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SMALL BUSINESSES A HOT COMMODITY

More investors now seek family-owned businesses

By Brian Bandell – Senior Reporter, South Florida Business Journal
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Numerous South Florida business owners wondered if their ventures would make it through the Covid-19 pandemic. Now, with pressure from inflation mounting, many of those entrepreneurs have found this an opportune time to sell.

And there's plenty of capital lined up by investors looking to snap up companies – especially family-owned ones – as more businesspeople relocate to the tri-county region, experts say.

At a time when the real estate market is near its peak and the housing landscape is cooling amid interest rate hikes, a small or medium family-owned business in the right industry could be a profitable investment. With many people concerned about an economic slowdown or recession, businesses that might otherwise fold could find new life in the hands of experienced buyers.

"People are exhausted with the almost boomerang economy, where 2.5 years ago it looked like our world as we know it was ending due to the pandemic," said Fort Lauderdale personal finance expert Howard Dvorkin, chairman of Debt.com. "Then came the rebound in the economy."

Unprecedented funding from the government during the pandemic to a certain extent overstimulated the economy and created growth in certain sectors of commerce, he said. But the employee shortage is weighing on many business owners too, he added.

"Those at the end of their careers may be thinking to themselves that maybe it's time to slow down," Dvorkin said, "because the pandemic burned a lot of people out – not only physically, but mentally, as well."

Factors such as supply chain woes and labor challenges make this the perfect time for baby boomers to retire and hawk their companies for a profit. And, according to a recent report by the California Association of Business Brokers, baby boomers are expected to sell or bequeath about 12 million private businesses over the next 20 years.

"We are in the middle of the largest wealth generation transition ever with baby boomers retiring and passing on their businesses," said Fred Campos, Southeast transaction activity services leader for Marcum LLP in Fort Lauderdale. "The wealth transfer is massive."

Darrell Bock, who's semi-retired, recently sold two franchised Jimmy John's restaurants in West Palm Beach.

"I was always looking for opportunities to grow the business and advance," the 56-year-old said. "But with the pandemic and then issues behind the supply chain shortage and labor issues, it was not cost-effective for me to expand and build out other stores."

Deal flow increasing

The number of business sales in South Florida has been increasing, mostly due to the strong demand from buyers.

Transworld Business Advisers brokered the sale of 202 Florida companies in the first half of 2022, compared to 175 in the prior-year period, said Andrew Cagnetta, CEO of the Fort Lauderdale-based business brokerage. The number of businesses currently listed for sale is about half the nearly 1,400 listed before the Covid-19 pandemic.

"Transworld is selling just as many businesses as before with half the inventory," Cagnetta said. "So when we get a good business for sale, for the most part, it's selling."

The most in-demand type of business in South Florida is restaurants, followed by construction services, personal services like hair salons, automotive and medical, he added.

"They are buying companies because they can't find labor for their businesses, so they buy the labor," Cagnetta said.

Demand for small business acquisitions has heated up following a slowdown at the beginning of the Covid-19 pandemic, said Adam Debussy, director of marketing for BizBuySell, a marketplace for small business sales. Over the past year, the sale prices of businesses in Florida have been increasing, which has convinced more buyers it's a good time to sell.

"Seven out of 10 times, people sell a business because they are ready to retire," Debussy said. "They likely won't sell if they can't secure a price to support their retirement. Now, those baby boomers are raising their hands and saying they're ready."

The rise in interest rates has a negative impact on pricing business sales because it makes obtaining conventional financing more expensive, Debussy said. However, buyers can get around that by utilizing seller financing.

Given the labor shortage, buyers may want sellers to stick around the business for a while to make sure there's a smooth transition with the workforce, Debussy added. That often creates additional earnings for the seller.

As for midsize companies, there were very few sales in South Florida in the latter half of 2020 due to the pandemic, but acquisitions have soared to record levels this year, Marcum's Campos said.

"I thought we would never see this level of activity again, until now," he said. "Post-Covid, there has been a mad rush of private equity firms and strategic corporate buyers looking for opportunities."

With the economy slowing, buyers are starting to be more careful when negotiating prices and engaging in more due diligence, Campos said. However, private equity firms that recently sold previous investments for big money need to deploy that capital elsewhere for their investors, he added.

Restaurants aren't the only businesses changing hands.

