

Welcome To Crossroad Transactions' 11th

*Getting the
Deal Done
Conference*



SPONSORED by



LiveOakBank.





2024 GETTING THE DEAL DONE CONFERENCE

CROSSROAD TRANSACTIONS
3815 RIVER CROSSING PKWY
INDIANAPOLIS, IN 46240-7315
CROSSROADTRANSACTIONS.COM

Today's Agenda

- 7:30-8:15 Buffet Breakfast and Networking
- 8:15-8:30 Introduction
 - Jeff Smith- **Opening Comments**
- 8:30-9:30 Panel Discussions
 - Anil Rao – **AI**
 - John Randall – **SBA and Lending Trends**
 - Dr. Toby Malichi – **International Trade**
- 9:30-9:45 Networking Break
- 9:45-11:00 Featured speaker, Dr. Matthew Will
 - 'The Election Economy'**

Crossroad Transactions

- 18 Years Serving Clients Locally and Nationally
- High-End Individuals and Strategic Acquisitions
- Specialty is Finding Business not Listed For Sale
- Assist Buyers from Beginning to End



Jeff Smith
Principal and Senior Advisor
Jeff@crossroadtransactions.com
317-402-5011



Todd Hacker
Senior Advisor
todd@crossroadtransactions.com
317-698-9077



Anil Rao
Senior Advisor
Anil@crossroadtransactions.com
317-590-3930

How is the Market?

- Largest # of people ever turned 65 this year – 4.1mm
- Most small businesses are owned by a Baby Boomer
- Interest Rates affect the ability to finance
- SBA is still the go to financing option for most buyers
- Fear, Uncertainty and Doubt (FUD Factor) in economy
- We had a good year last year and have 5 LOIs in place now
- Growth Through Acquisition is our fastest growth market
- Many unqualified buyers scare sellers

Who are the Micro/Lower Middle Market Buyers

- Transaction Value \$1-7 Million
- Search Funders -3,500 New MBAs
 - Self Funded –Family & Friends using SBA
 - Funded – Investors with No Committed Funds
- Individual Buyers
 - Executive C-Level
 - Former Business Owner
- Growth Through Acquisition
 - Related Business
 - New Geography
- Family Office & Small PE
 - Need Existing Strong Management Team

Buyer Criteria

Everyone wants the perfect business at a discounted price. They all have warts; you just have to make sure it's not malignment cancer and you have to pay a fair price.

Desirable Attributes

- Solid Business
- Steady Earnings
- Bankable Price
- Clean Financial Statements
- Seller with Motivating Factor
- Repeatable Business
- Niche Oriented
- Growth Opportunities

Avoid

- Customer or Supplier Concentration
- Turn-Arounds
- Owner Dependent / Limited Management
- High Capital Expenditures
- Life-Style Businesses

Anil Rao – Senior Advisor Crossroad Transactions



Anil earned his BS in Electrical Engineering with a minor in Economics from Michigan Technological University and has over 30 years of experience running businesses, sales and marketing, and bringing small companies into IPO and acquisitions alongside hefty Fortune 500 experience. Experience running companies by leading at the front, with an entrepreneurial spirit that helps him and his teams excel.

- Leading Multi-Million-dollar budgets with profits.
- Leveraging operational ability to bring companies to IPO and Acquisition - over \$1.8 Billion aggregate.
- Delivering Small and Medium size business results with highly service orientated industries.
- 20+ years teaching Human Values in Sunday School.
- Passionate about win-win-win outcomes.



AI in SMB

AI taking shape in every Industry

- Lawyers: Lawsuits will persist...
 - ❖ Is Facial Recognition biased? Is AI fair?
 - ❖ **HUMAN AI:** Understanding your client and what needs to be protected and leveraged
- Bankers: Will AI take over?
 - ❖ Credit worthiness: Credit card application?
 - ❖ **HUMAN AI:** My applications get approved at xx% rate? Why?
- Wealth Advisors: Are you a Quant?
 - ❖ Quant: Delivers high volume trades based upon algorithms and incoming data feeds.
 - ❖ **HUMAN AI:** Risk tolerance, New trends and your observation



What is AI?

