



OWNERS WEEK

FROM THE EDITOR

Small Business Owners prefer to work their entire lives

BY JANCO DAMAS, OWNERS WEEK

Rather than plan for a second generation of ownership, Drinkwater and other small business owners are opting to extend their tenure by skipping retirement and opting to work through their 70's.

NEW TO MARKET



Manufacture counter tops for clients

BOSTON, MA

We known in the New England market, the company maintains an inventory of exotic stone with retail and installation.



Make Ice Cream for a Living

BOSTON, MA

Handchurned flavors with crushed treats like Heath bars and Oreos, the place quickly became a local phenomenon.



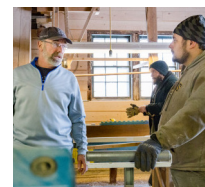
A.W. Leil Holdings Ltd., a crane rental business based in New Glasgow, Canada.

AROUND THE WEB

Maine Fears Unemployment When Entrepreneurial Boomers Retire

BY MEG HASKELL, BANGOR DAILY NEWS

In Maine, 22 percent of all workers are employed by companies with fewer than 20 workers. The Dyke Center for Family Business and the Institute for Family-Owned Business take action to stem mass defaults as baby boomers age.

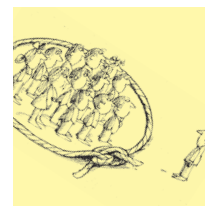


BUYER FINANCING

LBO

BY PATRICK CLARK, BLOOMBERG

Wall Street bankers have used the Leveraged Buyout as a means to acquire large companies with a relatively small amount of cash down and lots of debt. There are reasons why the LBO approach may and may not be appropriate for buying small businesses.

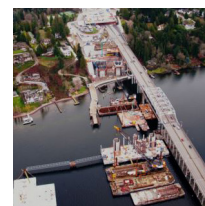


MARKETS

Uptick in EB5 visa applications to US from Indian businessmen

THE TIMES OF INDIA

The EB-5 program which stimulates foreign investment in U.S. companies is increasingly popular with foreign investors and is being encouraged by local government. The program allows foreign buyers to earn a green card by investing in or buying an American business.



WORKING LIFE

BY JANCO DAMAS IN BOSTON, MA

Rather than plan for a second generation of ownership, Drinkwater and other small business owners are opting to extend their tenure by skipping retirement and opting to work through their 70's.

1. Gift of the Wind is a large scale public kinetic sculpture in Porter Square, by Susumu Shingu

2. Porter Square: amazing photo by John Whittington



The men's fashion boutique Drinkwater's Cambridge in Porter Square is an artfully curated collection of garments that aren't just made but engineered, says Gary Drinkwater, who co-founded the company with his wife in 2004. The boutique continues to gain success by promoting their signature brand, partnerships with local manufacturers, and bespoke dress shirts. Currently in his 60's, Drinkwater has no plans to retire or sell his company.

Like many entrepreneurs who have spent their lives building up a brand, Mr. Drinkwater has everyday challenges that consume his time. Although he realizes an exit is inevitable, still, Drinkwater and other small business owners are extending their tenure by skipping retirement and opting to work through their 70's. For Gary Drinkwater, that means many more trips to Fall Hills Massachusetts where he manufactures coats and trousers that bear his name. His plans to remain involved will push back his eventual exit to an indefinite day when he is no longer physically able to turn the deadbolt lock which opens the store for business each morning, he says.

Other businesses throughout Boston have shuttered in recent years for lack of a succession plan. Louis, the store founded by Drinkwater's mentor Murray Pearlstein, closed down in 2015 after three generations of ownership spanned 85 years. Pearlstein took over the business from his father in 1950 and his daughter, Debi Greenberg, took over in 2003 when Pearlstein was in his 70's. Ten years later despite being profitable, Greenberg liquidated the business "to pursue other things" she said in an interview with Boston.com. For owners of small business with revenue less than \$1 million across the country, liquidation is the most common exit strategy according to the Bureau of Labor Statistics (BLS). The rate of business liquidation which counts only employer businesses that paid payroll taxes the previous year and does not

include companies that filed for bankruptcy is called the "Business Death Rate". The ominous term brings to light the growing rate at which many profitable small businesses are disappearing from the communities they serve. Business creation had outpaced business deaths by about 100,000 per year until 2008. Since 2009 however the number of business deaths has outpaced business creation by about 70,000. About 400,000 new businesses are born annually nationwide compared to 470,000 who liquidate over the same period, according to analysis of the BLS data by Gallup Polls.

