



YOUR DIRECTORY ON BUYING A BUSINESS

Decades of experience in one essential guide

Clyth MacLeod Business Sales
Licensed Agent REA 2008



“BE YOUR OWN BOSS”

LOOKING TO BUY A BUSINESS? - LET OUR YEARS OF EXPERIENCE HELP YOU.

“We believe that the purchase of a business provides the greatest opportunity for an individual or a company to achieve growth, equity build up, independence and personal satisfaction.”

Clyth MacLeod Business Sales has decades of hands-on experience selling businesses of all sizes, across a wide spectrum of New Zealand industries. We have a long-standing and proven track record for successfully connecting buyers with sellers across New Zealand.

This essential directory combines our extensive experience with the latest thinking to help you through the ‘buying a business process’. Combine this with the specialist experience of our sales team in the sector you are looking to purchase a business within and you have a winning formula.

Our team are committed to providing you with first class service. They are practical, professional, experienced and ethical and are all members of the Real estate Institute of New Zealand and are licensed under the Real Estate Agents Act 2008. You can take confidence in knowing they are supported by a leadership team that are dedicated business sales professionals.

IF YOU ARE READY TO START THE JOURNEY OF YOUR LIFE READ ON!



WHY BUY A BUSINESS

Buying a business is a great option to assist in securing your retirement plans. It may assist you in living more comfortably when you have stopped working. 90% of people who reach retirement age are dependent on family or government benefit.

Buyer ownership motivations

The following are important value drivers for buyers of businesses. Different types of buyers see different value to a business.

- ▶ **Job satisfaction** - to get away from repetitive work, lack of reward, may leave corporate position
- ▶ **Employment** - i.e. buying a job, even for larger businesses
- ▶ **Independence** - i.e. more personal control and freedom
- ▶ **Security** - i.e. important when we have times or rising unemployment
- ▶ **Challenge** - i.e. the opportunity to grow an enterprise
- ▶ **Profits** - i.e. important for survival plus capital gains
- ▶ **Lifestyle** - i.e. may involve a hobby or passion

There are many reasons why people choose to buy a business. It is important for you to know why you want to own a business.

WHERE TO START

There has never been a better time to buy a business in our opinion, however it's worth asking yourself a few questions before taking the leap into business ownership.

Why am I contemplating buying a business?

- ▶ Am I tired of working for someone else?
- ▶ Do I want to be independent, control my destiny?
- ▶ Will this give me more security and satisfaction?
- ▶ Do I want to be wealthy?
- ▶ Do I want to make better use of my abilities?

What type of business should I buy?

- ▶ What sort of business do my skills, education and business experience qualify me to run?
- ▶ Am I a retailer, manufacturer, importer or service provider?
- ▶ Will my family be involved?
- ▶ Is there a particular type of business I've always dreamed of owning?

If you love your product or service, going to work becomes a joy.

How much money do I want or need to earn?

- ▶ What are my current commitments?
- ▶ What level is needed to service borrowings?

How much can I afford to invest in the business?

- ▶ This will be determined by the amount of cash you have available now, and what other assets you can provide as security.

What level of debt am I comfortable with?

- ▶ A good idea is to talk to your bank manager early in the process and determine the level of support you can expect. Some are far more supportive than you may think, especially given the current market situation.

