS ESSENTIAL TO BOSTON'S LEADERS.

By Don Seiffert | Special to the Journal

The business of buying and selling businesses has seen an uptick over the past last year, but is still hampered by low valuations, tight-fisted banks and cautious buyers.

Sales of businesses dropped dramatically in late 2008 as the economy tanked. At the high point in mid-2008, there were 2,098 businesses sold nationwide, according to data from BizBuySell.com. A year later, the number was cut in half. Business owners switched to survival mode rather than selling, and banks all but stopped lending money, said Mike Handelsman, group general manager for BizBuySell.com and BizQuest.com.

Now we're seeing "a slow recovery," he said. Nationally, 1,172 business changed hands in the first three months of this year, an increase of 2 percent over the same time last year. The median sale price of those businesses has seen a similarly modest increase in the same time — up 3.3 percent to \$155,000.

Locally, the market has risen even faster: While the median sale price in Boston, Cambridge and Quincy is the same as it is nationally — \$155,000 in the first quarter of this year — that's a 50 percent hike from last year. One explanation is that larger companies are on the market now: In early 2010, the average revenue of a business sold in the Boston area was \$338,000. A couple months ago, it was \$425,000.

Another reason could be that companies are asking for more: Median asking price went from \$160,000 to \$187,000 in the past year, while buyers eventually agreed to pay about 86 percent of that.

Handelsman said two out of three factors are in place for the upward trend to continue. Unemployment is still high, meaning there are a lot more people willing to start a business. And there are plenty of businesses that weathered the storm and are now looking to sell.

"But there's one missing ingredient," he said. "Capital."

That's led to some creative financing for the businesses being sold today, centered around the seller financing a significant chunk of the price to make sure they don't disappear and leave the new owner hanging.

"They want the seller to be motivated that you can succeed," said Handelsman. Today, he said, "It's almost impossible to sell without providing some of your own capital."

Brace Carpenter, a partner in investment bank Carpenter, Hawke & Co. and a managing director at the M&A firm Woodbridge Group, both in Boston,

says seller financing has always been common in small-business deals. But he's seen the same idea used more frequently in the midsize companies he deals with, with revenues of \$1 million to \$50 million. He's also seen more earn-out deals, where the seller gets a bonus a year or so down the road if the buyer meets certain benchmarks.

Carpenter says banks still don't want to take risks, but he's more optimistic than he was last fall about the market.

"We've seen a drastic change in the market over the last six to seven months," he said. "Before that, it was like our phones were shut off."

Dan Kajunski, partner in corporate practice at law firm Mintz Levin Cohn Ferris Glovsky and Popeo PC, says that seller financing and earn-outs are also getting more popular in deals in the \$50 million to \$500 million range. It's especially the case in the life sciences sector, where often the value of a company depends on whether it gets approval for a particular drug or product.

Other big shifts are that buyers are taking more time to research a seller's business before buying, which is making the deals take longer, he said. There's also been an increase in litigation, where shareholders sue the board of directors of a company that got sold because they think it should have been worth more.

Now as ever, for the very smallest businesses, many are for sale just because the owners want a change, said Marc Gudema with BayState Business Brokers in Boston. Gudema is the broker for a couple dozen listings now, and cites one software company that recently sold just because the owner decided he wanted to do something else with his life.

"A lot of these sellers are selling for lifestyle reasons, rather than they want to cash out and get a big pot of gold at the end of the rainbow," he said.



BUYER BE WARY

Caution, low valuations hamper business sales

Stephen Stabile went the franchise route when he opened Fitness Together in Massachusetts. For a look at the strategies adopted by Stabile and other business purchasers, see the profiles on pages 22-24.

W. MARC BERNSAU | BUSINESS JOURNAL

For trainer, franchising meant instant support

Steve Stabile was born to be a business owner. He grew up in a family of entrepreneurs, learning business skills as a kid working for his parents' ceramic supply company.

So it's no surprise that Stabile has become a serial entrepreneur himself.

He started his first business in 1990, just seven years after graduating from

Medford High School.

Stabile, who had been working for a regional phonebook publisher that went bankrupt, said he saw an opportunity in publishing phone books

tailored to single communities. He was right: He published 20,000 books his first year but published 2 million in 200 communities when he sold his share of the company in 2005.

After spending 2004 to 2006 as a small-scale developer, building homes in New Hampshire's Lakes Region, he decided to give another industry a try.

Stabile had been working out with a personal trainer when he decided to open a Fitness Together personal training studio under the Platinum Franchise Inc. umbrella. He asked his trainer to partner with him, figured he himself had the business background while his trainer has the fitness expertise.

The pair opened a studio in Reading in early 2006. They quickly expanded, opening one in Topsfield in 2006 and then one in Medford and one in Melrose in 2007.

They bought a Middleton location from another owner in 2008.

Stabile and his partner eventually sold four of them, keeping just the Middleton one. Stabile then bought his partner out and now owns that studio on his own.

With those successes under his belt, Stabile decided to try his hand at another, related franchise under the same corporate umbrella. He opened Elements Therapeutic Massage Studios in Middleton in early 2007 after the corporate company



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brought him to its Colorado headquarters to pitch him the idea.

Even though he was sold on the concept, Stabile acknowledged that this past entrepreneurial experience has made him more cautious.

"When you're younger and you're an entrepreneur, you think you've got years to live, years to be in business, so you do a lot more on blind trust," he said. "Now I won't do anything without having my attorney look at it. Now I'm much more likely to do more due diligence."

He said he also has learned that a successful business means hiring the right people — and letting the wrong ones go. And he said success needs "the right attitude, the right drive."

Experience counts, too. Stabile said his knowledge of marketing, sales, client relations and other executive functions has helped him build his various enterprises over the years. It also taught him the value of buying a franchise versus starting a company from scratch.

"If you get involved in a franchises system, then you're not alone," he said, explaining that a lot of the supporting work is already done for the individual owners. Still, he noted, to be successful "you need to execute the systems in place. You can't fight that. You can't have a I-know-better attitude."

— Mary K. Pratt

BUSINESS BUYER

Name: Steve Stabile
Business: Elements Therapeutic Massage

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