Drinkwater, however, sees a different vision for his business. Looking out of his storefront on Massachusetts Ave, he points to harbingers that demand for the brand will continue to grow. A steady stream of traffic, local university students dressing better, while older professionals are sporting more casual attire in the





1. Gift of the Wind is a large scale public kinetic sculpture in Porter Square, by Susumu Shingu

2. Porter Square: amazing photo by John Whittington

and acquisitions, however they focus on companies with at least three million in annual sales. Any less than that, the existing owner is essentially offering a job not a saleable company. A saleable company, according to Mulvaney, has to demonstrate growth potential in the absence of the owner.

In the 12 years Drinkwater's Cambridge has been serving the community, other clothing retailers have come and gone. A customer post on the popular industry message board, StyleForum.net, calls Mr. Drinkwater's store a "Collector's Jewel". Several other posts and resoundingly positive review on the customer review site, Yelp.com, suggest that Mr. Drinkwater has indeed built a brand that would be missed by a significant number of people.

Among his regular clients is Harvard Business School Professor Lauren Cohen, who is also a nationally ranked powerlifter. Cohen prefers a custom made dress shirt suited to his unique body type. Professor Cohen once visited the store and assigned Drinkwater to come up with a succession plan. Drinkwater said he wants to find someone capable of bringing the brand forward. "Whether or not we grow to be a national brand, we absolutely can, but I'll leave that for the next person to decide". For now however, Mr. Drinkwater is dedicated to leading his company at least through his 70's. When he and Professor Cohen revisited the conversation, the Harvard Professor graded Drinkwater's succession plan a C+.



“A steady stream of traffic, local university students dressing better, while older professionals are sporting more casual attire ”

workplace. As changing styles reflect in the traffic outside his window, Drinkwater adjusts the selection in the store as well. The product mix in recent years has changed from 70% men's suits and 30% outdoors dress to a near 50/50 split. The store has also benefited from greater demand for American made apparel.

Drinkwater says customers are astonished when they learn many of his products are made in the USA. That astonishment has led to “thriving” conditions with his small business etching close to \$1 million in annual revenue.

Kevin Mulvaney, professor at Babson College, argues that those sales are largely dependent on the owner's ongoing participation and may not be transferable to a new generation of ownership. Mulvaney teaches the graduate course “Buying a Small Business.” He says businesses making less than \$1 million a year are unlikely to sell because the company's success is so closely linked to the owner. Mulvaney and his colleagues at Babson College have pioneered education on small business issues including mergers

BAKERY, BANGOR MAINE

FROM THE ARTICLE BY MEG HASKELL, BDN STAFF

The Soucy family bakery in Bangor, Maine faced the uncertainty of many small businesses with aging founders. City officials are growing concerned what widespread retirement of business owners will do to their local economy.



1. An employee at Frank's shows the selection. Photo: Linda Coan O'Kresik | BDN

BANGOR, Maine — Theresa Soucy was in her mid-30s when she started picking up occasional management duties at Frank's Bakery, the business her grandfather Frank Soucy founded in 1945, along with his two sons, Joseph — Theresa Soucy's father — and Frank Jr. During the mid-1980s, Soucy was a fixture at the bustling bakery, and her parents were spending more and more time at their second home in Florida. "It was becoming obvious it was time for my dad to retire," Soucy, one of five siblings, said in a recent interview. In 1989, her uncle sold his share of the business to his semi-retired brother, and Soucy, now 66, officially took over the management. When her father died the following year, she and her four siblings inherited the bakery.