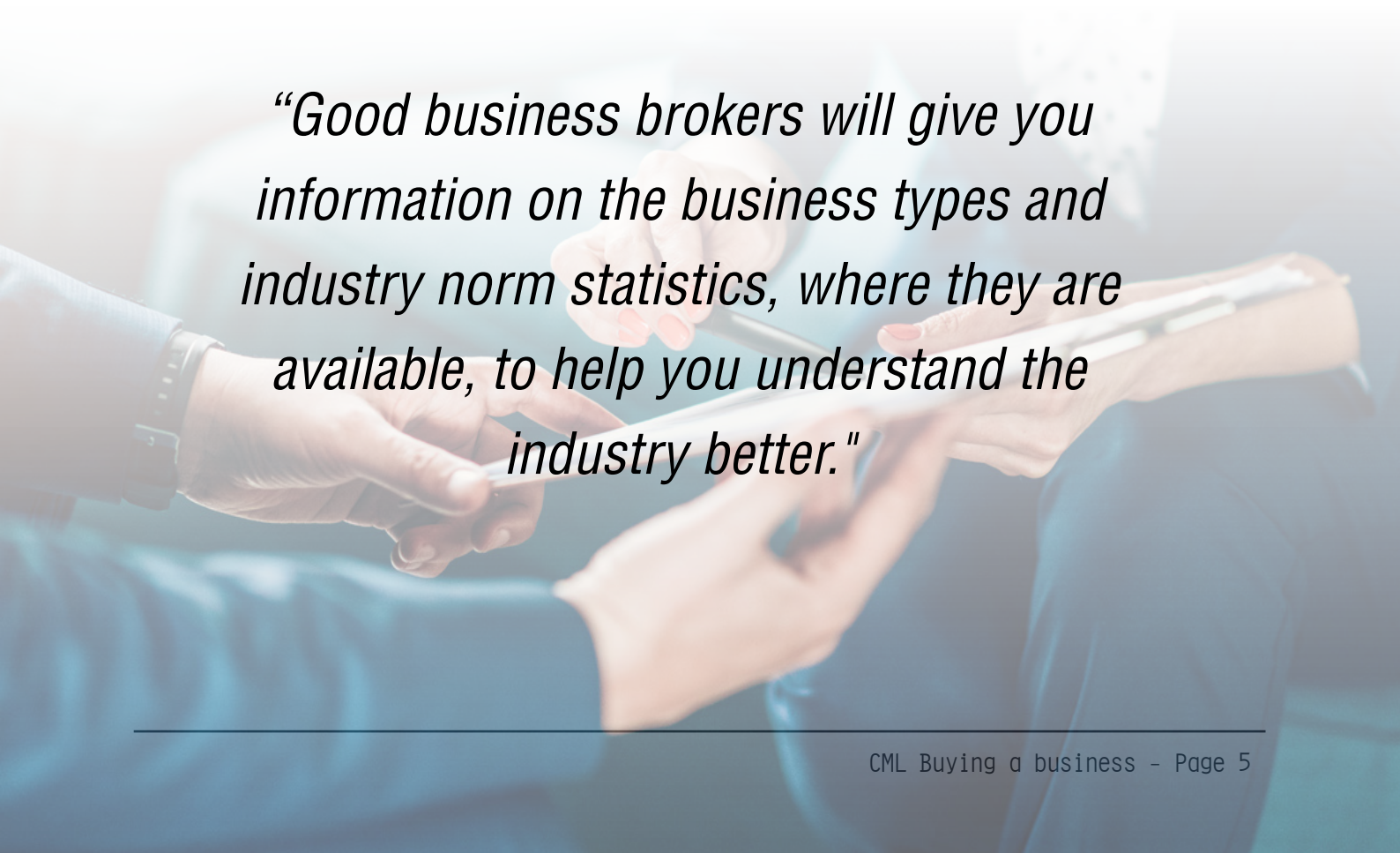
What is my exit strategy?

- ▶ You should be mindful of your exit strategy. This is made easier by buying in a popular industry sector. Don't underestimate the importance of this, as you never know when your circumstances will change and you need to sell.

Who should I deal with?

- ▶ Which brokers can I trust?
- ▶ Which brokers have the experience?
- ▶ Which broker will treat me fairly?

At Clyth MacLeod Business Sales we have a team that specialise, we will connect you with the right broker to help you find the right business for you.



“Good business brokers will give you information on the business types and industry norm statistics, where they are available, to help you understand the industry better.”

CLYTH MACLEOD GROUP



FOOD & BEVERAGE SALES

Clyth MacLeod Business Sales have proudly sold retail Food & Beverage businesses of all types such as cafes, restaurants, lunch bars, bakeries, takeaways, motels, liquor shops etc for around 50 years. Clyth and Glorianne both enjoyed working for Foodstuffs many years back. Glorianne has owned and operated many retail food outlets. And yes, those coffees and the cuisine we consume really are research – call us now.



GENERAL BUSINESS SALES

The General Business Sales team at Clyth MacLeod Business Sales sell businesses of all types from \$10,000 to \$10 million. Business types include manufacturing, retail, automotive, childcare, hair & beauty, professional practices, engineering and building & trades to name a few. We aim to have our team specialise. It will not be unusual to find the business broker selling within a sector to have owned a business within that industry.



COMPANY SALES & ACQUISITIONS

A small, tight - knit team work within CSA. Specialising in the sale and acquisition of businesses from \$500,000 to \$20 million. These brokers all have their own individual skills built on the running their own successful businesses. They offer a personal and individual experience and we will match each business with the right business broker to create a cohesive team with the most appropriate skill sets.



COMMERCIAL LEASING

We assist landlords of business premises to find and retain tenants. We often deal directly with landlords looking for tenants for space that is ideally suited for retail food and other industry types. Generally, it is much more cost effective for a buyer of a business to buy an existing business with a fitout in place, licenses, staff etc. But we may well also have space available set up ready to go for lease and with low ingoing.

OUR STORY

We are a family business and proudly 100% New Zealand owned. We sell all businesses from \$10,000 to \$20 million.

Our company has successfully sold thousands of New Zealand owned businesses over more than five decades. We have a long-standing reputation of achieving outstanding results for our clients. And we put the majority of that down to our people.

At Clyth MacLeod Business Sales we are very proud of our diverse team. The language of business is International, and we are sure we have someone here who speaks your language!

We don't run a team that has to continually compete against each other. In fact, they're more likely to be sharing ideas, experiences and reward with each other. We foster a healthy team culture here. They each have their own area of expertise to bring to the table for your benefit. Our buzz comes from our clients' successes.

Our tagline 'we sell businesses' was established by Clyth when he founded our company decades ago and yes that's what we proudly do. We don't try to be all things to everyone we stick to our knitting – 'we sell businesses'.

