

The Jamieson

Spring 2009

your guide to buying and selling businesses

Welcome

A few months ago business owners could not be blamed for wanting to close their doors and have a long holiday from what seemed to be a pervasive "doom and gloom".

Every story on the economy painted a frightening picture, but fortunately for most businesses, things have not been as bad as anticipated. However, that's not to say all is well yet, but things are certainly looking more positive.

Business people/buyers are still being conservative and lending institutions are still being cautious. This means securing bank finance to buy that business is more difficult but not as impossible as some make out.

Vendor finance is another option to help you close that deal. See our back page story for more details.

If you're thinking of selling or buying a business you'll be happy to hear it's actually a great time.

Even in tough times people are always looking to buy a well established business for a whole host of reasons.

Smaller businesses are attracting people who see a business acquisition as a golden opportunity for expansion in the present climate while others see it as buying a job.

If you'd like to know more about current market opportunities call and have a chat to our team at Jamieson.

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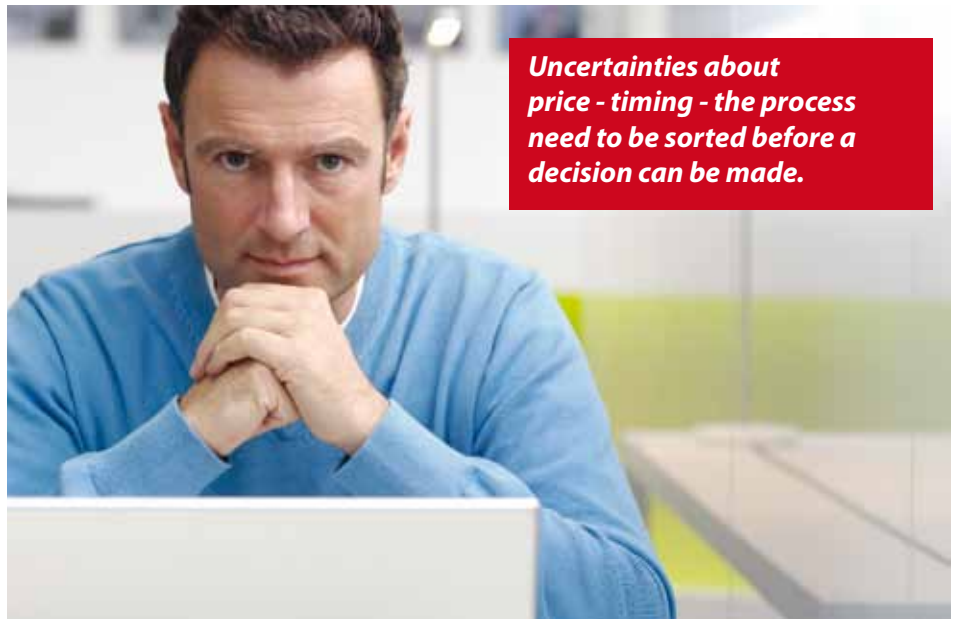
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To sell or not to sell?



Uncertainties about price - timing - the process need to be sorted before a decision can be made.

This is the dilemma facing owners of small and medium size businesses who are thinking about an exit strategy. Potential business sellers face numerous uncertainties:

- **Uncertainty about the asking price:** You must get experienced advice on price. The selling price should not be the only motivation for selling. Owners sell their businesses for other reasons than money. Reasons include retirement, new opportunities, sickness and desire for a sea-change.
- **Uncertainty about timing the sale:** Most sales of small and middle market companies are driven by personal considerations. It may depend on individual circumstances, but you must get experienced advice as timing is important.

• **Uncertainty about how to go about selling:** This can be so overwhelming that the owner keeps procrastinating. It also takes considerable time and business owners are usually so time-poor they can't afford to take their eye off the main game which is driving the business.

Furthermore, sellers often lack knowledge and experience in selling a business and therefore discuss the issue with friends, relatives or their accountant, all of whom are probably no more knowledgeable or experienced than the seller when it comes to selling a business in a specific industry.

