

**BUSINESS  
WEALTH**

**WITHOUT**

**RISK**

**UNPUBLISHED**

**CHAPTERS**

**VOLUME #1**

# **BUSINESS WEALTH WITHOUT RISK**

By Roland Frasier + Jay Abraham

## **Unpublished Chapter 1** **The Anatomy of a Zero Down Deal**

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The idea of a zero down out of pocket business deal probably sounds like a unicorn. To be honest, it is a unicorn. I've done hundreds of business deals and very few have been zero down out of pocket. When it happens– and it does happen– it is magical. But most of the time, the deals I do end up being low-money down instead of no-money down.

The truth is this: The less money you put down on a business deal out of pocket, the less risk you are taking. When you start a deal with low or no money down, you give yourself time to build the business up and allow your growth plans and strategies to be implemented before you pull a bunch of money out of your own pocket. This isn't to say you should get into risky deals with companies that may or may not succeed, or risk taking on huge debt, but instead, give yourself that little bit of padding that you need to make sure that you can get the business up and running well.

With this in mind, I'm always thinking of creative ways to get business deals to zero down out of pocket, and I want to share how that can work. It's hard to even know where to start when you're thinking of making an acquisition, so in this chapter, I would like to illustrate the process as it happens, and show you how to work with the numbers to create a deal structure that is less risky.

In order to ensure the privacy of the investors I work with and the companies they are acquiring, I'm creating a pseudo-company and deal structure for this chapter. That said, every single component and strategy that I talk about is a strategy that I have used successfully before to make deals happen, and the deal structure I outlined mimics several deals that I've seen close in the last 12 months.

You may be wondering why I am writing a whole chapter about a unicorn that few investors will ever see, but the reason is simple: I tell everyone to shoot for zero down. You know that whole saying that says “shoot for the stars and at least you'll end up at the tops of the trees?” Same thing here. If you shoot for a zero

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down, you will likely end up with a lower amount out of pocket and a less risky deal.

Long story short: These strategies work. They have been proven. And a little bit of creative strategy can save you thousands of dollars out of pocket and create a deal that can really set your acquisition up for success.

## **The Anatomy of a Zero Down Deal**

*Note: As I said above, the names of companies and people, as well as the exact financial details from their deal have been changed to protect the privacy of the people involved.*

**Company Name:** Sales Geeks

**Company Details:** Sales Geeks is a sales training firm that offers sales training, certifications and courses to help people become better sales people. Sales Geeks was founded ten years ago by a man named Chuck. Chuck is the brains behind and the face on the screen for all of Sales Geek's training and courses. Chuck is looking to exit so that he can retire, but he is willing to spend some time during the transition training the new management team, as well as helping the new owners to replace him as the face of the company.

**Buyer Details:** A woman named Teri owns a company called Business Nerds. Business Nerds offers certifications and training in areas including marketing, business opps, creative strategy and more. Teri has been looking to expand into the sales training arena, but she doesn't have a team in place to create the courses or training for sales, nor the sales expertise to do it herself. When she heard about Sales Geeks, she knew it was a perfect fit to add a sales training and certification arm to her company.

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**Deal Details:** Teri has agreed to buy Sales Geeks for \$2M. She is in the process of doing her due diligence on the deal, and finding out how to structure the deal to ensure that it is profitable.

**Deal Considerations:** As with any deal, Teri has some specific considerations to think of as she looks to acquire Sales Geeks. Here are some of the things that are top of mind:

- Since Chuck is the face of Sales Geeks, one of the first things Teri will need to do is find a way to continue the legacy Chuck set for the company while finding new faces and people to represent Sales Geeks in the training and courses that they do.
- Business Nerds has really focused on an MRR strategy– people pay for recurring access to the content and coursework. Meanwhile, Sales Geeks has done all of their sales on a one-off basis. Teri would like to convert Sales Geek’s revenue stream into a recurring model, but since they have never done that, it will take quite a bit of work with their team.
- In addition to Chuck, Sales Geeks has a team of 4 employees, including an operations manager who has managed the team from the very beginning.

## The Anatomy of a Zero Down Deal

With the above information in mind, I’m going to walk you through the things that Teri could do to bring this deal to a zero-down out of pocket deal. Like I said before, as Teri goes through the process, she could hit dead ends, or find other ideas that will work. The point is to go through the process, and to see what happens.

One thing I want you to keep in mind is that the things Teri does here to bring the deal down to zero-down are just a few of the hundreds of strategies that I have successfully used. If you are serious about creating zero-or low-money out of

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pocket deals, I encourage you to head to [epicnetwork.com](http://epicnetwork.com) and join one of our EPIC challenges or take one of our courses where I will walk you through this process step-by-step.

