Clyth Macleod

'WE SELL BUSINESSES'

YOUR DIRECTORY ON SELLING A BUSINESS

Decades of experience in one essential guide

Clyth MacLeod Business Sales
Licensed Agent REA 2008

“TIME FOR FREEDOM”

Selling your business is one of the most significant things you will ever do, as the price you receive may determine the lifestyle you can expect for the following decades of your life. Every dollar you add to your bottom-line net profit could add around three or more times that figure to your business’s sale value.

You have put in countless hours, money and energy building your business. This directory will ensure you don’t short-change yourself as you, as the business owner play the most important part in maximising the outcome.

Selling a business is a complex procedure. Whether it’s your first time, or you’re an experienced seller, it’s very easy to forget things and to feel overwhelmed.

Clyth MacLeod Business Sales has decades of hands-on experience selling businesses of all sizes, across a wide spectrum of New Zealand industries.

This essential directory combines our extensive experience with the latest thinking to help you through the sale process. Combine this with the specialist experience of our sales team in the sector your business resides and you have a winning formula.

This is not your tool to a quick sale because that may not be the best outcome for you. But it is your tool to get this important decision right first time. The content is considered, pragmatic and will make you think through the right process to get you and your business into the best possible shape before sale.

SME'S

(SMALL AND MEDIUM SIZED ENTERPRISES)

You should recognise that 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 or 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".

FAIR MARKET VALUE CONSIDERATION

The amount – FMV contemplates a cash price for the business – the availability of terms (e.g. vendor finance) can significantly skew the price achievable.

Change hands – FMV envisages a notional market where an actual transaction takes place between arms-length parties.

Willing buyer – i.e. ready, willing and able to settle the purchase.

Willing seller – again the seller must be able to sell and be ready to meet the market. If the seller won't meet the market then effectively he/she has bought the business for themselves.

Compulsion – FMV considers a notional perfect market**.**

Reasonable knowledge of relevant facts – obviously the owner will be more knowledgeable about the business than the prospective buyer. This is one of the reasons industry buyers may pay a higher price than someone without experience in this sector.

FMV is more complex than many think. It's application to the subject business will involve subjective judgments. Market experience proves that price can vary significantly from value depending upon the motivations and negotiating skills of the parties.

Both buyers and sellers can come to the market with unreasonable expectations.

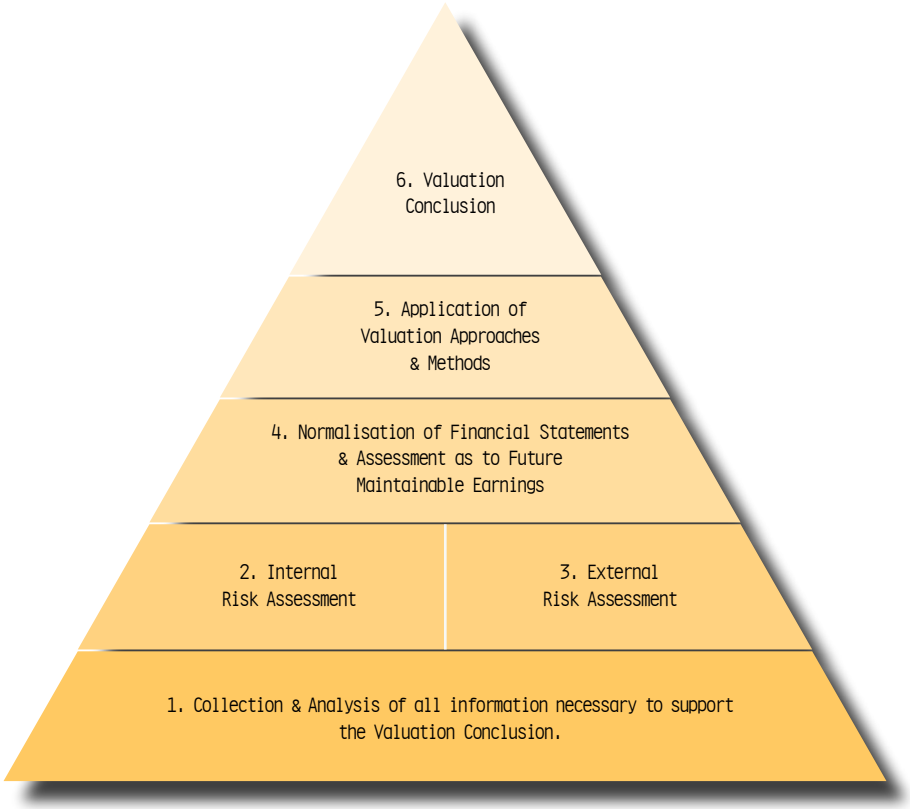
The seller knows all the benefits flowing from the business, runs it comfortably with long years of experience, and has heard stories about the sale price achieved by other businesses in the sector.

