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NJ small businesses expected to sell for less with more seller financing in 2012

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By **Stacy Jones/The Star-Ledger**
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Noah K. Murray/The Star-Ledger

Pierre Tanios has run G&P Lebanese Pastry with his wife for 30 years and he's sad to say that rather than sell it to someone else, he'll soon be closing the doors. His landlord has watched him struggle to stay open for the past three years and won't extend a lease to a new owner. Tanios never dreamed of walking away from his store when it was prosperous and now he doesn't have the option of passing on his legacy.

If you try to sell a small business the way you would sell a house, you're setting yourself up for disaster and heartache.

It's a different process entirely in which sellers face the prospect of becoming lenders and negotiations could hinge on a landlord's decision to rent to a new owner.

At Achim Neumann's Atlantic Highlands brokerage firm, A Neumann Associates, it's standard practice to have to educate business owners about how complicated cashing in on their company can be.

"They think they know what their business is worth," he said, "that's

probably the most significant area where business owners fail."

Facing the real value of a company that's come to define your life can be a tough pill to swallow, Neumann said, especially if recent profits paint a dreary picture for potential buyers.

But the people who take an honest look at their balance sheets and price their business accordingly can expect to hand over the keys in about a year, he said.

A Neumann Associations belongs to the Business Brokers Network, a group of 450 firms across the country.

"To tell you the truth, we could do a whole lot more if we had more businesses to sell," Neumann said. "It used to be that our network had about 1,000 sellers and 1,000 buyers at any given time, but that ratio has shifted in favor of the seller. There are now about three investors for every one business for sale."

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From a buyer's perspective, he said, businesses present a viable investment option that will likely produce more impressive returns than stocks, bonds or real estate.

Conditions are more favorable than they have been in the past few years, but data collected by BizBuySell.com, the largest online marketplace for business listings, suggests that buyers and seller are still recovering from the recession.

More owners have sold their business in the past year, said BizBuySell.com general manager Mike Handelsman, but they've had to accept less money than they would have a couple years ago and sometimes have to become the buyer's lender.

A pizzeria that generated an average profit of \$100,000 annually could have hypothetically been fairly priced and sold for about \$300,000 in 2008, he said. After two years of poor cash flow, say \$60,000 in 2009 and \$50,000 in 2010, a buyer could argue that based on an average of the last three years' profits the business is worth \$164,500 at best.

"The price someone wants to pay is a function of how much money that business makes in a year, the cash flow," Handelsman said. "During 2008 in New Jersey, people paid three times the cash flow. It fell to 2.6 in 2009 and 2.35 in 2010, then stayed there during 2011."

Based on information volunteered by 264 people who took down listings last year, either because they were giving up or had sold the business, the average owner made 88 percent of his or her asking price.

That puts them 4 percentage points below the 2007 high of 92 percent, but shows some improvement from 2009's low of 85 percent.

"You see the rate dip like that because sellers didn't adjust their expectations right away. They said, 'Oh it was worth \$300,000 last year, so my pizzeria is still worth the same amount of money,' but in reality it's not because of the decreased cash flow," said Handelsman.

More buyers, especially unemployed people making calculated investments out of necessity, have less cash to offer sellers because they've depleted savings, he said.

If a bank won't extend them a line of credit, they turn to the seller.

"It's more common now that a buyer will collect money from friends and family members and ask the seller to finance the rest," he said. "They'll pay half upfront and pay back the rest with interest."

That can be stressful for a seller who always planned on selling their business and retiring on the proceeds, said Handelsman. If the new owner fails, the former owner doesn't get paid.

Unfortunately, many owners don't have the forethought to set themselves up with a painless exit plan, he said.

Pierre Tanios's hindsight has never been sharper.

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On a weekday afternoon last week, only the soft hum of a reach-in refrigerator and fluorescent lights kept him company while he sat at a table in his small New Brunswick deli.

"If I sell \$10 worth of food after 2:30 in the afternoon," Tanios said, "that's a really good day."

G & P Lebanese Pastry & Fast Foods's customers, many of them attorneys who work in the Middlesex County Courthouse across the street, have been surprised to hear that his eatery isn't doing well.

He hasn't had the heart to tell many of them he's closing for good in a few months.

"I had someone who did want to buy this place. They offered my \$60,000 for it," Tanios said, "but the landlord doesn't want to lease it as a restaurant anymore."

It's impossible for Tanios to sell his business without the guarantee of a lease for the next owner. The past few years have been tough, but he'll miss it.

Thirty years ago he opened the restaurant with \$10,000 because he needed to provide for his wife, Maggy, and his son, George.

Now, he and his wife plan to move to Morgantown, W. Va., where they'll help their son pursue his own dream of opening Lebanese Bistro, a 250-seat restaurant overlooking the Monongahela River.

"He'll be in charge," he said, smiling. "Maybe I'll make the pastries for him."

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