Artificial Intelligence

The theory and development of computer systems able to perform tasks that normally require human intelligence

- Subset of Machine Learning (ML)
- Computer Vision (Visual Perception)
- Natural Language Processing (Speech Recognition)
- Data driven Decision (decision-making)

Examples of AI we use everyday

Phone

Facial Recognition, Search Photos, Tell Siri to do something

TV

Speak to your remote/Alexa...,
Recommends – Netflix, Prime, Max

Examples of AI we use everyday

Robot Vacuum

Maps your house, alerts on new obstructions,
new zones

Apple Watch, FitBit

How did I sleep? Calls 911

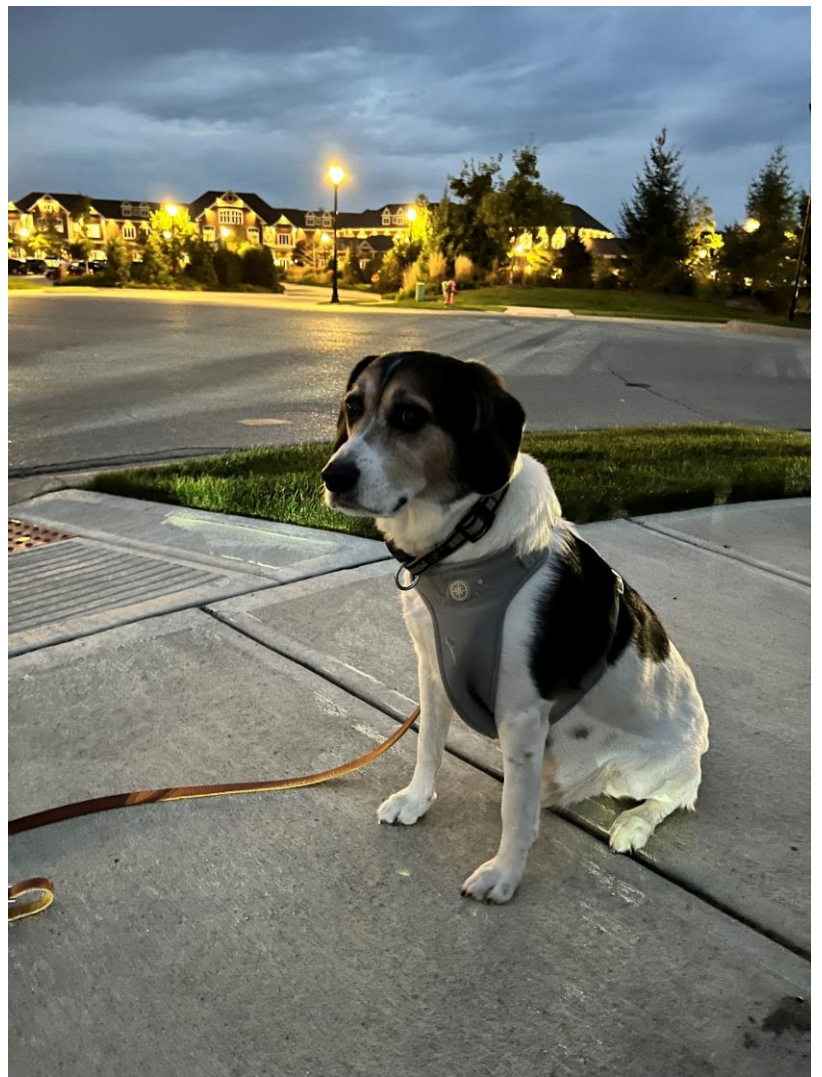
Examples of AI we use everyday

Banking online

Automated bill payment, Deposit checks,
Apply for Credit card

Voice Mail

Shows the text of the message



How do SMB use (or can use) AI?