The buyer is often uneducated as to the returns available from business ownership and as to the size of the business he can own with his limited funds.

Over time, and with exposure to realities of the market, both parties will become educated and conclude a sale within a reasonable range.

THE BASIC VALUATION 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.

THE STEPS TO FOLLOW

STEP 1 – The collection, collation and analysis of full information
This will include identifying any intellectual property or other intangibles the business possesses. This process may also discover "hidden" value, for example a saleable sub-franchise right or a unique process that can be licensed. Or perhaps a domain name that may be able to be sold off as a separate entity. The foundation of a sound valuation is full information on the business. We need to know the type of business, location, ownership, history, lease and rent, organisation structure/staffing, trading hours, competition, customer spread, supplier relationships, agencies, patents, franchises, plant schedule. We also need the financial statements, year to date figures, GST returns, day book -bankings, trends.

STEP 2 – Internal analysis and risk assessment
From the information gathered we are now in a position to conduct an internal analysis of the business and assess the risks associated with the internal running of the business. We may uncover issues such as, there could be a demo clause in the lease which will have a significant impact on value.

STEP 3 – External analysis and risk assessment
This process will identify factors that may affect future earnings and include the economy, legislation, regulatory matters and competition. For example we may uncover that there is a new business due to open next door. This could have a negative and sometimes a positive influence on the business.
We live in a rapidly changing world and changes in demographics, shopping developments, tax structures and government direction make it impossible for the appraiser to forecast with exactitude.

STEP 4 – Normalisation of financial statements and assessment as to future maintainable earnings
Financial accounts for most SME's will require normalisation, that is identification of discretionary expenses and a reasonable owner's renumeration. Adjustments may be required and further consideration given to projected financial statements. In normalising the financials there can be a grey area in deciding which 'discretionary' expenses are strictly necessary for the production of income.
And assessing a notional replacement salary for the owner-operator commensurate with his or her skills, experience, responsibilities and relationships can be fraught with difficulty given the wide range of responsibilities of many SME owner operators. In our experience there is a very high degree of probability with the accounts that they understate the true earning capacity of the business.
The Statement of Financial Performance needs to be considered line by line to consider which expenses are normal and which are discretionary.
With the Statement of Financial Position the appraiser needs to review all the assets. Is the book value of fixed assets really representative of market value? In the real world they may be worth far less than the accounting figure. Is the inventory level reasonable to maintain profits? Is there a seasonal element to the business?
And is there a working capital requirement? What value are the Intangibles as a component of business value?

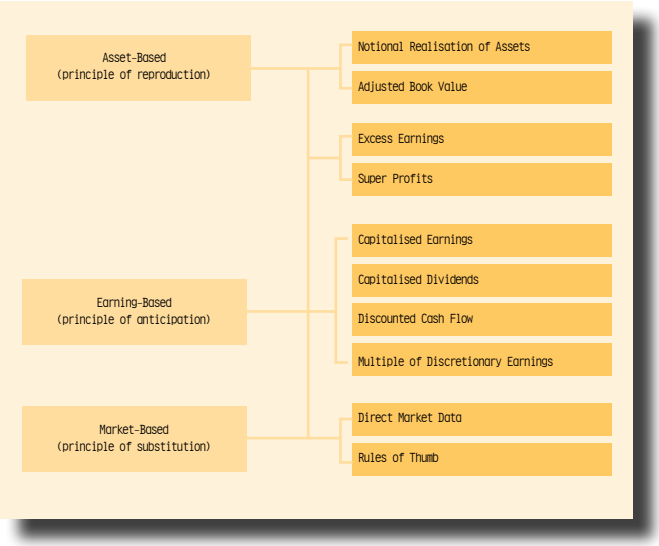
STEP 5 – Application of valuation approaches and methods
All approaches should be considered, appropriate methods applied and more than one method used.

STEP 6 - Conclusion
A Sanity Test should be applied to all valuation conclusions and a range is generally more accurate than a precise figure. Does it make sense? Would I recommend this business at this price to my best friend or family? Would I pay this price if I was a buyer? Or accept this price if I was the owner?