Over time, under Soucy's watchful management, they have made many changes at what is now called Frank's Bake Shop & Custom Catering. They tripled the physical space, added an inviting sit-down cafe, boosted the retail selections, computerized some routine business operations and outsourced others, updated essential equipment and reconfigured the catering side to focus on smaller, more intimate functions.

These days, Soucy's sister Bernadette Gaspar oversees the bakery operations. Their brother Dick Soucy takes care of maintenance.

Two other siblings live out of state but remain engaged in business decisions. "We have a strong, strong business. Sometimes at night, I drive by the building and I ask myself, 'How in the hell did we accomplish this?'" Theresa Soucy said.

In Maine, 22 percent of all workers are employed by companies with fewer than 20 workers. Most are family owned businesses like Frank's Bake Shop & Custom Catering. And with the aging and impending retirement of their leaders, many of these family businesses face a major transition. According to the Maine office of the federal Small Business Administration, in 2014, there were an estimated 147,000 registered businesses in the Pine Tree State. About 142,200 of these were designated "small businesses" with 500 or fewer employees, accounting for about 60 percent of Maine's workforce. Larger companies typically develop formal business strategies that include succession planning. But experts say that among smaller family businesses — those with 50 or fewer employees — few have a fleshed-out plan for passing the torch when the present owners retire. The smaller the business, the less likely it is to have a succession plan.

"In Maine, 22 percent of all workers are employed by companies with fewer than 20 workers."

Whether a business transfers ownership to a new generation, an outsider, its own employees or some other entity — or even closes its doors — the exit process is unique to each situation. The common thread, Forster-Holt said, is that advance planning ensures a more successful outcome for all concerned — buyer, seller, owner, successor, employees, extended family members.

And for baby boomers contemplating retirement, the sooner that planning starts, the better.

"People don't really like to plan," said Catherine Fossett, executive director of the Institute for Family-Owned Business, a nonprofit organization headquartered in Brunswick. "It's hard for the current ownership to let go, and it's hard for the younger generation to step up." But a five- or 10-year plan allows the retiring leadership to get company and personal finances in order, build an effective management team and explore all viable options for succession, she said.





On using Leveraged Buyouts (LBO) financing to buy a small business

EDITED FROM THE ARTICLE BY JAMES MCNEILL STANCILL

The LBO, romanitized as the subject of blockbuster movies like “Wall Street” and revealed in the Best Selling book “Barbarians at the Gate” known for generating incredible wealth with using a relatively small amount of cash on hand. But could this same investment tool be applied to buying a small business.



A Leveraged Buyout (LBO) is the acquisition of a business using 60-80% borrowed money typically from a bank or other lender. After the business is acquired, cash generated from that business is used to pay off the amount borrowed to purchase it. The upside, a buyer can purchase all of the future cash streams of a business for a relatively small portion upfront. Whenever a buyer lacks the requisite cash and borrows part of the purchase price against the target company's assets (receivables, equipment, inventory, real estate) or cash flow (future cash), that's an LBO.

The math for such a transaction only works if the Cash Flow generated by the target company is enough to satisfy at least these uses: to service the senior debt, to service the junior-subordinated debt, and to pay the new owner. If this stream is so small that what's left over for the new owners salary is less than what's

necessary to live on, it's time to walk away.

If all this sounds straight forward so far, the trouble with this sort of financing for buying small businesses arises when the bank demands a substantial amount of assets to secure a loan. But, the very idea of a small business is usually synonymous with a business that has few assets relative to its larger neighbors. Most financing today continues to be asset based. While LBO's based on future cash flows have helped complete deals exceeding \$10 million, when it comes to businesses with under \$5 million in sales, lending based on future or projected cash flows remains a risky prospect for banks.

Whether cash-flow or asset-based, the first priority for an LBO buyer is to satisfy the lender's requirements for the deal. Among a host of other factors, lenders look at the relationship among assets, cash flow, and price. As in a good recipe, all of these must be in sync for the deal to work. The assets must be sufficient to protect the loan, the cash coming in must be enough to pay off the loan in regular installments, and the amount borrowed must be in line with both cash flow and assets.