There's been a lot of activity in the health care field, with smaller physician and dental practices being sold so practitioners can prepare for retirement, said J.C. de Ona, South Florida division president for Centennial Bank. The same is true for family-owned CPA firms. These health care and accounting businesses are often more profitable as part of larger companies because they're supported by a back office that's more efficient with operating costs, he added.

"In health care and landscaping, we have seen some companies coming from out of state to Florida and acquiring a business here," de Ona said. "We see that a lot from companies in the Northeast. The tax treatment here is much more favorable."

Migration fuels deals

In Florida, family-owned restaurants continue to account for a large chunk of businesses selling to transplants since the pandemic, said Robin Gagnon, CEO of Palm Coast-based WeSellRestaurants, which brokers throughout the state.

WeSellRestaurants brokered 68% more sales in Florida in the second quarter compared to the same quarter a year ago, she said. Many people from states in the Northeast and West were tired of the lockdowns and other business restrictions, and now that their spouses can work from home they're free to move here and start a restaurant, Gagnon added.

Additionally, it's often more cost-effective to buy an existing eatery and assume its lease and equipment than start a restaurant from scratch.

"It's definitely easier to buy a restaurant instead of building one because [real estate] space is tight and, with the supply chain issues, it's tough to get equipment," Gagnon said. "Why wait eight or nine months for that new fryer to come?"

What's more, a number of people who resign their jobs want to become entrepreneurs and start a business find it's easier to buy an existing one, experts say.

Anthony Santilli sold Anne Marie's Pizza in Margate to a Russian investor interested in moving to the U.S. Foreign nationals can apply for green cards by making significant investments in U.S. businesses and, now that more travel restrictions have been lifted, these deals are expected to grow. Of the 20 potential buyers for his restaurant, only one was American, he said.

"People want to learn a business and, even if they make a little money to survive, they are learning a trade that they can live on in the U.S. for 10 or 20 years," said Santilli, who'll use the sale proceeds to add beer and wine service at his Anne Marie's Pizza in Pompano Beach.

Private equity goes small

Private equity investors have increasingly taken an interest in small and medium businesses to add to their portfolios, especially in industries that big investors often overlook.

Miami Beach-based Lincoln Road Global Management acquired a pavement maintenance company in 2020, and is following up by buying companies in the same industry. Inflation has put a strain on the finances of many smaller operators, especially when their revenue is based on contracts with fixed prices,

prompting them to consider selling, said Jeff Magny, managing partner and founder of the private equity firm.

"A lot of owners want to grow their business, but they don't have the capital or the experience to get there. They've taken their business as far as they can take it," he said. "And when you think about recessionary times, that's a good time to buy companies at attractive prices."

Because of the uncertainty in the economy, Magny looks for businesses with a historical track record of growth in an industry that provides an essential service, so it will be needed even in bad times.

The private equity acquisitions that grab headlines are the massive deals, but not all targets are big. After private equity firms enter a certain sector with an initial business acquisition, they often do follow-up acquisitions of smaller companies, including family-owned ones, in the same sector to build a platform, said Stanley "Stash" Jacobs Jr., a mergers and acquisitions attorney with Greenberg Traurig in Fort Lauderdale.

"Private equity firms have raised a record amount of money over the past few years and they need to put that money to work," he said. "The last three years have been tough years to operate a business, and those who have done it successfully will find their businesses are in big demand."

Sly Buford, CEO of Boca Raton-based Tenth Street Group, started out investing in small apartment buildings. But now his private equity firm is focused on small businesses, what he calls the lower middle market, with less than \$4 million in revenue. There's less competition when buying companies compared to real estate, he said.

"You aren't in a regular negotiation with a buyer and a seller for real estate; you are basically in a bidding war," Buford said. "The thing about these [small business] deals is most of the time we are not competing with anybody."

So far, he purchased an IT company and a business that aims to webcast Florida high school sports. Buford utilized seller financing for the deals.

He reached out to small-business owners with cold calls and emails. Many of them had never thought of selling, but when they realized their children weren't interested in taking over the company, selling became a good option, he said.

"Taking over a business like an IT company or a manufacturing company making T-shirts is not something most of their kids are thinking about," Buford said.

BIZBUYSSELL DATA FOR MIAMI-DADE, BROWARD AND PALM BEACH COUNTIES

