More Complicated Company Purchase

Case Study # 2

Mr. Field is looking at purchasing a Manufacturing Company. Mr. Field has about $8,000,000 in cash. The 2017 Year to date sales through March 31, 2017 were $6,250,000. The owner (Seller) wants $26,500,000 for the company. The indicated EBITDA is $2,650,000.

Sales were $15,000,000 in 2014, $21,000,000 in 2015 and $19,500,000 in 2016. The Cost of Goods Sold was $9,000,000 2014 and $15,000,000 and $12,000,000 respectively in 2015 and 2016. Cost of Goods Sold in 2017 through March 31 have been 3,900,000.

Administration and Sales labor expense including payroll taxes in 2014 was $2,100,000, $1,800,000 in 2015, $2,000,000 in 2016 and $585,000 through March 31, 2017. General expenses that includes, insurance, property taxes, health insurance, repairs and maintenance on the building and accounting and legal expenses were $2,750,000 in 2014, $2,700,000 and $2,850,000 in 2015 and 2016 respectively and $750,000 through March 31, 2017.

The Seller has indicated that he will take back a note for $5,000,000 with interest at 7.5% and four equal annual payments.

Included in the purchase price is $3,750,000 in inventory items. The building is not included in the sale and the Seller will rent the building to the new owners for $350,000.

Available Options to Mr. Field to come up with the additional cash needed to complete the purchase are:

> Subordinated debt: Max Debt = 3x EBITDA, interest only 12% five years, PIK Interest 8% w/3% warrant due on payoff
>
> Find an Equity Partner or Investor

Is this company worth this value?