Capital from Live Oak Bank:

THE PRIVATE EQUITY ALTERNATIVE

Finding an exit strategy for a business owner can be challenging at times.

There are several financing options when selling a business including private equity, strategic acquisitions or third parties utilizing SBA loans. These financing options can result in a successful exit strategy for the business owner, but it is important to understand the options, including the advantages and disadvantages.

While private equity can often result in a quicker sale and doesn't include a loan approval process, thus reducing uncertainty, there can be drawbacks to going this route. From the seller's perspective, they'll often be required to stay on for an additional 3–5 years to scale the business and pursue additional growth opportunities. The role of a seller can dramatically change after the deal closes. An impressive private equity offer can sound like an attractive offer at first, but after a PE firm takes over, they may require a certain number of board seats, giving them approval on key decisions — a big change from before the transaction. The typical structure of a private equity deal can also present its own set of challenges. The initial multiple can be appealing, but there are restrictions of how and when a borrower can liquidate the stock and potential earnouts can be aggressive to achieve the maximum payout.

At Live Oak Bank, we specialize in large unsecured SBA and conventional loans for selling businesses with strong cash flow and a track record of success. We truly believe there is a solution and an advantage with our loan products that each seller/(referred) buyer should explore. There are numerous benefits to the private equity alternative.

What Brokers Are Saying

I've been a business broker for almost seven years. While I typically represent sellers, I always make sure that the buyer has spoken to Live Oak Bank before making a financing decision. I have had Live Oak finance several deals and I never have to worry about closing. In my opinion, they are the best option for Main Street deals. They can finance above the $5 million SBA limit with conventional on top. The most risk my client might see is a short-term market seller note. Buyers that leverage Live Oak always have the advantage in a competitive bidding process."

– **Derik Polay**, Broker, CGK Business Sales
Austin, TX

The Private Equity Alternative — What to Expect from Live Oak Bank

- Loans for selling businesses
- Fast closing — 45–75 days for project-ready deals
- Longer amortizations — 10 years for SBA, 7–10 years on conventional. Blended terms available with CRE up to 25 years
- Lower cost of capital
- More upfront cash for sellers — less post-close risk
- Up to 90% financing available for loans up to $7.5MM and 85% financing for loans greater than $7.5MM
- No loan covenants on SBA Loans
- Expedited exit plan for seller, 12 months or less

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SBA Combination Loan Solution

SBA Loan + Conventional Loan = Capital to Help You Achieve More

If you have a project that exceeds the SBA 7(a) $5 million limit, our combination financing program can be a creative solution. We pair an SBA 7(a) loan (of up to $5 million) with a conventional loan (amount based on need) and a line of credit when needed.

Loan Terms and Structure

- SBA — up to $5 million, additional conventional dollars depending on project needs
- Amortization of 7–10 years
- Competitive bank interest rates
- Used for acquisitions of companies with strong cash flow and a track record of success

Loan Uses

- Acquisition
- Expansion
- Partner buyout

Expansion Through Acquisition

The strategic acquisition of a competitor can be the key to gaining market share, expanding product lines, cross-selling to customers, increasing pricing power and obtaining vendor discounts via bulk ordering. Expanding also offers franchise business owners the ability to grow their footprint, as many franchises are exclusively licensed based on geographical area. **You may not be required to inject equity**, which is the leading advantage of expansion through acquisition.

Recent Deals

Dollar Amount
$9 million

Loan Type
SBA 7(a) + conventional

Loan Use
Acquisition with commercial real estate

Location
Texas

Dollar Amount
$7.2 million

Loan Type
SBA 7(a) + conventional

Loan Use
Acquisition

Location
Texas

Dollar Amount
$7.85 million

Loan Type
SBA 7(a) + conventional

Loan Use
Acquisition

Location
California

DEBT VS. PRIVATE EQUITY

Which is right fit for you?

Debt and equity have pros and cons, and every business owner has a different risk tolerance. To determine what's best for your company, compare each option and speak with your CPA and lender to assess your opportunities.

- Do you have the time and capital needed to obtain financing?
- Are you willing to give up an ownership stake in your business?
- Is the seller ready to exit immediately?
- Do you have the monthly cash flow to cover loan payments?

The answer to these questions and more will determine the right fit for your business. Below are some basic differences to help inform your decision.

	Debt	Private Equity
	Borrowing money, often from a bank, to be repaid, plus interest.	Selling interest/equity/stock in the company to shareholders to raise money.
Capital Sources	• Credit • Banks • Non-bank lenders • Other	• Angel investors • Crowdfunding • Venture capital • Other
Advantages	• Does not dilute the owner's ownership interest in the company • If the business experiences success, the owner reaps a larger portion of the benefits versus if they sold stock to investors, in which case they are splitting the rewards • Fixed loan rates, principal and interest are known amounts that can be planned for • Interest on the loan debt can be deducted on the company's tax returns (speak to your CPA) • Owner retains ability to make key decisions	• Can often result in a quicker sale • Doesn't include a loan approval process, thus reducing uncertainty • There may be no debt to be repaid depending on the deal structure • Does not increase monthly expenses or cash flow needs • Appealing multiples • Equity shareholders do not get paid unless there is profit • No collateral or down payment required

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	Debt	Private Equity
Disadvantages	• May require a down payment or collateral that the borrower does not have • Interest fees required	• Seller may be required to stay on for an additional 3–5 years • There may be restrictions of how and when the seller can liquidate stock • As business succeeds you may be paying much more long term than the debt alternative • Too much equity given may result in loss of control of company
Financial Instruments	• Commercial loan • SBA Loan • Lines of credit	• Common stock • Preferred stock • Equity options

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