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: add-backs, 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. Factors that may impact the Specific Company Risk Premium include and are not limited to;

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

DIRECT MARKET DATA

Direct Market Data – "a method of appraising closely held businesses that uses information on actual sales of other closely held businesses to estimate the value of the business being appraised". Often the most persuasive method if comparable sales information is available. This may be available from industry associations, franchisors or Bizstats.

This method obtains guidance on business value from data on actual sales of similar businesses and develops price/earnings and price/revenue ratios. It is essential that all comparable data should be considered. Adjustments must be made for the unique features of the subject business. Care must be taken to compare apples with apples.

It may be that this is the only method that reflects the reality of the market but other methods should be attempted.

7-Step process for direct market data:

Direct market data method assumes that data is sufficiently broad in sources that measures central tendency (average and median) it represents the actions in a free and open market.

1. You need to determine parameters for the subject
2. Collect data from the sale of similar businesses
3. Evaluate data
4. Calculate ratios - most persuasive ratios are price to earnings and price to revenue
5. Apply ratios to subject business
6. Assess whether subject business is better or worse than average (another subjective assessment)
7. Arrive at an opinion/conclusion as to value

These subjective assessments can have a significant impact on the opinion of value. This process is good in that it is easily understood by buyers and sellers as well as professional advisors and financiers.

The method is persuasive but not conclusive, it provides a point of centrality, and an element of comfort that you are in the right ballpark.

There is nothing mystical about this approach as it is exactly the same as how we value houses or cars. We do the comparisons and get a feel for value. You will need to gather the information on an adequate number of closely held comparative businesses – develop mathematical relationships (ratios) so that the subject business can be compared to actual sales – estimate a point of centrality and then, considering value modifiers applicable to the subject business, compare all the comparables, the more the better, as an indication of value of the subject business may fall out of the parameters. Perform a sanity test and check the answer against comparable market data if stats are available on similar businesses, adjust the value for any non-operating assets and working capital or debt.

The minimum statistics required to work with direct market data valuation are:

sale date – sale price – earnings – business type – location – explanations/comments

The strengths of this methods are:

- It is based on actual sales of similar businesses in the open market
- It is mathematically simple
- It is readily understood by buyers and sellers
- It eliminates many subjective opinions and adjustments
- It reflects the real world where decisions are based on non-economic factors as much as rational investment considerations
- It is based on transactions for industries or businesses where there is no realistic guidelines in the publicly traded market

RULE OF THUMB

Rule of thumb is a market inspired pricing tool based on collective feelings of those in the business, or closely associated to it, that indicates what a business should sell for or could be purchased for. Often referred to by accountants as ROT, but if it is utilised in accordance with other valuation methods it can be very useful. Simple and easy to use but dangerous to use if not used with other methods, good to consider especially with businesses where they are market comparable such as accountancy practices, they emerge from market transactions, they are useful for smaller businesses, they are well supported by case law.

AVAILABILITY OF STATISTICS TO ASSIST IN DIRECT MARKET DATA

We are very fortunate as our company has been trading for over 50 years. We have a huge database of inhouse stats available as we have sold over 9,000 businesses. In addition to this we also utilise Bizstats which is a company that holds thousands of transactional data of business sales throughout New Zealand. We also utilise the Waikato Benchmark Stats - they are most useful in establishing what the industry norm for certain sectors are such as GP and wage percentages. These are important considerations to the future maintainable earnings of the business. When we are appraising a business and seeking to identify the characteristics of the business for the purpose of benchmarking, we ask “is the subject business better, worse or similar”?

Established, dedicated business brokerages utilise a comprehensive database of this vital information to assist in appraising your business.

INTANGIBLES

On average over 60% of the sale price of SME's is for intangibles and, in spite of their apparently indiscernible nature, intangibles are very real.

Intangibles are all around us. They are increasingly important. They provide a core competitive advantage and are the springboard for profits. They create barriers to entry. They have cost advantages. Intangible assets are not concrete, you can't touch or feel them, they are verifiable, they are part of accepted value methodology.

These are "non physical factors that contribute to or are used in producing goods or providing services that are expected to generate future productive benefits for the individuals or firms that could make use of these factors". Measuring intangibles involves making judgment calls. Most do not appear on the 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 identifiable and transferable. In many SME's there will be personal goodwill pertaining to the owner that will not be transferable.

