Twitter Thread by Brent Beshore



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This is a valuable thread and @XavierHelgesen has excellent intentions. If you were planning to buy a SMB using the SBA, the deal got sweeter.

That said, there are caution flags I'd like to raise:

1) It's brutally hard. I outline the steps here https://t.co/MZ0beEl0UU

2) Selecting well, and far beyond financials factors, is a skill that takes reps to become proficient. What I thought were slam dunks 10 years ago scare me today.

Please don’t get jacked up on cheap SBA money and go tag the 14th thing you look at.

3) The required personal guarantee is no joke. Yes, it’s 10 year money. Yes, you’re going to buy it at a high cf yield. But, SMBs are volatile and often for reasons that aren’t initially obvious.

If things turn against you, you’ll declare bankruptcy. Seen it happen. Not pretty.

4) You’re almost always buying a risky job.

The idea of cashing checks and “allocating capital” is a joke. Someone somewhere has done it, but I’ve never seen it.

It’s going to be a challenging 7/365 grind to hopefully make very good money. That’s the best you can hope for.

5) Speaking of risk, as the owner, you’re the last to eat. Stuff happens and reserves need to be built to survive long-term. Working capital grows. Equipment breaks.

You’ll often have top employees getting more cash out of the business than the owner.

I use the Rule of 3. You should be able to consistently make 3X the amount you could W2 for the risk to be worth it. Consistently being the key word. Not once. But almost every year.

6) Skill set matters. If you’re an Excel wiz, great. That's only marginally useful post-close and you’re likely lacking the in-the-trenches experience that will make/break it.

There's a chasm between the world of finance and operations. If this is surprising, be worried.

If you’re a skilled operator, make sure you know your way around the financial statements, understand the competitive advantage(s), and especially pay attention to cash flow.

Cash is like oxygen. You only pay attention to it when it's in short supply and that's often too late.

7) Operating stress, especially with your net worth on the line, is intense and often ever-present.

You will get sued. Someone will steal from you. You’re going to violate some government law you didn’t know about.

On top of the normal customer, supplier, employee stress.

Now that I’m done clubbing baby seals, if none of this gives you pause, go for it. There’s gold in them there hills, but just know the hard work, emotional toll, and risk you’re taking on.

And, it can be outrageously rewarding.

Cheers to a prosperous 2021 and happy hunting.