

Thinking of buying a business?

If you are considering buying a business, you need to understand both the positives and negatives before you dive in. Whilst it might be tempting to focus on the idea of being your own boss, owning a business is rarely a nine-to-five job. If you are planning to buy new business assets to expand your existing enterprise, then ensuring proper alignment is vital.

Being ill-prepared before acquiring an existing business can be quite costly and there are many things that can go wrong. You can be sure that if you buy a business without having done your due diligence that you may pay too much and take on unnecessary risks.

By contrast, being prepared and armed with the right information will put you in a stronger negotiating position.

So what are the important aspects of buying a business that you need to consider?

Why is the current owner selling?

This is an important consideration because you can quickly identify potential issues by understanding the motivation for the current owner to sell the business.

If the business is well managed, profitable and has a good client base, these are positive motivators. However if the business has been mismanaged or has run in to cashflow problems, then these should be a red flag for further research.

An established business should have its accounts in order for any potential buyer, however it's your responsibility to ensure you understand them because if you don't, you risk buying its issues.

What's it really worth?

There are no black and white answers to valuing a business before you part with your cash, however understanding fundamentals will help you be as informed as you can be and put you into a strong negotiation position with the seller. Some of the things you should be looking at include:

Financial statements: it's important to know the accounts from back to front before you buy – and that includes historical records as well as projections. Can the business generate enough income and profit? What are the costs, assets, liabilities, expectations for growth and how well has the business been able to generate and manage cash flow?

These statements are key indicators of the health of the business and enable you (and your accountant) to conduct a thorough financial analysis to identify any issues, underlying problems and opportunities before you buy.



What's the tax history: tax returns from the business can tell you a lot about its profitability, so it's important to do your due diligence on the business's tax records. Checking the business's tax returns will tell you the story on the business's profitability, and previous BAS, payroll records, and stamp duty records are important documents to review with your accountant.

Staff and skills in the business: take time to understand the skills and dependencies of people within the business and whether they need to remain so that the business can meet its potential. In considering the skills and loyalties to key people within the business, it's imperative to understand its capacity to operate successfully if they move on.

Legal obligations, patents and outstanding issue: it is very important to look at the structure of the business and its legal obligations, for example under Government legislation, standards or compliance. Taking the time to understand where the business can flag unnecessary risks such as previous legal action, failure of business profits to materialise, exposure to warranties and indemnities.

Who are your customers?

Without a doubt, knowing the customer base for the business is vital to its ongoing success.

This may include looking at the customer database, any sales contracts that are in place, and also suppliers who trade with the business. These are valuable indicators of the current and future health of the business and any continuity achieved by the business should be independent of the specialist knowledge or relationships of the previous owners.

If the business's success is largely dependent on specialist or other skills that may disappear once the sale is made, you may discover that customers follow.

Key things to consider before buying a business

- Ensure you understand the business, its structure, people, customers and suppliers
- Ensure you understand the trade, customer and financial dependencies of the business
- Put the financial health of the business under some serious scrutiny by ensuring you do your due diligence
- Get an independent valuation of the business before you buy
- Thoroughly investigate your costs for buying the business and include your legal and accounting fees

How will you finance the purchase?

Buying an existing business is often more expensive upfront than starting a new business as you have a significant financial outlay from the get go. That said, banks and lenders are more likely to provide finance for an existing business that has a proven financial record.

Aside from the actual purchase costs, you should also budget for costs of your finance, as well as the services of your accountant, solicitor and (if you use one) broker.

It is easy to underestimate the financial resources you may need for transitioning the business to new ownership, as well as costs that are associated with operating or funding business activity.

Get an independent valuation of the business.

While your own research and knowledge is important, a professional valuer can give you an objective view on the true value of the business.

It is an unemotional and non-committal perspective that will put the business under proper scrutiny, with the intent of identifying any red flags within the structure, financial status and legal or other business activity.

How does structure factor in the sale?

The overall structure of the business and the transaction is vital for ensuring you are in a strong financial position to buy and negotiate with the seller.

Conflict between the buyer and seller's perspective is common,

particularly regarding the value of the business and how it is structured, and equally there is often a need for restructuring a business during the sale.

More information

Buying a business well takes time; engaging the right expertise in the form of your solicitor, accountant or business consultant will keep you on the right path.

Bates Cosgrave has extensive experience and expertise in buying and selling businesses for a range of clients. We are specialist advisers in business consulting, tax, and accountancy and our experience ensures we are well placed to provide accurate advice and support.

We also have a strong affiliate network of solicitors and other consultancy expertise available to assist you through the acquisition process.

Contact us to discuss how you can be better prepared for buying a business or obtain an independent valuation.

Contact Us

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