Often the final value of the business is more than the accounts say it is worth. In other words, the value is more than a sum of all the assets less liabilities. This additional value is called goodwill. Exactly what goodwill is can be argued at length. One assessment is that goodwill is the potential of the business to make above-average profits in the future.

This will depend on a range of things such as: a sound marketing strategy, secure contracts, limited competition, good management, entrepreneurial vision, a top product or service, a leading brand, and a compelling competitive advantage. If all these factors are exceptional, then you could argue that the goodwill value on your business is substantial. If they are poor, then the goodwill of your business might be close to zero. When you consider your business goodwill, make sure you fully document what you mean by this goodwill and be able to justify it.

PEGS IN THE GROUND

- Business valuation is an art, not a science
- All valuations are opinions and there is an element of subjectivity in every opinion, particularly with small and mid-sized owner operator businesses
- Business valuation should be unbiased, it is not an advocacy function
- Business value should be based on expected earnings, but it is not an accounting exercise
- The more money your business is likely to make, the more it is worth
- All valuation methods are driven by the return on investment or return on investment potential, and the associated risk
- Curiosity is more important than calculating ability
- The only true test of value is an arms-length sale on the open market after a reasonable marketing programme

SIX VARIABLES OF YOUR BUSINESS WORTH

The customer:

Who they are and why do they deal with this company?

Do one or two customers make up the lion's share of turnover?

Will they continue to do business with a new owner?

Are they contracted in?

Is there a good spread of clients?

Do they pay on time?

The suppliers:

Are there any contracts in place?

Are they transferable?

When do they need to be paid?

Are they a reliable source for supply?

Are there any alternative suppliers in this field?

The product or service:

Is it immune to cheap foreign imports?

Are there barriers to entry?

Does it have a point of difference?

Is it a 'sunrise' or 'sunset' business?

If a service, what is the availability of future staff?

Is there an incidence of technology change/ innovation with products?

The premises:

Can the premises accommodate growth?

Can the lease be reassigned?

Can the lease term be extended? Is it at market rates?

Do the premises require repair, maintenance or reinstatement?

How appropriate is the location for the business?

The plant:

Is the plant and equipment up to date?

Is there new technology on the horizon?

What needs replacing?

What is the level of capacity utilisation?

What is the real value, opposed to the book value?

Is there is a maintenance programme in place?

Profitability:

Are profits showing year on year growth?

Is EBIT at a satisfactory level showing an acceptable return on investment?

Have you a record of all significant distortions of profits over the last three years?

Are personal and discretionary expenses recorded so that 'true profits' can be calculated?

Is the profit level sustainable?

WHEN IS THE RIGHT TIME TO SELL?

Don't wait until the business has exhausted every opportunity. The best prices are obtained when the business can still offer upside potential to the new owner.

While it isn't always possible, the best time to plan for the sale of your business is two years before the time you wish to exit.

You also need to:

- Understand the complete process involved in selling a business
- Be committed to the sale of your business when you list to sell
- Know the proportion of equity you want to sell (we usually recommend 100%)
- Be prepared for the required level of hand-over assistance
- Consider the availability of vendor finance

The best time to sell is when your business still has potential for growth and is performing well. However, a bad year should not stop you from selling, as often this is recognised as a one-off result and will not necessarily affect the value. More likely, the best time to sell is when you're ready, not when you are forced. That means planning ahead.

Good reasons to Sell

- May be worth more than you think
- Free up capital and time
- Opportunity for life-style changes including more time for family and friends
- More time for you if needed or desired
- New money-making ventures
- Chance to step back from the responsibilities and be a consultant
- The chance to retire

It is important for you to question yourself and your motives for selling your business. Are you committed to selling? It is not wise to start the process and then pull out halfway through as this can impact on your business. Know your motivation and commitment to a sale. And what are your plans after selling, are they achievable?

FIRST IMPRESSIONS

If possible, your accountant should prepare an interim financial statement for current financial year to date. Your staff should be motivated and performing well and it is imperative that you have up to-date employment contracts in place. Good documentation and effective systems are always attractive to a purchaser. This may include supplier agreements, contracts with customers and any other legal, procedural or business-related items. You have only one shot at a good first impression, therefore make sure the physical aspects of the company are presented as you would if you were selling your own house.

Ensure there are effective systems in place

Minimise your business's reliance on the owner/operator by implementing effective quality and management systems, as well as fully training staff. Change your sales literature to focus on the business rather than the owner. Best practice manuals should be in place and systems well documented.