Marketing

- a. SEO - Frase
- b. Image creation - Midjourney
- c. Transcripts of calls included with Sentiment Analysis - CallRail
- d. Create videos - Pictory
- e. Create Logo, Banners, and more - Designs
- f. Creating Advertising - AdCreative
- g. Personalization and Recommendation from websites and mobile apps
- h. Website can have a Chat Bot (Verloop, LiveChatAI) answer questions and forward details via email as well as integrate to CRM, produce quotes, take orders, and invoice

How do SMB use (or can use) AI?

Employee Productivity.

- a. Co Pilot from Microsoft integrates into Outlook, Office, Teams helping the user create, summarize, and respond
- b. Teams meetings and Voice Mail can send you a transcript via Email or Text
- c. Chat GPT or Grammarly to create responses and content

How do SMB use (or can use) AI?

HR

- a. Job Posting and review: AI to review and categorize plus auto-reject potential resume
- b. Employee Engagement – Sniper
- c. During COVID, analysis of workers congregating – Computer Vision
- d. Return to work – Analyze Office utilization and P&L/BS balanced with Employee Moral

How do SMB use (or can use) AI?

Operations

- a. Cameras for Security, on Drones, or in Company vehicles can be used for a ton of use cases - Worker Safety, Worker Productivity, Mapping, Lowered insurance premiums, and other activity
- b. Predictive Maintenance
- c. Machine settings automated
- d. Quality Control in Manufacturing
- e. Drones using cameras for counting Inventory

How does the deal get Done with AI?

- Chat GPT or Grammarly – check your language and wording in your documents, emails, and IM
- Transcribing meetings – Co-Pilot in Teams, MeetGeek
- Use Software to interpret Documents – Word, PDF, Scan, Images.
- Loan Application use AI to make decisions

How does a CEO consider AI?

1. Reducing Cost
2. Saving Time
3. Improving Compliance
4. Increasing Revenue
5. Scaling Business
6. Get ahead of the competition

GROW THROUGH ACQUISITION



Jack isn't AI

Neither
am I

SBA UPDATES

Getting the Deal Done Conference 4-25-2024

John Randall

Live Oak Bank



JOHN RANDALL NATIONAL SALES MANAGER - SBA GENERAL LENDING LIVE OAK BANK



OBSERVATIONS

- **Harder to bring buyers, sellers, and lenders together**
- **Interest rate increases have consequences**
- **Borrowing power is still down**
- **There has been a lot of market confusion**
- **Lots of SBA improvements over the last year**
- **SBA is facilitating many larger transactions**

BORROWING POWER

Assumptions: EBITDA = \$1,000,000

Buyer Salary = \$150,000

10 Year Loan at Prime + 2.00

1.25 DSC

Date	Prime Rate	Lender Spread	Borrower rate	Max Loan	Difference from 3/16/2020
3/16/2022	3.25	2.00	5.25%	\$ 5,281,552	
3/17/2022	3.50	2.00	5.50%	\$ 5,221,470	\$ (60,082)
5/5/2022	4.00	2.00	6.00%	\$ 5,104,162	\$ (177,389)
6/16/2022	4.75	2.00	6.75%	\$ 4,935,084	\$ (346,468)
7/28/2022	5.50	2.00	7.50%	\$ 4,773,869	\$ (507,683)
9/22/2022	6.25	2.00	8.25%	\$ 4,620,094	\$ (661,458)
11/3/2022	7.00	2.00	9.00%	\$ 4,473,363	\$ (808,189)
12/15/2022	7.50	2.00	9.50%	\$ 4,379,269	\$ (902,283)
2/2/2023	7.75	2.00	9.75%	\$ 4,333,300	\$ (948,252)
3/23/2023	8.00	2.00	10.00%	\$ 4,288,033	\$ (993,519)
5/3/2023	8.25	2.00	10.25%	\$ 4,243,454	\$ (1,038,097)
7/26/2023	8.50	2.00	10.50%	\$ 4,199,553	\$ (1,081,999)

"Historical Prime Rate." JP Morgan Chase & Co, <https://www.jpmorganchase.com/about/our-business/historical-prime-rate>. Accessed 20 April 2023.

