

Buyers - Complete Your Financial Statement and Make it Available

Many prospective business buyers express concern when a seller or business broker asks them to provide their personal financials. Personally, I've never understood this apprehension. There are a number of issues buyers note specifically as being worrisome, but the truth is their reasoning is based more on opinion than fact.

In my experience, those buyers that are unwilling to provide their financials are generally the ones who are either not serious about buying a business, they are often completely misinformed about the business-buying process, or they are simply not in any position to acquire the size businesses they are investigating.

There are two main buyer misconceptions that you need to understand so that you can gain comfort with this matter.

Myth # 1 - Disclosing the Buyer's Financials Will Reduce Their Bargaining Power

I've heard buyers claim that once they divulge their financials they will be at a disadvantage in any negotiation. The fear often cited is that the broker/seller will now know exactly how much money they have, and will then push harder to get hold of all of their cash in a down payment or force them to secure a loan with all of their assets.

While I do understand this assumption, in fact, the opposite holds true. A financially strong buyer will actually improve their negotiating position.

- The other side will recognize their ability to get the deal done.
- The buyer will immediately establish credibility by having achieved a certain level of net worth.

On the other hand, if you do not have the financial strength to execute a certain deal size, it will force you to adjust your thinking and focus your time on businesses that make sense for you. Here again, you will be in a better position when you provide them to parties for the reasons noted above.

Myth # 2 - The Seller/Broker Has No Reason To See a Buyer's Financials

To me, it simply shows good faith and honesty to be willing to provide your financial statement. After all, if you want to see the seller's books and records, shouldn't they be entitled to see yours? This is especially true if you want to negotiate any seller financing.

Further, throughout the transaction, the seller will provide you with infinitely more confidential information than your personal financial statement will disclose.

Now, I know all the skeptics are saying: "I signed a confidentiality agreement but they didn't". Good point, However, the seller/broker has absolutely no interest or reason to disclose your financials to any other parties. Additionally, even in a worse case scenario, let's say they did tell someone, what possible negative impact could it have on you? If you want added assurance, have the seller/broker sign a non-disclosure attesting to the fact that they will hold the information in confidence (your attorney can draft a simple agreement).

The Biggest Reasons to Complete a Personal Financial Statement

It blows my mind every time I ask a buyer "How much are you willing to invest personally to buy a business" and they reply: "I haven't really thought of it." Well guess what, if you haven't thought of it, you should put a complete halt on any additional looking, at start to think of it now.

First, it is critically important that you get a handle on your personal financial situation. Yes, it is true that there are some wonderfully creative ways to finance a business purchase regardless of your financial position, however, in smaller deals these generally play less of a role.

Second, if there is someone else who shares your financial picture (i.e. a spouse or partner), you need to have them completely on board so that when the time comes for you to write a check together, there won't be any surprises.

Third, and most importantly, by completing this simple task, you will put yourself in a much better position against other interested buyers on those businesses that you can afford to acquire.