## ***The Starting Point***

Before Teri goes any further, she needs to understand her starting point. While Teri doesn't want to actually apply for a business loan right now, she does want to know the basis for what to expect. Using an online calculator, Teri figured this is a rough basis for where she is starting:

**Purchase Price:** \$2,000,000

**20% down:** \$400,000

**Interest rate:** 10%

**Term:** 10 years

**Expected monthly payment:** \$21,000

*(Note: These numbers are rounded out to make things simple for the purpose of this book. Obviously, the math isn't exact, and a real loan would have all sorts of other things in place.)*

When Teri looks at the above starting point, the two numbers that really stand out are:

**\$400,000 down**

**\$21,200 monthly payment**

Yes, the other numbers matter.

Interest matters. There will be approximately \$900k in interest paid over the course of this loan, and that amount could vary greatly based on the interest rate. But to be honest, Teri has little control over the interest rate.

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Total cost matters. If the owner is willing to drop the price of the business to \$1.8 Million, it will save Teri tons of money. But again, she has little control over that, and she definitely doesn't want to pay Chuck an unfair amount for the business he has worked hard to build.

So, while Teri should obviously think about the interest rate and see if the owner will drop the price a bit, that's not the focus of this chapter. Instead, we are looking at how to reduce that \$400,000 down that will come straight out of Teri's pocket. (Teri should also look at that \$21,200 monthly payment and find ways to reduce that, especially in the first several months of the loan, but I will cover that in another chapter.)

Right now, we are focusing on how Teri can reduce or eliminate the cash due up front out of her own pocket (or her business's pocket) as she gets ready to close that deal.

## **Getting Rid of \$400,000**

So, \$400,000. How can Teri close this deal without taking that \$400,000 directly out of her pocket? That's the \$400,000 question, isn't it? Here's how Teri approaches it:

### ***1. Seller Financing***

The very first thing Teri does is contact Chuck about seller financing.

Seller financing is a great way to reduce the out-of-pocket costs for a buyer, plus reduce interest rates and purchase price. It is always the very first thing I do when I'm looking to structure a deal as oftentimes it benefits both the buyer and the seller. Oftentimes, the seller is unable or unwilling to finance the entirety of the

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transaction, but they often are able to finance some of it, helping to reduce out-of-pocket costs.

In this case, Chuck is hoping to retire. When Teri approached him, he was immediately interested, because seller financing would guarantee monthly incoming income for him. That said, Chuck had been hoping for a lump sum up front that he could use to pay off some debt and to invest in a business he wanted to invest in, so Chuck isn't willing to finance the entire deal. (That would have been too easy, wouldn't it have been?)

The terms Teri and Chuck come to are this: Instead of a bank loan, Chuck is willing to finance the entire deal. He would like \$200k cash up front from Teri, and after that, he will finance the additional 1.8M at a rate of 7%, which is less than the bank loan Teri had looked into. The monthly payments are going to be \$21k, which is exactly the same as the bank loan, with the reduced interest rate making up for the \$200k in additional principal owed. Payments will be due to Chuck on the first of the month. The term is still 10 years or 120 payments.

**Out-of-Pocket Reduction:** \$200k

**Monthly Payment Change:** \$0

**Out-of-Pocket Status:** \$200k OOP still owed.

## *2. Consulting for Equity*

Before Chuck can exit, he has to stop being the “face” of the company. He is fearful that he will be stuck in an endless cycle of being the only person who can teach the training and strategies and masterminds that he sells, or that the business will tank when he exits, leaving it worth nothing.

On top of that, Chuck has mentioned that one of the things his company has really struggled with is people making one-off purchases of his training materials

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and then never buying again as the materials are so complete and exhaustive that they don't need more. This means he has to go out and find new customers each sales cycle and essentially start from scratch.

Chuck has been wanting to transition his business to recurring revenue at the same time that he removes himself as the face. He believes that this reorganization should be done pre-exit, so that once he exits, he can actually retire and do the things he wants to do. It also sets the new owners up for success with the company. Chuck has set aside six months and \$50k to pay for this work.

Teri has experience doing the exact thing that Chuck is wanting to do as two years ago, she had acquired a similar business in the marketing space. Because of this, Teri offered herself as a consultant for Chuck. She will set up a transition plan, advise him throughout the process, and oversee the team as this plan is put into place.

One option she has is to take the \$50k consulting payment and apply it directly to the down payment of the company. The one catch to this is it won't be apples-to-apples as she will be taxed on her \$50k payment, meaning that only reduces her OOP by approximately \$35k.

Another option Teri has is to trade Chuck her consulting for equity. This is the option Teri chooses, and she asks him to give her a 4% ownership stake in the company upon completion of the consulting she will be doing. She asks that 2% of that ownership comes in principal, and 2% comes off of the cash downpayment that she will owe him from the seller financing.

**Out-of-Pocket Reduction:** 2% of \$2M = \$40k

**Monthly Payment Change:** -\$500/month (from the \$40k less in principal owed)

**Out-of-Pocket Status:** \$160k OOP still owed.

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## ***3. Vendor or Supplier Grant***

One thing that's often overlooked is that during a merger or acquisition, vendors and suppliers get shuffled around or lost. In the case of Sales Geek, Chuck has worked with a video production firm called VidPros to produce and edit all of his training and videos for ten years. In the past ten years, the firm has done approximately \$150k in business with Sales Geek each year.

