

Broker Expertise Bridges Accounting Gap to Match Business with Right Buyer

Expert business advisor clarifies complex accounting to secure \$1.25M business sale, ensuring a smooth transition of ownership.

HOUSTON, TX, UNITED STATES, August 16, 2024 /EINPresswire.com/ -- The seller of a successful spa franchise faced a significant challenge due to the complex accounting method used for its membership-based model. With over 1,200 members and

approximately \$80,000 in monthly

recurring revenue, this method required unserviced (unearned) revenue to be held on the balance sheet.



spa franchise

This presented the impression that a buyer would need to service over \$650,000 in prepaid services (massages and facials), which initially appeared daunting to potential buyers. Additionally, the lender's appraiser, unfamiliar with specific accounting nuances for membership-based models, incorrectly assessed Net Income for the current year at a much lower value than actual. This misassessment resulted in a diminished valuation for the business, potentially causing the buyer's loan to be rejected by the lender.

Transworld Senior Business Advisor, [Katie Holditch](#), initiated a series of strategic actions to address these challenges. Her expertise and meticulous approach provided the necessary clarity and solutions to facilitate the sale successfully.

Katie collaborated closely with the buyer, seller, seller's CPA, and the lender to clarify the implications of the prepaid but unserviced revenue and its effect on the appraised value. Together with the seller's CPA, she conducted a thorough accounting review, determining that an adjustment for "breakage revenue" needed to be allocated to the financials to accurately reflect the business's true cash flow. "Breakage Revenue" is typically allocated to revenue at the end of each financial year and represents a portion of services customers pay for but never redeem, thus increasing revenue and cash flow.

By conveying the correct accounting for Breakage Revenue to the third-party appraisal company, Katie influenced a correction to the initial valuation error. The amended appraisal resulted in a revised valuation of \$1.25 million, as opposed to the initial valuation under \$200,000. This correction allowed the loan to be approved, leading to the successful sale of the business at the full offer price just before the new year.

The solutions were highly effective, resulting in the corrected appraisal allowing the deal to close successfully. The buyers have since thrived, with the location becoming the top performer in Houston for net gains and memberships within six months of ownership.

The team at Transworld South & West Texas commented, "We are incredibly proud of Katie Holditch for her outstanding work in facilitating the sale of a challenging membership-based business. Katie's industry insight and tireless effort were crucial in overcoming significant hurdles. Her ability to collaborate effectively and her keen analytical skills ensured the deal's success. Katie's dedication and expertise were pivotal in this remarkable outcome, and we are confident she will continue to excel in future transactions."

The sale of this membership-based business underscores the importance of clear communication, detailed analysis, and stakeholder collaboration. By addressing the accounting complexities and securing an accurate appraisal, Katie Holditch successfully closed the deal. The new owners' immediate success highlights the effectiveness of these strategies in overcoming significant obstacles in the sales process.

Transworld Business Advisors of South & West Texas successfully resolved the seller's challenge by securing a strategic and financially rewarding sale of the spa franchise. Through Katie Holditch's expert facilitation, the transaction not only met but exceeded the seller's expectations, ensuring a prosperous future for both the company and the new owners.

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