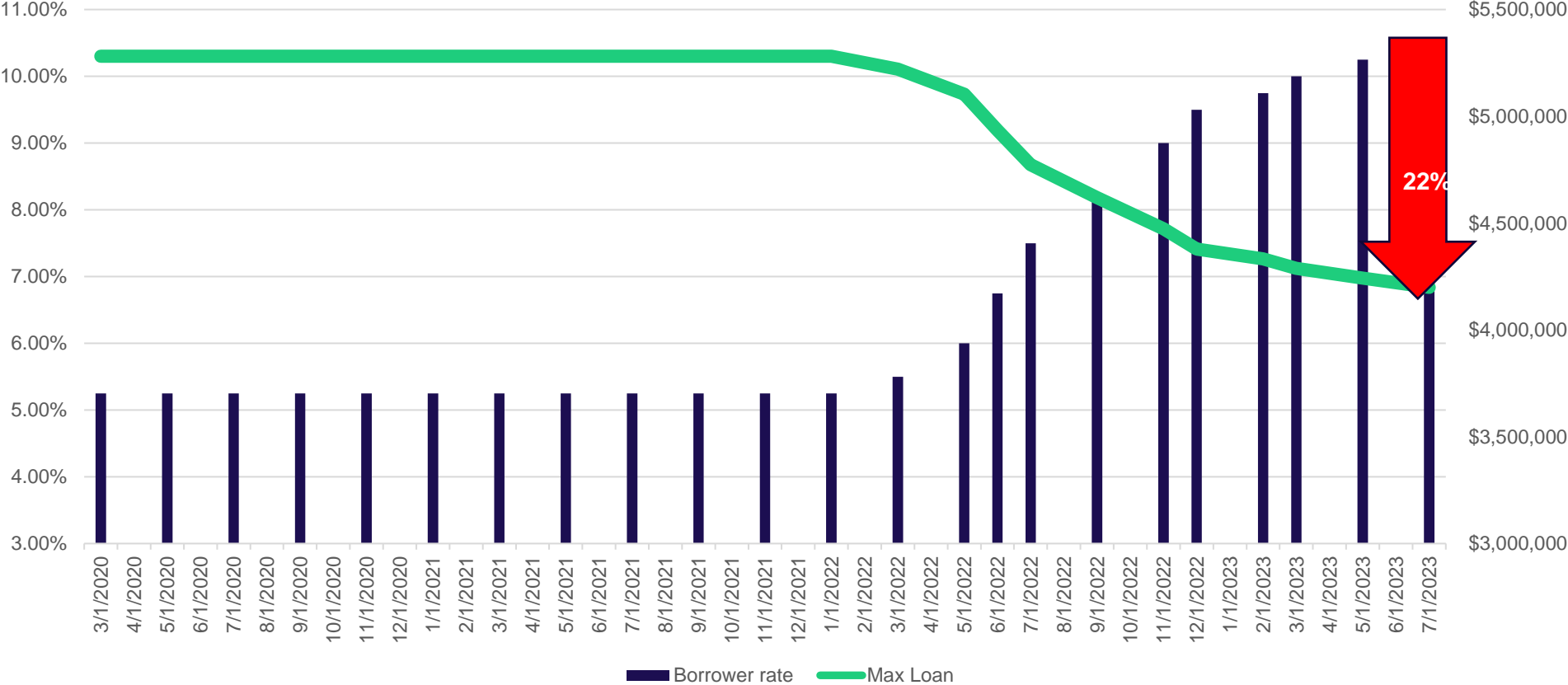
BORROWING POWER

Assumptions: EBITDA = \$1,000,000

Buyer Salary = \$150,000

10 Year Loan at Prime + 2.00

1.25 DSC



Data Sourced Internally and is from 3/1/2020 to 3/1/2023. Data pulled on 4/20/2023.

WHAT ARE OUR OPTIONS?