Consider the case of a specialty printer that was for sale. It had two factors in sync but not the third. The company, doing about \$5 million in sales, had reported a high pretax profit in the last year of 22% of sales, or about \$1.25 million. The asking price was quite reasonable at \$5 million, four times pretax income. The problem was a lack of assets. Unlike larger printers, the company had equipment that was small, simple, and inexpensive. This made the company efficient, but a buyer borrowing against its assets (receivables, inventory, and equipment) could scarcely borrow \$2 million, leaving a huge gap of \$3 million. Clearly, this was not a doable asset-based LBO. The business finally sold through a variation of a cash-flow LBO with the buyer getting together a group and offering substantial collateral for the loan.

An LBO buyer can also leverage the value of existing accounts receivable and inventory. A bank might loan 70% to 80% of “eligible” receivables. Lenders using inventory to secure a loan look at the nature of the materials. Is the inventory made up of finished or unfinished-goods? Finished goods, for example, where customers expect a warranty are less valuable to the lender because it reduces the liquidity of funds. If the bank were to seize

LBO FINANCING CONTINUED

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LBO FINANCING CONTINUED

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the assets they could only be sold at a steep discount without the accompanying warranty from the manufacture. If, on the other hand, no warranty is involved, lenders may feel reasonably safe in lending up to 50% of the finished goods' value comfortable they can sell the asset for at least that.

Lenders are not likely to support a turnaround. For some individuals, a turnaround—described as a company that is currently losing money but with proper management will “surely” make money—is the ultimate challenge, one they can't refuse. And doubly enticing, turnarounds are usually priced “low.” But if you expect to do an LBO, you had better bypass turnaround situations.

Lenders will look to the current and past cash flows to assess ability to repay a loan, and if the company has a history of cash deficits, the bank will not lend. Banks don't loan on projections—especially rosy projections; they want to see a history of cash flow sufficient to pay back the loan with interest, and no amount of “yes, but.” rhetoric will change their minds.

Growth projections can also undermine a buyer's ability to complete an LBO. Since growth eats up working capital, going into a growth situation via an LBO is likely to cause cash flow problems. Once a lot of debt is jammed into the company's cash-flow stream, trying to finance significant growth internally may spread the cash too thin. If plans for the target company require lots of cash for growth, the buyer may need an interest-only loans that effectively reduces the monthly payment amount early on until the projected growth takes hold.

And finally—a “must” that ranks second to no other—find out why the company is for sale. Without a compelling reason to sell, an owner creates all sorts of problems for the buyer who wishes to do an LBO. First, the price may be unrealistic. “Well,” such owners say, “we thought we'd try it and see what happens.” Moreover, owners sometimes put up “for sale” signs just to test the market. Brokers will often solicit such hypothetical listings. In Los Angeles, hardly a day goes by without a call to the president of an attractive mid-sized company from a broker seeking a listing. Smaller companies however garner less attention from brokers and perspective buyers. Although the LBO model faces challenges in the case of buying a small business, the much greater number of profitable small businesses to larger ones suggests that there may be more opportunity abound, although more difficult to find.

PRICE FOR CITIZENSHIP

FROM THE ARTICLE BY MEG HASKELL, BDN STAFF

The EB5 requires a \$500,000 investment and creation of at least 10 new jobs. The program has stumbled in the past but continues to grow each year providing access to capital and liquidity for business owners.

CHENNAI, INDIA: Immigrant EB5 visas, for small business that create jobs in the US, have seen a spurt of interest in India with applications under this quota increasing 25% year over year. For the first 70 days of 2016, 130 EB5 visas have been granted by the US government for Indian businesses, while only 111 were granted for the whole of 2015, data with the US State Department said.