We are members of the Real Estate Institute of New Zealand and members of the International Business Brokers Association in the USA. All our sales team are licensed under the Real estate Agents Act 2008. We are New Zealand's longest established specialist business broking company.

OUR FOUNDER - CLYTH MACLEOD



Our founder Clyth MacLeod sold his first business a Four Square in Otahuhu in 1962. He went on to establish Clyth MacLeod Business Sales in 1972. Clyth is renowned in New Zealand, Australia and the USA as the guru in business sales. He was a giver to the industry, giving of his time and experience, always willing to share. Clyth authored much text and he was a life member of the International Business Brokers Association (IBBA) and the Real Estate Institute of New Zealand (REINZ). Clyth set the bar high for our team and we remain steadfastly committed to specialising in the sale of businesses and practising honesty and sound ethics in all our dealings. In recognition of his dedication and contribution to the industry The International Business Brokers Association (IBBA) have created an annual International Scholarship program whereby a deserving international member will be awarded 12 months IBBA membership on annual conference pass, and all education necessary to complete the Certified Business Intermediary (CBI) designation. IBBA say "Clyth exemplified excellence in our profession and in this way his legacy will live on."

OUR MANAGING DIRECTOR - GLORIANNE CAMPBELL



Glorianne Campbell joined Clyth MacLeod Business Sales in September 1995 and worked as a business broker and then stepped into management alongside Clyth around 2000. In 2018 she took ownership of the company.

Her vision to grow the company allowed her to embrace the opportunity to purchase another highly reputable company. In 2019 Clyth MacLeod 2018 Limited took ownership of Company Sales and Acquisitions, a company that has been trading since 1989.

Glorianne is a Certified Business Intermediary (CBI) and a fellow of the International Business Brokers Association (IBBA) and a fellow of the Real Estate Institute of New Zealand (REINZ).

OUR OFFER TO YOU

Professionalism

This comes to you from our experience; from knowing how to do a job well and what is expected. Most of our team have already owned their own businesses and sold them on already, so they know what it is like for a buyer or a seller. Our team is easy to deal with, which is why many of New Zealand's top accountants choose us when their clients want to sell. The fact that so many of their clients are repeat clients is also a great testament to this.

Honesty

Clyth MacLeod Business Sales and Company Sales and Acquisitions, have operated for the longest time of any brokerage in New Zealand - over 50 years for Clyth MacLeod Business Sales and our division Company Sales and Acquisitions for over 30 years. We want to see you succeed and we will do our best to present a range of opportunities to you and we will treat you fairly and justly.

Trustworthiness

Trustworthiness is vital. We take care of our client when selling their business to ensure confidentiality around the sale of their business. They do not wish for staff, suppliers and customers to know their business is for sale. We ask that you retain confidentiality around the business of interest. You may well be a future seller of a business. Our request that you honor this undertaking will also allow you to have confidence and trust in us for the future.



BUSINESS OWNERSHIP

What are the benefits of business ownership?

- ▷ Earnings potential limited only by self
- ▷ Rewards tied to performance
- ▷ Independence in decision making
- ▷ Broad range of activities
- ▷ Control of one's security and future
- ▷ Tax shelter options
- ▷ Estate builder
- ▷ Opportunity to work in a field you choose
- ▷ May provide flexible work schedule

What are the risks of business ownership?

Reasons businesses fail

- ▷ Insufficient planning
- ▷ Poor personal decisions
- ▷ Lack of capital
- ▷ Poor financial control

Perform a personal audit

- ▷ What are your skills?
- ▷ What are your goals?
- ▷ Why do you want to be a business owner?
- ▷ What kind of family support will you have?
- ▷ What are your income needs?
- ▷ Have you sufficient finance?
- ▷ What are the concerns you have about owning your own business?

Why buy an established business?

To start a new business you need to:

- ▷ Decide on type
- ▷ Decide on location
- ▷ Find premises, arrange leases
- ▷ Obtain and install plant, fixtures & fittings
- ▷ Secure stock and buy
- ▷ Arrange signwriting, stationery, etc
- ▷ Hire and train staff

...It all takes time with no money coming in

Surveys show over 60% of start-up businesses fail in the first 3 years – why?

- ▷ Poor location
- ▷ Under-capitalisation
- ▷ Poor planning

Buy an established business and you see what you get:

- ▷ Established customers and suppliers
- ▷ Established financial history
- ▷ Established location
- ▷ Experienced staff
- ▷ Plant and equipment at a lower price

Confidentiality - Sellers are often concerned about confidentiality because of:

- ▷ Fear of losing customers/clients
- ▷ Fear of losing employees
- ▷ Actions by competitors
- ▷ General disruption caused by uncertainty

Therefore buyers must treat confidentiality seriously

Buyers should not

- ▷ Talk to employees, clients, suppliers or competitors without approval from the seller
- ▷ Disclose that the business is for sale except to their professional advisors
- ▷ Make direct contact with the seller unless approved in advance by the business broker

Reasons why successful businesses are sold

- ▷ The owner is retiring
- ▷ There are health issues
- ▷ There are partnership disputes
- ▷ The owner is tired or “burnt out”
- ▷ The owner is not suited to the business
- ▷ The owner is undercapitalised
- ▷ The owner is progressing to a larger or different business.