The key to success is to obtain professional advice from a business broker.

If you're thinking of selling your business and would like to discuss these and other important considerations contact us now.

Jamieson

- BUSINESS BROKERS
- VALUERS
- ADVISORS
- SINCE 1987

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Sellers beware of the 'earn-out' clause

Just a few short months ago the economic climate meant that the private business market favoured the buyer and as a result there were business owners signing up for sale deals that perhaps they would've been better walking away from...but didn't.

Fast forward a few months and things have improved significantly. Business owners who are still considering selling are certainly not so desperate and are taking the time to consider their options and any offers on the table, much more carefully.

Consider for example the earn-out clause

The original idea of the earn-out was to motivate the seller to hand over the business in good condition while providing the purchaser with an opportunity to ensure that they only paid for the goodwill that transferred over with the business.

Beware of buyers who use the earn-out as a means of prolonging the purchase period.

There are two reasons they might do this:

1. To assist them in finding time to raise the purchase capital
2. To reduce the price/risk equation by having the current owner work through a transfer period.

Business vendors need to protect themselves from some major risks associated with the above, such as:

- The purchaser being unable to raise the capital to complete the transaction. The vendor needs to ensure they have some form of reliable security and the ability to unwind the sale without any cost to them.
- The seller needs to consider the tax implications and perhaps the timing of the overall transaction to ensure it is contained within a single tax year.

Want to know more? Talk to our team and be fully aware before you sign on any dotted line.



About Jamieson Corporate Services



Jamieson Corporate Services provides personalised and confidential business appraisal and broking services to owners and managers of private businesses.

- For broking assignments, we only take on a small number of carefully selected business sale or acquisition transactions at any one time. This focussed approach allows us to achieve highly successful results for our clients.
- Our team consists of experienced business brokers.
- Our principals are licensed as

business agents by the NSW Office of Fair Trading.

- Jamieson is a member of the Australian Institute of Business Brokers (AIBB) and the Real Estate Institute of NSW (REINSW).

Business agents or accounting firms are often unable to offer the scope and depth of practical business experience that Jamieson brings in advising proprietors on the sale of their businesses.

Principals, Paul de Rome and Rodger Williams, have financial and technical backgrounds and are experienced as industrial managers, directors and shareholders of medium-sized companies.

This, coupled with many years of experience in selling businesses, provides a sound basis for giving advice to owners planning to sell their business.

More than 20 years experience as business brokers enables us to clearly demonstrate to purchasers how they can achieve a good fit and profit from a business acquisition.

It is fundamental to the Jamieson process to maintain confidentiality of the business sale process and to act only when clear authority is attained.

For further information about our services please call (02) 9922 7400 or visit www.jamiesons.com.au

Looking for a smart business opportunity?

- *Need to diversify or bolt on a new business division?*
- *Desperately in need of a career change or retired too early?*
- *Looking for a great investment opportunity?*

See the back page for a sample of excellent businesses for sale.

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mistakes to avoid when selling

1 Poor Preparation: Too many sellers come to the table woefully unprepared. Financial information is lacking, agreements expired or non-existing, personalised goodwill, too many open-ended items, etc.

Time is wasted gathering information which the buyer expects to be readily available. It's not a great start to negotiations!

2 Poor Timing: It can take 6 months to sell a business so if you're planning on retiring in 5 months you've left your run a bit late.

Also, if business is good you'll obviously get a much higher price, so delaying because 'business is good' may cost you much more in the long run.

3 Inexperienced Representation: Make sure you utilise the services of a professional business broker/intermediary. They know how to value, market, negotiate and complete often complex transactions.

4 Not in Agreement: Too many transactions fall apart because family members, partners, or stakeholders are not in agreement about the details or of actually selling the business. Agreement is paramount prior to commencement of the selling process.

5 Not Using Your Sixth Sense: The business owner built the business using his or her own judgment or sixth sense or "gut feel." Is it the right deal, the right buyer, the right deal structure, etc.?

Sellers need to remember to use their sixth sense that served them so well in the past to make a good commercial decision, not an emotional decision.