The immigrant visa, aimed at helping businessmen, fell afoul of authorities when Indian-born Anshoo Sethi convinced about 290 Chinese nationals to invest \$160 million in a non-existent hotel complex. Charges were brought against Sethi that he had defrauded investors and the US government through false statements and representations over his intention to build a convention center complex with hotels near O'Hare International Airport between January 2011 and February 2013. But despite such setbacks and negative press, law firms say that there is now a definite increase in interest in both countries for the issuance of visas in this category.

"I can certainly say EB5 will be the next big thing on the Indian business start-up scene. We've had clients from high-level fashion houses to sweet shops opting for the program. China every year has thousands of visas issued under this category. Even Vietnam that's much smaller in size has more EB5 visas issued than India," says lawyer Mark Davies.

In 2015, immigrants of Chinese origin had 8,156 EB5 visas issued compared to 111 visas for Indian businessmen wanting to set shop in the US. China tops the list with 83.5% of the market share, while India comes in fifth with just 1.1%. Vietnamese businessmen bagged 280 visas in 2015 for 2.9% of the market.

"EB5 immigrant investor program was created to pump in fresh funds into the American economy. It hopes to create stimulus with jobs and new capital from high-net worth foreign investors. The minimum requirement is that the applicant invest \$1 million in some commercial enterprise in the US and create at least 10 jobs for locals," says Abhinav Lohia an attorney at Davies & Associate, LLC, which specializes in immigrant policy.



“Anshoo Sethi convinced about 290 Chinese nationals to invest \$160 million in a non-existent hotel complex.”

1. Anshoo Sethi sells investors on a hotel and conference center near Chicago's O'Hare Airport.

2. Porter Square: amazing photo by John Whittington

For many Indians, the green card provides such an irresistible allure that they fail to read the fine print when it comes to the investment. "One has to be very sure as to the reason why one needs visa under a particular category. There are L1, B1 visas also available. In EB5 there is the catch of investing back into America - and with the amount being clearly specified," says lawyer A Sirajudeen.

While EB5 definitely gives the holder permanent resident status in the US, it also comes with the clause that one needs to invest \$1 million in a US enterprise or at least half a million if the project is to come up in a remote or targeted employment areas. "We've had many high net worth individuals in India looking at EB5 as a serious alternative. There has been a steady rise in applications. In 2011, there were only 37 visas under EB5 issued to Indians, the number rose from 38 in 2012 to 96 in 2014," says Mark Davies.

POPULAR INDUSTRY, SERVICING THE HOME FROM BASEMENT TO ROOFTOP

By Janco Dmas

In 2015 Boston had the largest number of per capita small businesses focused on home maintenance and repair.

APPLIANCE REPAIR BLUE HILL RADIO CO Offered by Broker XYZ

Asking \$280,000

Started by a father son team and one of only two appliance repair companies serving the Roxbury.

Sales 2015	\$447,000
Expenses	\$180,000
Cash Flow	\$90,680
Assets	\$45,000
Age in years	10
Employees	4



BASEMENT REMOD & CUSTOMIZATION Egleston, MA 02235

Asking \$310,000

Boston in recent years has seen a surge of basement renovations. The company enhances its business by participating in local design shows and producing an annual catalogue which it shares with area designers. Most clients are within Egleson and sorrounding communities. The company also has a long standing relationship with area appraisers that often refer busienss to them.

Sales 2015	\$430,000
Expenses	\$220,000
Cash Flow	\$100,000
Assets	\$65,000
Age in years	7
Employees	3

ACE COMMERCIAL CARPET INSTALL WITH CLIENT LIST Brookline, MA 02332

Asking \$300,000

Focusing exclusively on commercial clientts has had a number of benefits for Ace including repeat business schedule upto a year in advance. They opperate with only three full time staff and hire contract work.

Sales 2015	\$430,000
Expenses	\$220,000
Cash Flow	\$100,000
Assets	\$65,000
Age in years	7
Employees	3

MASTER ELECTRICIAN SHOP & FIX

Brighton, MA 02133v

Asking \$480,000

Electricians serving Greater Boston are required to be both licensed and bonded. The licensing process can take over a year. The laborious registration process is part of the local government's efforts to limitthe number of registered electricians. The regulatory environment virtually garuntees a steady stream of work for existing businesses. A new owner would have to be already a registered electrician, but the business license granted by the city is transferable to a new owner.