Optimise your business profit

To get the maximum from the sale of your business, you must optimise profits leading up to the period of sale, even if it's at the expense of higher taxes. Keep a healthy pipeline, this is important as buyers are looking for viability. An investor looking at your business will be most interested in the profit, and whether it can be maintained.

This may mean owners need to:

- Eliminate all private expenditure and 'abnormal' expenditure from the company's financial records
- Optimise the staff level and structure
- Exercise budgetary control of costs
- Maintain or, if possible, improve sales and gross profit
- Review contracts with suppliers to reduce costs or increase value
- Prepare comprehensive plant lists
- Ensure plant is in excellent working order and maintenance is up to date

Reduce costs

Focus on increasing sales, reducing expenses and seeking ways to improve operations, as this leads to reduced costs. Operating profits must be 'normalised' by adjusting items such as interest costs, shareholder's salaries and discretionary expenses not directly related to your business, and any one-off 'abnormal' costs. This task may be carried out by your accountant or your business broker. (Validation of any findings by your business broker will be required from you and or your accountant).

Taxation requirements

When selling, there are often tax implications relating to the depreciation of your plant and equipment. We strongly recommend tax advice is sought during this process.

Your accountant will advise you on tax implications for instance if plant and equipment is sold at a value between the depreciated value and the original cost, there may well be a tax liability known as 'depreciation recovered'.

And on the other hand, if the plant and equipment is sold at a fair market value below the depreciated value, there may well be a tax deduction.

Your accountant will guide you through this process

Tax issues may also arise if a profit is realised on sales of land and buildings, or the stock. There are currently no capital gains taxes in New Zealand. You should not be taxed on the proceeds of the sale of your business unless you buy and sell businesses for a living.

Safeguard contracts

Provide the opportunity to extend the lease. Tidy up employment contracts, supply agreements and the property lease. Ensure your most profitable and most loyal clients are happy and contracts are up to date. Remember they're a vital part of the value and sale of your business.

Clean up

Clean up the premises and the plant. Remember, first impressions are lasting ones. Bring in realistic stock and WIP valuations and eliminate obsolete or slow-moving stock. Sell any excess plant and equipment.

The payoff

Every dollar you add to your bottom-line net profit could add around three or more times that figure to your business's sale value. Buyers generally require at least the previous three full years of business financial results.

ENGAGE THE RIGHT PARTNER

Clyth MacLeod Business Sales will assist you through the steps of the selling process. From appraising your business, to marketing and selling your business, we will be there every step of the way.

A firm guide on price: while revenue and turnover may be indicators of your business's worth, there are a variety of other factors in assessing its market value. With access to extensive market data (in house statistics from the thousands of businesses we have sold and Bizstats New Zealand's national database of business sales stats) coupled with our practical experience across all industries, we are best placed to advise on the value of your business.

We will require your financial statements for at least the last three years and also any other documentation needed to complete an appraisal (price analysis document). The broker will go through your business accounts thoroughly, identifying items that are one-off, discretionary or of a capital nature. This allows the removal of distortions to normalise your results. Any adjustments made to your accounts will be based on information you have provided to us and we will seek your confirmation and that of your accountant that these reflect correctly on your business.

Confidentiality: like any professional advisor, confidentiality is imperative. We understand the need for confidentiality and strive to maintain this for you. We will meet and pre-screen potential buyers as to suitability to buying a business with regards funding and experience and skills. All buyers are required to complete a confidentiality undertaking.

We allow you to do what you do best – run your business. Leave the rest to us.

Marketing expertise: with you we will identify and discuss the key business drivers and what your goals are and how we can achieve them to reach an agreement on the best way to market your business. We offer a tailored approach: with the aim of attracting as many prospects as possible to your business, we utilise a unique, multi–pronged marketing strategy which includes consideration to print media, direct mail, ethnic papers, targeted databases, social media and digital advertising on nine major specialist websites. We tailor the marketing strategy to suit your requirements.

Our networks: we have long-established and strong networks of professional advisors (particularly accountants and solicitors), industry associations (in New Zealand and overseas) and other specialist business brokers we willingly co-broke with. These networks are invaluable and assist us in placing your business in front of the right buyers.

Extensive experience and knowledge: when it comes to selling a business that you have dedicated significant time, energy and resources to, you want to ensure it is in the right hands. The core strength of our company lies in the quality and the experience of our team of business brokers, most of who have owned their own businesses or come from the accountancy profession or senior management positions.