WHAT IS THE BUSINESS WORTH?

SME's are different. They are typically owner operated with the owner actively involved on a daily basis. They may be a partnership, limited liability company or a sole proprietorship. The business operation may be inseparable from the owner/employee. Usually employment is the primary driver and usually the business is reliant on the owner's skills. In contrast in a large business the owner may have no direct association with the company other than an equity interest.

Valuing SME's can be very difficult. Their financial accounts are normally compilations and are rarely audited and may not reflect the true earnings of the business. Their forecasts are usually most unreliable and often non-existent and the personal goodwill element may be high.

- ▶ SME's comprise 97% of New Zealand businesses
- ▶ Generally less than 20 full-time equivalent employees
- ▶ Generally owner-operated with few management layers
- ▶ Generally less than \$10 million annual turnover and operating from a single location
- ▶ Financial accounts are usually compilations and unaudited
- ▶ They may be inseparable from the owner
- ▶ 99% sell on an 'assets' basis, i.e. plant and equipment, intangible assets (including goodwill) and stock, as opposed to selling on a shares basis where the buyer purchases the company shares.

STANDARDS OF VALUE

Fair Market Value is the most common standard utilised when appraising businesses and has been defined as "the amount at which the business would change hands between a willing buyer and a willing seller when neither is acting under compulsion and both have reasonable knowledge and relevant facts".

Fair Value may be used in relation to a particular transaction which is not in the open market between two identified parties and the aim is to be equitable to both parties.

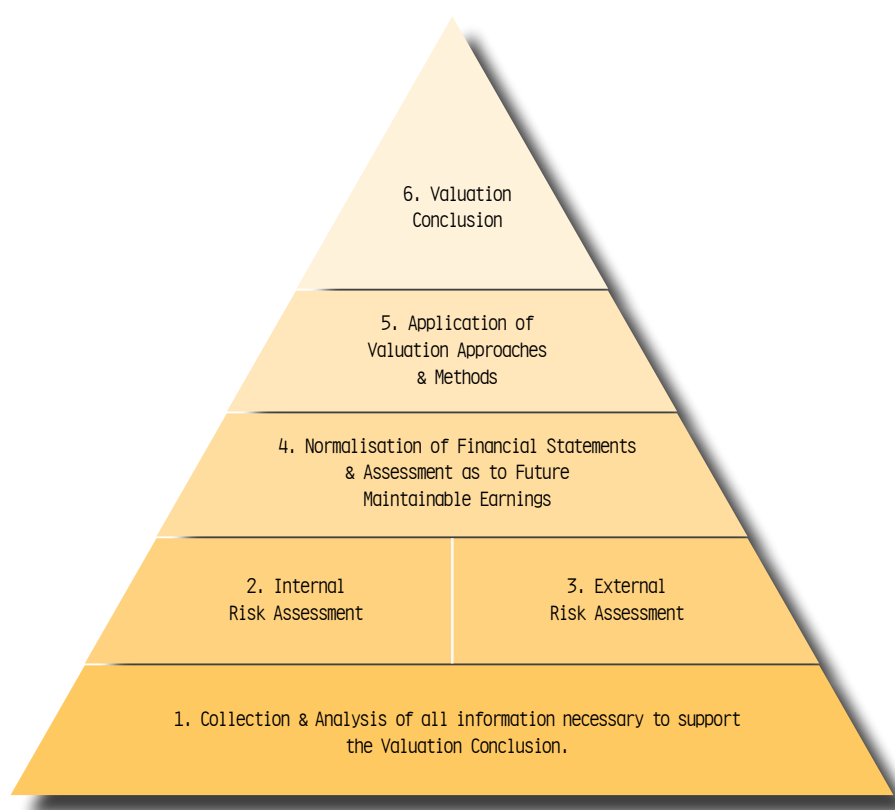
Special Value is the value to a buyer who may pay a premium because of perceived synergies or economies to scale.

Liquidation Value is "the net value of a terminated business, with assets sold net of liabilities and cost of discontinuing operations. The liquidation can be orderly or forced".

Value relates to the expected earnings of the business and the risk of those earnings being maintained.

THE BASIC PROCESS

There is a process that should be followed when valuing businesses and, to arrive at a credible and defensible opinion of value, your business broker needs to obtain full information on the business and then follow a process. All steps must be followed.



It is important to follow all the steps above. Full information (operational and financial) underpins all defensible valuations.

We need to ask lots of questions. Historic earnings are no guarantee of future performance. An assessment must be made of both internal and external risks (e.g. key personnel, security of tenure of contracts, legislative/technological changes etc.)