From an article by Kevin A Nery from MA, USA.



Hot Industry Opportunities

Jamieson has many years of experience in most of today's well sought after industries. These include:

- Business to business services
- Logistics and transport
- Customs broking/freight forwarding
- Finance - insurance broking and financial planning
- Import and distribution
- Education and training
- Injury/rehabilitation management



We currently have several excellent business opportunities, in particular:

- **Insurance Brokers** – Jamieson is currently conducting an acquisition search in NSW, Victoria and Queensland on behalf of a buyer.
- **IT / Computer Services Industry** – Currently for sale is a specialised computer software, maintenance and support business, established over 20 years.

For more information don't delay and call us today.

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Helpful Tip

Many entrepreneurs have unrealistic expectations about how quickly they will have positive cash flow with a start-up business. More often than not, losses are much higher than entrepreneurs anticipate before the business matures to the point of being cash flow positive.

In contrast, if a buyer is acquiring a proven business which is cash flow positive and will support indebtedness required to buy the business, there should be a cash flow surplus from day one.



Have you considered vendor finance?



The current economic climate has created some difficulties for people seeking finance when they've wanted to buy a business.

Financial institutions have certainly not been as willing as they once were, with the consequence vendor finance has been used in some instances to achieve a good outcome.

So if you're a motivated seller you could consider vendor finance to attract buyers and secure a good deal.

Vendor finance can have several advantages including:

- Attracting more potential buyers
- Improving the purchase price
- Allowing time for the lender bank to gain confidence with the borrower
- Give a clear indicator that the vendor has confidence in the performance of the business.

While there are advantages, there are also disadvantages, such as:

- In most dealings vendor finance tends to be for 6-24 months. It's best considered a bridging facility. The borrower should have a sound plan to refinance within 1 or 2 years
- Interest rates for the initial period tend to be competitive with bank loans. If the buyer wants to extend after the initial term, rates can increase sharply.
- Risks to the vendor are always higher with vendor finance but this has to be balanced not only against the risk of default, but also the genuine risk that the vendor will not attract sufficient buyer interest or the price being sought.

If you would like to know more about vendor finance and how it might work for you, call our office for a no-obligation chat.

Business Opportunities

**For more details and more businesses for sale please refer to our website;
www.jamiesons.com.au**

COMPUTER SOFTWARE AND SUPPORT BUSINESS

Specialised computer software, maintenance and support business, established over 20 years. Delivers turn-key packaged software solutions and services suitable for a range of hardware and operating systems. Solutions designed for major sector of transport industry and can be customised for customers' specific needs and for companies of all sizes. Installed Australian and International customer base with maintenance and services under contract accounting for over 75% of income.

DISTRIBUTOR INDUSTRIAL PRODUCTS

Sydney-based importer distributes a specialised range of industrial products mainly for the processing of liquids with annual sales of \$4.8m. All are top quality from reputable manufacturers mainly in Europe. Several exclusive Australian and NSW distributorships are held. Clients include manufacturers, resellers, infrastructure projects and contractors.

REGISTERED TRAINING ORGANISATION

This highly regarded RTO is one of the largest providers in Australia in the health/lifestyle sector. Online delivery accounts for 50% of revenue of \$3.4m. VETAB accredited, the business possesses significant intellectual property, has an excellent teaching faculty and offers genuine growth opportunities.

ELECTRICAL MAINTENANCE & CONTRACTING

The business is based in a major NSW regional city and services industrial and commercial clients across a large part of the state. It has been operating for over 14 years and has a high market share in its niche which will return over \$400k to an investor. A large proportion of sales are to regular repeat customers. Its fully-equipped premises are for lease from the owner who will stay for an extended handover period.

New Business Opportunities expected to become available soon include:

- Kitchen manufacturer and retailer
- Regional area supermarket

Recent business sales include:

- Homewares import & distribution
- Industrial Products import/distribution (acting for buyer)
- Lifestyle apparel manufacture and marketing
- Automotive service repair & parts

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