A service guarantee: if you list your business with our company on a Sole Agency basis and are dissatisfied with our service, we invite you to serve notice on our company to remedy any performance issue you believe you are encountering and, if we do not remedy such performance issue within 48 hours, we will release you from the agency agreement.

Creation of information memorandum and listing:

Once thoroughly reviewed and analysed, your business will then be listed at an agreed-on price. Our business broker will then work with you to produce a professional Information Memorandum that invites the reader to take the next step and accurately reflects the business in its essence, thereby avoiding misunderstandings.

APPRAISALS AND VALUATIONS

Business appraisals for selling a business based on comparable sales

As real estate professionals and licensees under the REA 2008 we are to provide all business owners prior to listing a business for sale with a written appraisal on the business. The appraisal must realistically reflect current market conditions and must be supported by comparable information on sales of similar businesses. We provide this service free of charge to you.

Business appraisals/valuation for business planning purposes

We provide an appraisal/valuation service for business owners wishing to plan ahead for their exit strategy. We will review all aspects of your business and we will indicate a realistic price range that may be achievable for your business. Different valuation methodologies will be considered. A fee will apply for this service and generally will range $ 3,000- $ 5,000 plus GST, depending on the complexity of the business. Should you wish to sell your business and list with us within three years from the date of the appraisal/valuation we will refund the appraisal/valuation fee from the selling commission.

Formal business valuations for relationship matters

More detailed and more complex valuations that we believe are outside of our scope of expertise we refer to a qualified valuer within this field. A fee will apply with the valuer of choice and you will need to ascertain this fee directly from the valuer.

About business valuation

Valuing a business can be a complex process, no two businesses are identical. This means there are different factors that need to be applied even to what appear to be the same sort of businesses in the same industry sector.

OUR STORY

We are a family business and proudly 100% New Zealand owned. We charge what we believe to be fair and reasonable.

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.

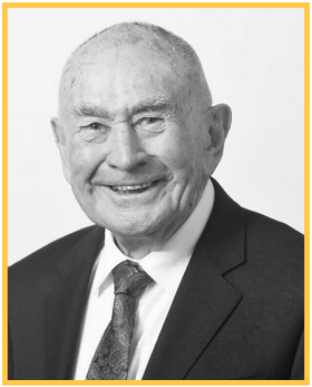
At Clyth MacLeod Business Sales we are very proud of our diverse team. The language of business is International, and we are sure we have someone here who speaks your language!

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 offer honest feedback, honest comments and, when needed, honest criticism. We deliver honest appraisals on businesses. We believe business owners deserve a fair calculation the first time.

Trustworthiness

Trustworthiness is vital. Often when you are selling a business, you don't want your staff to know until things are further down the track. We are incredibly careful about confidentiality. The marketing of a business is done anonymously, and any interested buyers go through a strict confidentiality agreement first. You can trust us to aim to retain confidentiality on your business and only interested buyers go through a strict confidentiality agreement process first.

Investment

Our fees we believe are lower than other specialist business broking companies without compromising marketing, service and skills. We charge what we believe to be fair and reasonable. We proudly and transparently show our fees to you.

Our fee whichever the greater- a minimum of $ 12,850 or 7.5% of the first 1 million of the sale price. The balance of the sale price is 6%. All fees are plus GST. (An initial compliance and marketing fee of $650 plus GST is applicable on all business listings).

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 of 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