1. Increase buyer cash injection
2. Full standby seller note
3. Only sell a portion of the business
4. Consider a price adjustment
5. Wait for rates to drop
6. Creative performance-based seller note & bank lender that is comfortable with it

TOP SBA 7(a) LENDERS

2019		2020		2021		2022		2023	
Bank	Approved Dollars	Bank	Approved Dollars	Bank	Approved Dollars	Bank	Approved Dollars	Bank	Approved Dollars
Live Oak	\$ 1,347	Live Oak	\$ 1,491	Live Oak	\$ 2,347	Live Oak	\$ 1,696	Live Oak	\$ 1,848
Wells Fargo	786	Byline Bank	633	Huntington National	928	Newtek	1,012	Huntington National	1,372
Huntington National	640	Wells Fargo	547	Newtek	859	Huntington National	997	Newtek	814
Newtek	618	Celtic Bank	539	Celtic Bank	726	Celtic Bank	646	ReadyCap Lending	573
Byline Bank	525	Huntington National	493	Byline Bank	688	Byline Bank	422	Byline Bank	536
Celtic Bank	500	Newtek	336	ReadyCap Lending	616	ReadyCap Lending	408	Celtic Bank	510
JPMorgan Chase	472	KeyBank	316	Wells Fargo	601	Wells Fargo	395	BayFirst National Bank	495
U.S. Bank	424	Seacoast Bank	316	Harvest, LLC	502	BayFirst National	328	TD Bank	484
First Home Bank	369	U.S. Bank	312	Enterprise Bank	477	Bank	314	First Internet Bank of IN	455
Seacoast Bank	321	Harvest, LLC	309	U.S. Bank	470	KeyBank	301	Wells Fargo	428
						Cadence Bank			

Live Oak Percentage of Total Approvals

5.8%

6.6%

6.4%

6.6%

6.7%

*The data supplied by the SBA reflects 7(a) highest dollar volume during FY 2018 – 2023

A QUICK RECAP OF THE SBA CHANGES

Typically, a new SOP is issued October 1, start of the government fiscal year, every 1-2 years.

- October 26, 2022 - SBA publishes proposed rules changes with comment period through 12/27
- November 17, 2022 - SBA planned briefing on new SOB rules- CANCELLED
- December 10, 2022 - Issuance of updated SOP 50 10 6.1 –POSTPONED
- March 7, 2023 - Senate Small Business Committee sends letter regarding their “strong concerns” about to new SOP to SBA Administrator Guzman
- April 12, 2023 - Multiple final rules published, NAGGL believes new SOP imminent, yet no new SOP
- May 10, 2023 - SBA releases SOP 50 10 7 Effective dates of May 11/12 and August 1
- May 10, 2023 - Patrick Kelley, Associate SBA Administrator testifies to the US Small Business. Resigns within days after testimony.
- July 11, 2023 - SBA webinar on new SOP and technical updates – CANCELLED
- August 15, 2023 - SBA releases “summary” of new changes, no technical update coming
- November 15, 2023 - SBA releases SOB 50 10 7.1
- December 6, 2023 - SBA revises SOP 50 10 7.1

NEW SBA SOP

We'll highlight the most impactful new rule changes.

1. Equity Injection
2. ESOPs
3. Partial Change of Ownership
4. Removal of Personal Resource Test
5. \$5MM SBA cap now NAICS driven
6. Use of Home Equity for equity injection



1. EQUITY INJECTION

For complete change of ownership, the SBA requires an equity injection of at least 10% of project amount.

The new rule provides two forms of seller notes as acceptable sources of equity for change-in-ownership transactions, provided historical business cash flow supports the seller notes:

- 1. Seller debt, on full stand-by, for no less than 24 months.
 - No balloon payment allowed.*
- 2. Seller debt, on partial stand-by (interest-only), for the life of the loan, as long as 25% or more of the equity requirement is from borrower cash.

Important to understand how each bank's internal policy applies to these new rules.

*As interpreted through discussions with SBA and various lender associations.

2. ESOPS

SBA has introduced several significant changes to ESOP lending

- An equity injection is not required for loans made for an ESOP to acquire a 51%+ ownership interest in a small business.
- Any individual or entity that held ownership of the subject business prior to the ESOP transaction and will remain with any level of ownership of the subject business post-sale must provide a full personal guaranty.
- ESOPs can now be processed using PLP authority, previously all ESOPs had to be approved through the GP (SBA direct decision) process.