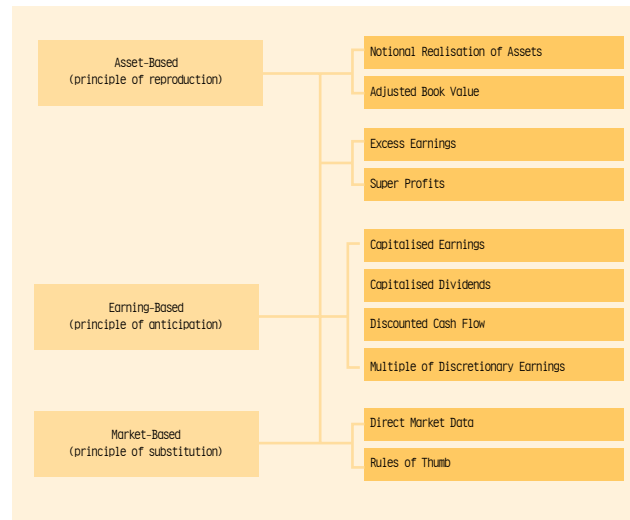
Financial accounts for most SME's will require 'normalisation' i.e. identification of discretionary expenses and reasonable owner's remuneration.

All approaches should be considered, appropriate methods applied and more than one method used. A sanity test should be applied to all valuation conclusions and a range is generally more accurate than a precise figure.

VALUATION APPROACHES AND METHODS

The valuer should consider all three approaches - earnings based, market based and assets based, and the various methods with each approach.

The most common methods are Capitalised Earnings and Direct Market Data.



CAPITALISED EARNINGS SELECTION

Capitalised Earnings - ($V=E/R$) where V = value, E = earnings level and R = capitalisation rate. Care must be taken that the cap rate used is appropriate to the chosen earnings level. This is a straightforward approach using simple arithmetic, is readily understood and well supported by case law. The benefits of this method are:

Uses simple arithmetic – single period approach, no long term forecasts and guesstimates of future income – easily understood by sellers/buyers/professional advisors – well supported by case law. BUT WARNING ‘Simple’ is not always ‘easy’, great care is required in estimating the future maintainable earnings of the business and great care is required in ascertaining the correct cap rate to apply to the business.

The selection of earnings: should be influenced by reliability and appropriateness and this must fairly reflect the probable future earnings.

EBIT recognises flexibility to minimise tax liability and EBIT is – recast earnings before: income tax and interest payments but after: addbacks, personal/discretionary expenses, an adjustment for owner’s compensation at a market rate and any adjustments for increased costs.

Remember, using a normalised EBIT (Earnings Before Interest and Tax), or EBITPDA (Earnings Before Interest, Tax, Proprietor’s Salary and Depreciation and Amortisation) and applying an ‘industry normal multiplier’ risks an incorrect appraisal, which could have dire consequences if taken out to the market. Statistics on sales made throughout the industry need to be compared. The data is then correlated to calculate the correct multiplier, which is applied to the EBIT or EBITPDA to arrive at a market value.

DETERMINATION OF APPROPRIATE CAP RATE

Determination of appropriate cap rate: Having established what earnings are appropriate to work with you will now need to establish an appropriate cap rate. Selecting the cap rate (a divisor which is usually expressed as a percentage) and is used to convert value” is probably the most difficult problem in business valuation. A capitalisation rate is used to capitalise the earnings estimate to get the current value.

The lower the cap rate the more favourable, higher the cap rate the less favourable. An old established with large capital assets business with excellent goodwill would attract a more favourable cap rate compared to a personal service business with strong reliance on the owners skills. There needs to be justification given for the capitalisation rate selected, it must be open to challenge and it should be based on market experience.

Must be subjective analysis – must be objective analysis – lots of factors to consider. Buyers of SME's have an expectation of future profits and the focus is on future maintainable earnings.

CAPITALISATION RATES

A build up” method from a risk-free rate and the adding of increments for Equity Risk and Specific Company Risk Premium will be utilised. There are many factors which may impact the Specific Company Risk Premium and this is where you need an Industry expert to help identify what these are. financial history and profitability, time in business etc.

Factors that may impact the Specific Company Risk Premium include and are not limited to;

- | | |
|---------------------------------------|-------------------------------------|
| ▶ Financial history and profitability | ▶ Location |
| ▶ Time in business | ▶ Security of tenure |
| ▶ Management requirements and quality | ▶ Condition of plant and facilities |
| ▶ Organisation structure | ▶ Customer spread |
| ▶ Staff stability and availability | ▶ Market share |
| ▶ Future prospects | ▶ Reliance on key personnel |
| ▶ Business size | ▶ Marketing capacity |
| ▶ Competitive environment | ▶ Breadth of products and services |
| ▶ Availability of finance | ▶ Supplier relationships and so on |