Sales 2015	\$347,000	—
Expenses	\$200,000	—
Cash Flow	\$100,680	—
Assets	\$75,000	—
Age in years	5	—
Employees	4	—



OLD TO NEW

BY DEBRA BELL, BANGOR DAILY NEWS

Steve and Nancy Holt bought 150 year-old Shaw and Tenney manufacturing business in 2003. To a product that was already seen as perfectly crafted, the new owners added a modern touch.

1. Gift of the Wind is a large scale public kinetic sculpture in Porter Square, by Susumu Shingu

2. Porter Square: amazing photo by John Whittington



Steve Holt and wife Nancy, are co-owners of Shaw & Tenney, a 150-year-old business in Orono that specializes in high-quality wooden paddles, oars and other classic boating accessories. Shaw & Tenney occupies a tiny niche in the paddle sports industry. Instead of mass-producing gear from an ever-evolving array of high-performance plastics the company uses traditional methods and has become renowned for their hand crafted quality. Alongside the Holt's are Brad Wright and seven coworkers who handcraft each of the roughly three thousand oars and paddles that leave the workshop each year. The company has continued to manufacture their products using much of the old methods put in place by its founders 154 years ago.

The Holts had been actively looking for a business to buy for several years

Founded in 1858 as the Orono Manufacturing Company they began producing high-quality wood products for Mainers during a time when wooden Ores were an irreplaceable part of commercial fishing. In the 1890s, a merger between owner Frank Tenney's Orono Manufacturing Company and a Boston-based business named the George Shaw Company created Shaw & Tenney and moved the business to Orono. In 1950, Shaw & Tenney stayed in Orono but moved to Water Street where the business stands today. Shaw bought out Tenney in 1970. Eight years later, it was purchased by Paul and Helen Reagan. Reagan, a boating enthusiast, built Shaw & Tenney's international reputation as a manufacturer of artisan wooden boating supplies and steered its focus away from a wholesale business model to direct-to-consumer sales. Steve Holt and Nancy Forster-Holt purchased the business in 2003. The Holts had been actively looking for a business to buy for several years when they bought Reagan's workshop in 2003. "It was a combination of being ready with our business skills and a midlife crisis — we wanted something that

at the end of the day is really ours," Nancy says. "Shaw & Tenney was a jewel that just needed to be dusted off and grown." Shaw & Tenney's sales have grown by more than 250 percent since the couple purchased the business, according to an interview with Down East Magazine.

To a product that was already regarded as perfectly made the Holt's brought new customers and branding. Laser-engraved memorabilia as trophies and keepsakes have become a significant revenue stream. Customers for the engraved paddles include the United States Marine Corps Force Reconnaissance companies, which present a Shaw & Tenney paddle, its blade etched with the creed of the reconnaissance marine, to every departing member. The Old Town Canoe Company, the venerable canoe and kayak manufacturer, awards Shaw and Tenney products to mark long tenures by employees. And L.L.Bean for its one hundredth anniversary commissioned Shaw & Tenney to make five hundred full-size paddles most of which will likely end up mounted on living room walls. And this past summer, Steve Holt fielded a call from some first-time customers who wanted to give an engraved paddle to their father for his birthday. The father? Paul McCartney, who joins Jimmy Buffett and Billy Joel in the unofficial brotherhood of famous musicians with Orono-made oars. Mrs. Holt brings the day-to-day lessons learned at Shaw & Tenney to teach in her entrepreneurship classes at Husson University. Her class includes a focus on what she calls "endpreneurship" — a phrase she coined to illustrate the importance of including succession planning in the earliest stages of business planning. For her own business, succession planning has been on the radar since Day One, even though she acknowledges there's no sure solution in place. "We agree that it is not in our best interest or in the company's best interest to run it until we drop," she said. The Holt's are already the fourth set of owners to take over the business.