3. PARTIAL CHANGE OF OWNERSHIP

- The SBA now permits loan proceeds to fund a partial ownership change of an existing business. This may be accomplished through either a stock sale or stock redemption (for existing owners).
- Owners with 20% or more ownership interest post change of ownership must provide a personal guaranty, at a minimum.*
- For general partnerships, all partners must be co-borrowers.*
- International Trade Loans require a complete change of ownership.
- All partial change of ownerships require a 10% equity injection.
 - The above equity requirement may be waived if the business balance sheet, most recent YE and YTD, reflect a debt to worth of no greater than 9:1.

*As interpreted through discussions with SBA and various lender associations.

4. PERSONAL RESOURCE TEST IS ELIMINATED

- Historically an applicant for a business loan had to show that the funds requested were not available from personal resources, meaning all the borrower's usable liquid assets were reviewed
- SBA Lenders no longer need to consider the personal resources/liquidity of the loan applicant when applying for SBA loans

5. SBA \$3.75MM GUARANTEE CAP (\$5MM SINGLE LOAN MAX) NOW DRIVEN BY AFFILIATION/ NAICS CODE

Standard SBA Guarantee is 75% - certain situations do allow for the bank to take a lower guarantee

- New SOP now allows for individuals to have an additional \$3.75MM of guaranteed dollars (max \$5MM single loan amount) of eligibility if they are acquiring a business that is NOT in the same 3-digit NAICS subsector as any currently owned business with existing SBA debt in which the below apply:
 - Businesses owned >50% by the applicant business
 - Businesses that own >50% ownership of the applicant business
 - Any businesses owned >50% by this business that operate in the same 3-digit NAICS subsector as the applicant business
 - When an individual owns >50% of the applicant business, every business owned by that individual >50% within the same 3-digit NAICS subsector as the applicant business
- Historically, personal guarantors of SBA loans have had their existing personally guaranteed SBA debt included in the aggregate SBA exposure calculation.

6. HOME EQUITY AS A SOURCE OF EQUITY INJECTION

- SBA will now allow borrowers to use a home equity loan/line of credit or refinance into a new mortgage to obtain funds to be used towards the equity injection.
- Previously, home equity could only be used if there was a secondary repayment source, such as an employed spouse who was going to guarantee the loan, rental property income, investment dividends or interest.

COMBINATION FINANCING HIGHLIGHTS

SBA 7(a) + Conventional

- Used for business acquisitions of companies with an enterprise value of \$6 - \$12MM
- Up to \$9MM combination financing
- Term and amortization 7-10 years on business acquisitions and 25 years for real estate
- Competitive interest rates
- Subject to combined adequate historical debt service coverage
- No minimum collateral requirements

EXAMPLE: NEW BUSINESS ACQUISITION

Purchase Price:	\$8,000,000	10% Equity Injection:	\$840,000
Working Capital:	\$200,000	Live Oak SBA 7(a) Loan:	\$5,000,000
Closing Costs:	<u>\$200,000</u>	<i>10-year term</i>	
		Live Oak Conventional Loan:	<u>\$2,560,000</u>
		<i>7 or 10-year term</i>	
Total Project Cost:	\$8,400,000	Total:	\$8,400,000

Term based on conventional lien position.
Minimum SBA collateral requirements apply.

This example is for discussion purposes only.

EXAMPLE: NEW BUSINESS ACQUISITION

Purchase Price:	\$5,650,000	10% Equity Injection:	\$710,000
Purchase Price:	\$1,200,000	Live Oak Bank SBA 7(a) Loan:	\$5,000,000
<i>Real Estate</i>		<i>12-year term</i>	
Working Capital:	\$100,000	Live Oak Bank Conventional Loan:	<u>\$2,560,000</u>
Closing Costs:	<u>\$150,000</u>	<i>7 or 12-year term</i>	
Total Project Cost:	\$7,100,000	Total :	\$7,100,000

Term based on conventional lien position.
Minimum SBA collateral requirements apply.

This example is for discussion purposes only.