DIRECT MARKET DATA

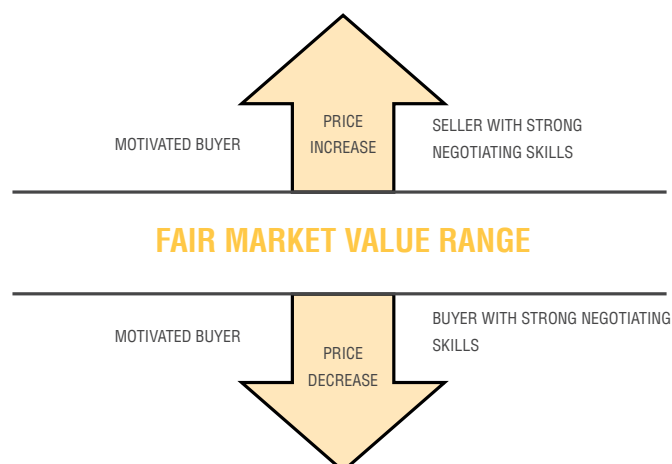
- ▷ This method obtains guidance on business value from data on actual sales of similar businesses and develops price/earnings and price/revenue ratios
- ▷ All comparable data should be considered
- ▷ Adjustments must be made for the unique features of the subject business
- ▷ It may be the only method that reflects the reality of the market but other methods should be attempted.

INTANGIBLES

- ▷ On average 70% of the sale price of SME is for intangibles
- ▷ These are non physical factors and contribute to or are used in producing goods or providing services or that are expected to generate future productive benefits for the individuals or firms that could make use of these factors
- ▷ Most do not appear on Statement of Financial Position of the business
- ▷ They range from trademarks, patents, domain names, franchise agreements, contracts, leases, databases, relationships, to general goodwill
- ▷ To have value they must be transferable
- ▷ On many SME there will be personal goodwill pertaining to the owner and not transferable

PRICE VS VALUE

- ▷ Price is what is actually paid for a business. Valuation is an opinion
- ▷ Price may be affected by the motivations and negotiating skills of the parties
- ▷ The terms of the sale can have a major impact on price . . . as can supply and demand and promotion



SAMPLE WORKSHEET

SAMPLE WORKSHEET

TYPE OF BUSINESS: Café Tutu DATE: 1 July 2009
 TURNOVER: \$1,040,000 pa GROSS MARGIN: 67.5%
 PLANT: B.V. 180,000 M.V. 180,000 STOCK: 20,000

PROFIT:
 Net Profit 100,000
 Plus Interest 10,000
 Plus Owners Wages/Salary in Overheads 50,000
 Plus Discretionary Expenses -
 Plus Depreciation (if applicable) -
 Less Overhead Increases -
 NBPI/CASH SURPLUS 160,000

- (a) sets minimum value?
- (b) transaction data from BizStats
 – P/E ratio 2.52,
 p/sales ratio 19.19
- (c) a rough guide only
- (d) salary guidance from the
 Restaurant Association, cap
 rate by build-up method and
 review of industry value
 modifiers.

VALUATIONS

1. **ASSET VALUE:** ^(a)
 plant value 180,000 plus stock value 20,000 = 200,000
2. **COMPARABLE SALES:** ^(b)

	Location	Turnover	Profit	Price plus SAV
(a)	<u>Epsom</u>	<u>18,000</u>	<u>140,000</u>	<u>342,000</u>
(b)	<u>Ellerslie</u>	<u>21,000</u>	<u>131,040</u>	<u>357,000</u>
(c)	<u>Onehunga</u>	<u>17,500</u>	<u>159,250</u>	<u>385,000</u>

 subject business assessed at = 383,000 + SAV
3. **GROSS REVENUE MULTIPLIERS:**
 Current multiplier for this type of business is 20 multiplied by weekly turnover 20,000 = 400,000
4. **BASIC METHOD:** ^(c)
 Asset Value 200,000 plus 1 years cash surplus 160,000 = 360,000
5. **EXCESS EARNINGS:**

(i) FMV of tangible assets	<u>200,000</u>	(ii) EBIT	<u>110,000</u>
(iii) Return on tangible assets	<u>15%</u>		<u>30,000</u>
(iv) Excess earnings			<u>80,000</u>
(v) Capitalise excess earnings at			<u>33.3</u>
(vi) Add (i) to this result			<u>240,000 + 200,000</u>

 = 440,000
6. **CAPITALISATION OF EARNINGS:** ^(d)

Cash surplus	<u>160,000</u>
Less reasonable salary for manager	<u>- 50,000</u>
(allowing for hours and level of expertise)	<u>110,000</u>
Divided by Cap rate	<u>÷ 30%</u>

 = 366,667
7. **MULTIPLE OF DISCRETIONARY EARNINGS:**

Discretionary earnings	<u>160,000</u>
Multiplied by	<u>x 2.58</u>

 = 412,800

SUMMARY:

After consideration of accounts, key factors and qualitative factors, the suggested price is

\$ 360,000
- 400,000

SANITY CHECK:

Does the suggested price give a buyer an adequate return on his/her labour and capital inputs?