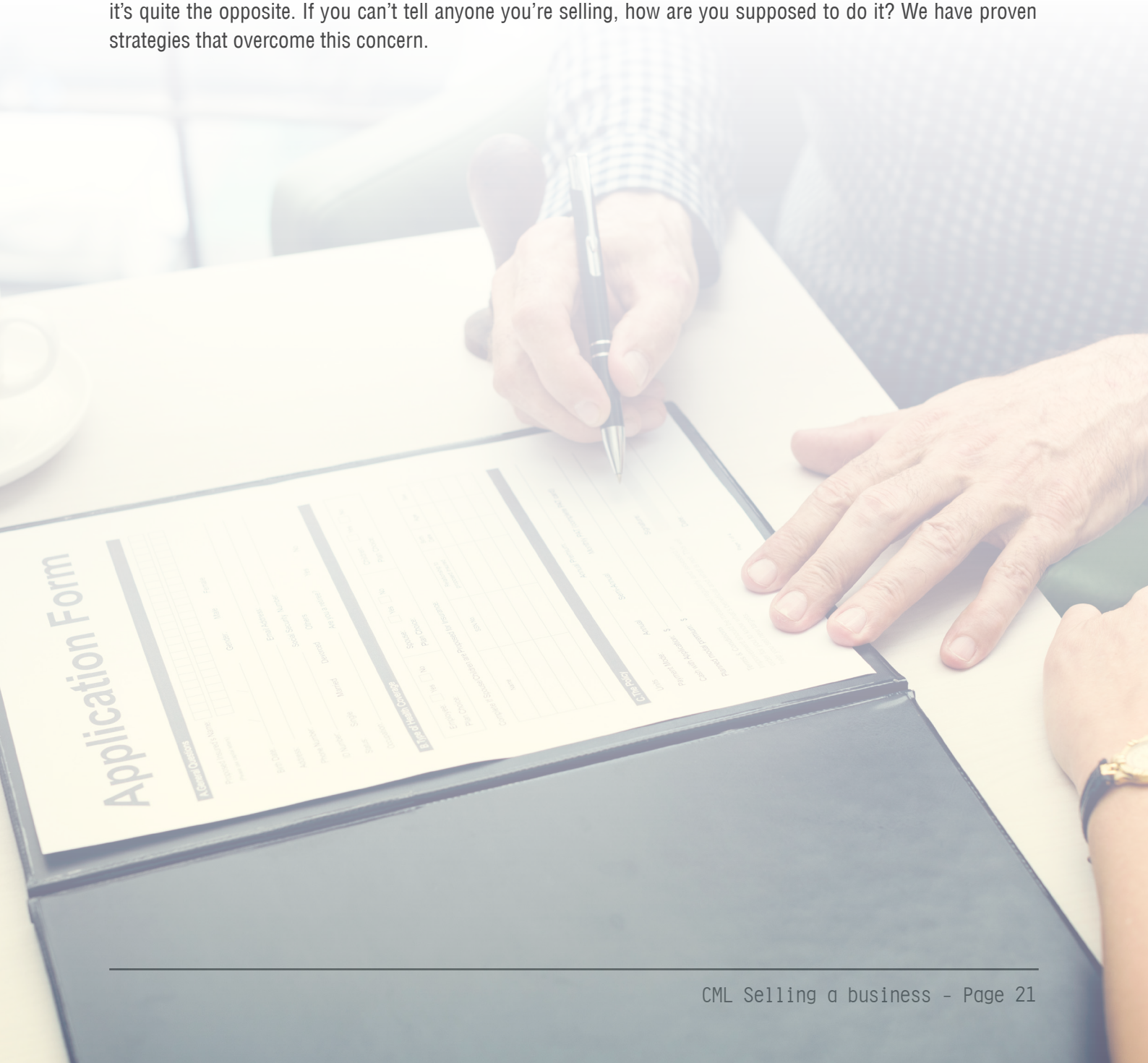
We assist landlords of business premises to find and retain tenants. We often deal directly with landlords looking for tenants for space that is ideally suited for retail food and other industry types. Generally, it is much more cost effective for a buyer of a business to buy an existing business with 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.

DECISION MADE – READY TO SELL

Who should I tell about selling my business?

You should tell as few people as possible, but you should also be aware of your legal obligations regarding staff. Selling your business can be very unsettling for your customers, staff and suppliers. In the initial stages you don't want to let anyone know of your intentions, as the news could affect your business operations and, ultimately, its value. In fact, the best way to ruin a business is to tell people you are selling it, because employees, customers, vendors and landlords often worry they won't like something about a new owner.

The only people who are happy to hear that a business is selling are your competitors, who will shout from the rooftops that you're 'going out of business', not selling your business. Selling businesses is very different from selling houses. The real estate model is 'the more people you tell, the more houses you sell'. In our industry, it's quite the opposite. If you can't tell anyone you're selling, how are you supposed to do it? We have proven strategies that overcome this concern.