LEADING SBA 7(A) LENDERS FOR CHANGE OF OWNERSHIP TRANSACTIONS BETWEEN \$2-5 MILLION IN 2023



Data sourced internally is for 1/1/2023 – 12/31/2023. Data compiled on 3/12/2024. Includes all SBA 7(a) loans between \$2-5MM with up to 20-year terms.

Data is updated quarterly. Last updated: 12/31/2023
Data Source: SBA FOIA dataset

JOIN OUR OFFICE HOURS

Scan the code below to sign up for office hours



MIKE VAN VIERZEN

SENIOR LOAN OFFICER

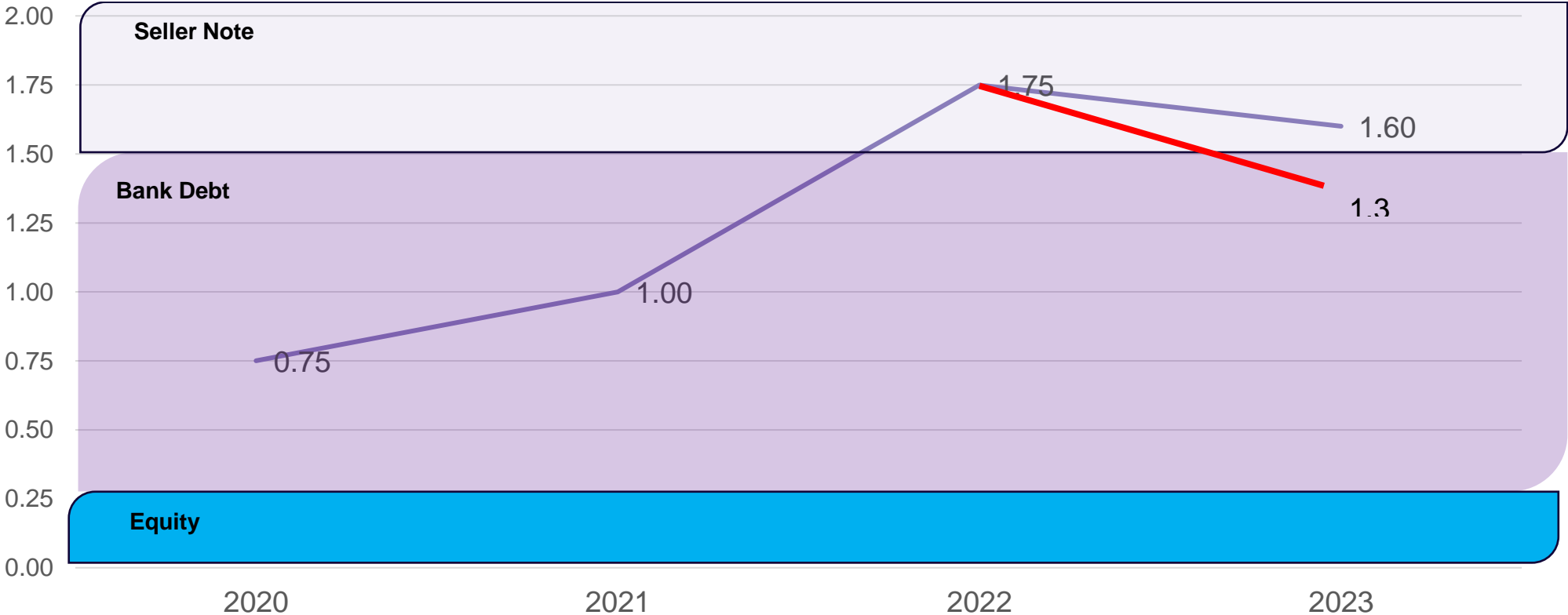
LIVE OAK BANK



THANK YOU

PERFORMANCE-BASED SELLER NOTE

• D.S.C.



Data sourced internally, for example purposes only.

Dr. Toby Malichi – International Trade

- *Malichi Group Worldwide*

www.Malichi.com



Featured Speaker
Dr. Matt Will
“The Election Economy”

*Getting the
Deal Done
Conference*



LiveOakBank.