✓

SAMPLE WORKSHEET

SAMPLE WORKSHEET

TYPE OF BUSINESS: Timber/Hardware DATE: March 2011
 TURNOVER: \$16,500.00 pa GROSS MARGIN: 17%
 PLANT: B.V. \$360,000 M.V. \$360,000 STOCK: \$1,000,000
 PROFIT: EBPIDT \$888,504
 EBPIT \$779,004
 EBIT \$659,004

VALUATIONS

- ASSET VALUE:**
 plant value \$360,000 plus stock value \$1,000,000 = \$1,360,000
- DIRECT MARKET DATA:** (from BizStats)
 3 similar businesses located with similar EBITs – sold on average 3.09 x EBIT
 subject business assessed at = \$2,039,400
- GROSS REVENUE MULTIPLIERS:**
 Current multiplier for this type of business is multiplied by weekly turnover = N/A
- BASIC METHOD:**
 Asset Value \$1,360,000 plus 1 years cash surplus \$885,504 = \$2,248,504
- EXCESS EARNINGS:**
 - FMV of tangible assets \$1,360,000 (ii) EBIT \$660,000
 - Return on tangible assets 15% \$204,000
 - Excess earnings \$456,000
 - Capitalise excess earnings at 50%
 - Add (i) to this result \$912,000 + \$1,360,000 = \$2,272,000
- CAPITALISATION OF EARNINGS:**
 EBPIT \$779,004
 Less reasonable salary for manager – \$120,000
 (allowing for hours and level of expertise) \$659,004
 Divided by Cap rate (build-up) ÷ 27.5% = \$2,396,375
- MULTIPLE OF DISCRETIONARY EARNINGS:**
 Discretionary earnings \$888,504
 Multiplied by x 2.92 = \$2,594,431

SUMMARY:

After consideration of accounts, key factors and qualitative factors, the suggested price is \$2,050,000
-\$2,400,000

SANITY CHECK:

Does the suggested price give a buyer an adequate return on his/her labour and capital inputs? Yes

MAKE IT A TEAM EFFORT

The purchase of a business process must be viewed as a team effort. We've taken you through your responsibilities, but what about the rest of your team? Other important members include your solicitor and accountant, both of whom could make or break any deal depending on their actions. What should you expect?

Your broker's role

- ▷ To take a team approach to ensure an optimal result
- ▷ Ensure the information memorandum on the business explains it well
- ▷ To communicate business options to you that will suit you
- ▷ To explain to you the need to respect confidentiality requirements for the business owners
- ▷ To update you on any changes to the business information on businesses you are viewing
- ▷ Facilitate answers to questions you have about the business
- ▷ To treat you fairly and justly at all times
- ▷ Present all offers you may wish to make on a business to the vendor

Your accountant's role

- ▷ To review the books and records on businesses you are interested to purchase
- ▷ To explain GST registration and all other tax matters that you should understand and to assist you if applicable in forming a Company legal entity
- ▷ To be available to your accountant to answer any questions he/she may have on the business
- ▷ To assist you in the Due Diligence process and any other items you require accountant advice on

Your solicitor's role

- ▷ Checking of the offer and counter negotiations as required prior to you signing
- ▷ Approving the final wording of the special conditions drafted by CML that have been agreed in principle by the business owner and purchaser
- ▷ Drafting any restraints of trade special clauses
- ▷ Holding the original sale and purchase agreement and ensure compliance dates are met so that the agreement is completed
- ▷ Obtaining the landlord's consent for assignment of the lease to you
- ▷ Check for restrictions on business use of the premises
- ▷ Check rates, insurance and outgoings
- ▷ Check employment contract of employees
- ▷ Check registrations and licenses held by the vendor
- ▷ Check the inventory of chattels plant and equipment are there any encumbrances to be discharged
- ▷ Transacting final settlement funds
- ▷ Registering the transfer of trademarks, copyright and trade names, etc. and any other items you require legal advice and guidance on

THE BUSINESS BUYING PROCESS

CONTACT BUSINESS BROKER

REFERRED BY PROFESSIONAL ADVISOR OR RESPOND TO AD



MEET WITH BUSINESS BROKER

DISCUSS YOUR INTERESTS, BACKGROUND, INVESTMENTS CRITERIA, MOTIVATION, EXPECTATION



COMPLETE CONFIDENTIALITY AGREEMENT



DISCUSS BUSINESS OPPORTUNITIES

OBTAIN PRELIMINARY DETAILS



TOUR SELECTED BUSINESSES

OBTAIN FURTHER INFO ON INTERESTING ACQUISITION



DISCUSS BUSINESS WITH PROFESSIONAL ADVISORS



OFFER TO PURCHASE TARGET BUSINESS

ON STANDARD FORM WITH USUAL PROTECTIONS, CONDITIONS AND UNDERTAKINGS



NEGOTIATION

SELLER MAY ACCEPT OR REJECT YOUR OFFER - OR COUNTER OFFER



AGREEMENT

COPIES TO YOU AND THE SOLICITORS - DEPOSIT PAID



CONDITIONS

LEASE APPROVED, FINANCIAL ACCOUNTS CHECKED WITH ACCOUNTANT, FINANCE



SETTLEMENT

CONGRATULATIONS - YOU OWN YOUR OWN BUSINESS!

WHAT YOU SHOULD OBTAIN ON THE BUSINESS?