Chuck trusts VidPros completely, and tells Teri that he has never worked with a more professional and skilled video production team. Chuck believes it would be a mistake to lose them as a vendor.

Teri does have an in-house video production team at Business Nerds, but she does have some concern that her growing business, as well as the additional production needs that will come with the acquisition of Sales Geek will push her team to the edge. So she reaches out to VidPros to discuss them staying on as a vendor.

Teri talks to the owner at VidPros and asks him if they can discuss the continuation of the contract. Teri tells them she will sign an agreement that she will continue to use VidPros for all Sales Geek video content for the next 12 months at least. Additionally, she gives them right to bid on additional projects with Business Nerds during that time, assuring them that there will likely be several additional projects coming up that they will need video support with. In exchange, she asks if VidPros will offer her a one-time grant of \$30k to help fund the acquisition.

The VidPros owner agrees. The grant is a small price to pay for the opportunity to continue his business with Sales Geek and to potentially grow his business with Business Nerds.

As a side note, if the supplier or vendor doesn't agree to a grant, they will often agree to a loan or change of terms that can work in the same way in reducing out-of-pocket costs. So if a supplier or vendor says no to a grant, ask about a loan or change of terms next.

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**Out-of-Pocket Reduction:** \$30k

**Monthly Payment Change:** \$0

**Out-of-Pocket Status:** \$130k OOP still owed.

## *4. Employee Equity Sale*

You probably noted that Sales Geek had 4 loyal employees, including a manager who had been with Chuck from the start. This manager's name is Emily, and she has been Chuck's right-hand-girl for more than ten years.

During the very initial discussions, Teri agreed to keep the entire Sales Geek team in place as she knew they had done a great job for Chuck. She was especially concerned about retaining Emily as she knew she would need Emily's expertise as she acquired the business. Teri knew she would have to work hard to make sure Emily didn't decide to make a transition as Chuck exited.

One way she decided to do this was offer Emily equity in Business Nerds as a whole (which would include equity in Sales Geek) as she made the transition. At the time of exit, Chuck owned 100% of the company and had never offered options or equity to any employees. Chuck did mention to Teri that he planned to give Emily a \$150k bonus for her years of service upon his exit.

Teri decided to offer Emily a 2% stake in Business Nerds as a whole (valued at approximately \$200,000) in exchange for \$100k of the cash she would be getting as a bonus. While Emily still gets some cash from Chuck, she also gets value of essentially double what her cash is worth while Teri gets more cash to reduce her out-of-pocket risk on the deal.

**Out-of-Pocket Reduction:** \$100k

**Monthly Payment Change:** \$0

**Out-of-Pocket Status:** \$30k still owed

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## 5. *Lifetime Access Sale*

The final thing Teri does to reduce her out-of-pocket costs is work with Chuck to launch a lifetime membership sale. Chuck's current business is one-off sales of his training, but she plans to switch that to monthly access in the next six months. That means that long-term, Chuck's content won't be available as it has been in the past.

Teri and Chuck decide to capitalize on that with one final push for all the customers in Chuck's current pipeline. Together, they come up with a plan to offer a lifetime access sale to his current training materials with a huge discount (40%!) to current list members only. The deal Teri and Chuck make is that 50% of these sales go to Chuck (more cash in his pocket!) and the other 50% go against Teri's downpayment (which is still, ultimately, more cash in his pocket).

They push this sale heavy and hard and end up earning \$60k in new sales. 50% of that goes straight to Chuck and the other \$30k goes into Teri's down payment.

**Out-of-Pocket Reduction:** \$30k

**Monthly Payment Change:** \$0

**Out-of-Pocket Status:** Zero! Zilch! Nada!

### **Zero is a Unicorn, but Low is Still a Really Cool Horse**

As you certainly noticed in the deal outline above, each step Teri took reduced her out-of-pocket costs by a percentage of the total. First she cut \$200k, then another \$30k, then more and more until she got to that 0% unicorn deal. It took time and networking and strategy. In the end, for Teri, it worked out perfectly.

But let's say it hadn't. Let's say her vendor couldn't give a grant, or Emily didn't have the cash to pay for her equity, or Chuck didn't want to do seller financing. If any one of those things had happened, Teri still would have reduced

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her out-of-pocket cost and overall risk significantly. It may not have been a unicorn, but it certainly would have been a really cool horse.

If this sort of thing interests you (and it should, it's cash in your pocket!), I encourage you to head to [EPICNetwork.com](http://EPICNetwork.com) where we talk about these things all the time. We have challenges and a mastermind group where we geek out on this stuff, and talk about deals like Teri's and Chuck's all the time. We dissect ideas, try new things, discuss strategies, and try to create those unicorns.