MAKE IT A TEAM EFFORT

Members involved in the sales process

Selling your business is a team effort, led by yourself and your broker. 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

- Ensure the Information Memorandum does justice to your company
- Market your business to as wide an audience as possible
- Maintain your confidentiality from suppliers, competitors and staff
- Achieve the maximum price possible from the market
- Comply with your time frame and any other requirements you have
- Reach agreement with the party/parties that have the skill to operate the business and the wherewithal to complete the purchase
- Utilise negotiation skills with lateral thinking to achieve the best sale possible

Your accountant's role

- Provide a current year projection of profit and loss account. Between you, there is a need to identify any profit distortions in the last three years such as discretionary or capital-type expenditure
- Provide copies of historical financial statements going back at least three years
- Prepare interim financial statements when they are required
- Provide information during Due Diligence
- Advise on the tax implications of offers presented

Your solicitor's role

- Record in correct legal terms the agreement that has already been negotiated between the parties, whilst ensuring they preserve the integrity and spirit of the original agreement. This includes:
- Approving the final wording of the special conditions drafted by CML that have been agreed in principle by the business owner and purchaser
- Obtaining the landlord's consent for assignment of the lease
- 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
- Transacting final settlement funds
- Registering the transfer of trademarks, copyright and trade names, etc

WHY SELL THROUGH ONE BROKERAGE

A sole agency process provides better results for the vendor every time. Selling a business is not like selling a house! The process requires the commitment of all parties to achieve an optimal result. Unlike a house, a business is dynamic and in a constantly changing environment. For this reason, a business sales specialist will create a level of empathy and trust with both you as owner and also with the purchaser, to work through potential 'deal breakers' that can arise during the process.

With a general agency listing the business owner can expect:

- Rushed or limited preparation – risking future litigation
- Compromised confidentiality through wide exposure to as many potential buyers as possible as quickly as possible
- Discouraging potential buyers who cannot act immediately. Big decisions take time for people who want to make smart choices
- A bias to accept first offers as soon as possible for a quick sale – before a chance to compare or negotiate competitive counter offers
- Pressure to accept a discounted price to offset uncertainties or lack of information that cannot be determined due to time pressure

So, the pitfall of a general listing process is a race to produce a buyer at the minimum price acceptable. By using a sole agency, 'feedback loops' in communication enables dealing with objections and questions, that will inevitably arise, in a clear and steady way

By appointing a sole agent the business owner can expect:

- Targeting of purchasers in order of suitability
- Time to evaluate the business correctly at each stage
- Confidentiality
- Commitment to the project, confident in a process that it is appropriately managed
- We are joined at the hip with you and offer you a diligent and transparent process
- We aim to keep your involvement to a minimum

THE 10 COMMANDMENTS

Greedy - if the business has been on the market too long, it gets 'shop soiled'. get it priced right to sell.

Why are you selling? - Buyers always ask when they phone us – where is the business and why are they selling? Be clear from the start why you are looking to sell.

Profits - a good set of financial accounts from an accountant, possibly adjusted to remove some of the discretionary expenses, will give potential buyers comfort and faith in the sale.

Training - 90% of our buyers are 1st time buyers, so they are understandably nervous. a vendor willing to train will offer comfort to them. The more comfortable they are with this, the higher the price they are likely to pay.

Covenant not to compete - it is a red flag to a buyer if the seller is not happy to provide a fair and reasonable covenant not to compete. Not agreeing on this will add a lot of doubt. If not, why not? What is the seller planning to do in the future? Will they be future competition to the buyer?

List of assets - it's important to be clear up front what belongs to the company, what is hired/leased and what are personal to the owner and not part of the purchase.

In good repair - the business needs to be clean and tidy and all plant and equipment in good working order. The appearance of this can have an impact on what the buyer believes they are getting and whether they perceive they will need to spend more money when they take over the business, tidying and upgrading the business.

Prepare the landlord - this is a biggie as a short-term lease or lease that's expiring soon will raise that red flag. You need to know what the lease term is and how likely any extension will be, rent reviews etc. and also have the landlord in the picture so you are all working together. Security of lease tenure has a huge impact on business value.

Avoid surprises - another biggie, better to deal with issues upfront than when they come out of the woodwork further down the track. It is better to be transparent on all issues.

List with a broker - We believe in everyone's interest the owner should allow a professional such as ourselves to market the business for them. Potential investors know they're dealing through professionals who know what they're doing. There are many obstacles in selling a business and there is a lot of work in pre-screening buyers.

We trust you have found our 'Selling Your 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.

Clyth Macleod

'WE SELL BUSINESSES'

CLYTH MACLEOD BUSINESS SALES

Level 2 | 77 Grafton Road | Auckland
P.O. Box 26-203 | Auckland 1023

Phone 09 630 9491
Email info@cmbusiness.co.nz | glorianne@cmbusiness.co.nz

www.cmbusiness.co.nz
www.companysales.co.nz