After you have met with the business broker and signed a Confidentiality Undertaking you will be provided with an Information Memorandum on the business. The type of details this will provide to you are:

- ▶ Story of the business ie, background, how long established etc. and what the business produces or does
- ▶ Information from the financials to help you understand the business better. Full financial accounts and GST returns etc will be provided if you are progressing to a stage of intention to purchase
- ▶ A list of plant and equipment (assets) of the business and usually you are advised the book value of this – generally these assets are known as Tangible assets, they are equipment, vehicles, machinery and inventory (also known as stock). (Often the vehicles of the business will not pass to a new owner, they may be personal)
- ▶ An understanding on intangibles is also identified and this may well include customer lists, online presence, customer goodwill, brand strength, growth potential and reputation
- ▶ Disclosure on any plant and equipment that is leased and that you are requested to take over
- ▶ Lease details and rent applicable
- ▶ Employee details including staff roster and hours and tasks owners perform in the business, details on any key employees
- ▶ Franchise agreement details and other contracts that apply to the business
- ▶ Any other details that are necessary for you to know to evaluate the business

There may be sensitive information not disclosed at this early stage which will need to be provided during due diligence process, when the business is under contract, such as names of suppliers and key clients etc.

RULE OF THUMB FOR DETERMINING WHETHER YOU SHOULD BUY A BUSINESS

Is this a business you would enjoy?

Once you find a business you enjoy, you may feel that you never “work” again. Are you comfortable with or enthusiastic about it?

What would you do to improve the business?

If you don't see that right away, you won't ever see it. Can you spruce it up? Change the product mix? Market in different ways? Improve the service?

Do you have the financial resources?

Lack of capital is the most common reason businesses fail. Do you have a little extra over and above the purchase price?

Will the business give you a reasonable return on your investment and on your time?

If not, it may still be a good buy if you can see genuine potential to improve its performance and profitability.



If the answers to these questions are positive, you should make an offer!

MOVING FORWARD

Start Negotiations and enter into a Sale & Purchase agreement.

Negotiation is not just about price it is about terms and conditions also. Buyers and Sellers of business often see things differently. Remember though that the seller has the benefit of knowing the business well having run it for sometimes many, many years. The seller knows the rewards of the business.

We tell our sellers to put themselves in the shoes of the buyer. And we tell you also try putting yourself in the shoes of the seller.

Conditions in an agreement that are unfair in time frame and a buyer imposing changes of terms etc can cause bad will between the parties.

Be clear about your requirements for due diligence and try to put a list together that covers as much as possible so there is not too much disruption of the seller's time as the seller is generally still running the business.

Aim to satisfy conditions by their due date as there is no guarantee the seller will grant you an extension on a date of any clause. The business is still on the market when it is under contract and there are often buyers in the wings appraising the same opportunity.

Your business broker will strive to maintain an amicable and trusting relationship between the seller and yourself as this fosters a win/win for both of you and a smoother transition of ownership.

If you are happy with due diligence and you gain landlord consent to lease assignment and satisfy all other conditions you are unconditional. This can be scary if you have never owned a business before. Expect to feel nervous as that is a natural feeling.

**We encourage you to embrace the opportunity and look ahead with excitement.
Congratulations on realising your ambition of owning a business.**

LANDLORD CONSENT PROCESS TO LEASE ASSIGNMENT OR NEW LEASE

In purchasing a business, it is essential that you put together a business plan and a CV on yourself to provide to the landlord for perusal and for the ultimate gaining of the landlord approval to an assignment of the existing lease. This process is often left until the last moment and given little thought. Your solicitor should oversee this process and anything you put together we recommend you pass to him/her for review and then forward on for you.

Landlords need to be assured that you have the skills and financial means to run the business and to meet your tenancy obligations. It is not a given that you will gain Landlord consent to the lease assignment. We therefore recommend that you give this step in the process proper consideration.

As a buyer of a business you will be seeking security of tenure that is very understandable. But you must also remember that the landlord would like the security of a good tenant also. Landlords wish to see their tenants do well. Plan ahead and follow the pages that we have enclosed for ease of consideration.

We cannot write your CV for you, but we are happy to arrange to have what you write professionally printed for you.

The following template will assist you in planning ahead before presenting to the landlord and we recommend you consider this at an early stage.



My skills and experience – *(Any businesses you have owned – types – location and duration of ownership – how did they perform)?*

The business I am purchasing; *(what is good about it– what needs improving in it and what are your future plans for it, introduce new lines, tidy premises, increase trading hours, train staff etc...*

Family support *(are you planning to work in the business yourself, will other family members assist you, do you have family support?)*

Family support *(are you planning to work in the business yourself, will other family members assist you, do you have family support?)*

IMPORTANT Clyth MacLeod 2018 Limited has provided this template to assist the Purchaser in considering different aspects they may like to present to the Landlord for the Assignment of Lease Consent and or any lease extension. We have strongly recommended that the Purchaser of any business seeks legal advice prior to presentation of this document to the Landlord.

We trust you have found our 'Buy a Business Directory' helpful.

Our company specialises in SME's small, medium size enterprises from \$10,000 to \$20 million across all industry types. If you have any further questions, please call us today.

Our aim is to be the best business brokers by providing exceptional service with integrity and enthusiasm through professional salespeople.



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