



ULTIMATE
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Buying a Business Factsheet

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Buying a business is an exciting step! The option to buy an existing business can be appealing to many potential small business owners, however, it comes with advantages and disadvantages. The key is finding the right type of business for you.

We encourage you to do your due diligence when buying a business to make sure you negotiate the best possible outcome.

‘Due diligence’ is an investigation to build trust and confidence. In the context of buying a business, it’s your practical research and analysis to make sure the business you’re acquiring is what it claims to be, has measurable commercial potential, and aligns with your goals.

We have compiled the below checklist as a guide to the steps for buying. It may not be comprehensive for your situation, we encourage you to seek specialist advice before proceeding.

Check if you're ready

Taking over a business can take a lot of hard work and commitment initially so it's important that you're financially and emotionally ready.

You need business skills, and resilience and discipline to keep going when things get tough.

Find the right business

Finding the right business can come down to the industry, operating hours, income, impact on your family, if you want to be involved in day-to-day duties, if you are managing people and if there is room for growth in the industry. Make sure you are well suited to the type of business you want to purchase.



Crunch the numbers

It's important to crunch the numbers before you commit to buying a business. How much money do you have to invest? Will this business support your current lifestyle? Seek advice from your accountant in the early stages of planning to avoid the disappointment of not being able to afford your chosen business.



Where to look

Once you've determined the best type of business for your needs, and that you can afford it it's time to start researching one to buy. Businesses for sale are usually advertised in newspapers (under business opportunities or businesses for sale), industry magazines, and the internet. While business brokers and commercial real estate agents are excellent resources, be aware that they often represent the interest of the business seller and will be receiving a commission on the sale.

Analyse the business

It is important that you understand the specific industry, trends and have the business independently valued. Don't be afraid to seek a second opinion.

'Due diligence' involves undertaking a thorough review of the business to determine the likelihood of its future success. It usually takes place after you submit an offer and before you sign the final contract. Be sure to include the term 'subject to due diligence' in your offer.

At a minimum you should request the following:

- certified financial statements for the previous three years
- current balance sheet to identify assets and liabilities
- business valuation add back schedule from the seller for any personal/specific owner costs, etc
- sales reports from their point of sales systems such as Shopify, Square, etc to confirm these match against their financial statements
- a list of the plant, equipment, fixtures and fittings the vendor intends to sell, along with the current valuation and associated warranties and guarantees. Before buying, confirm they can prove ownership
- a copy of the lease agreement (if the premises are leased)
- a copy of the franchisor's agreement and disclosure statement (if the business is a franchise)

It also important to consider the following:

- will profits continue at the current levels?
- will the profits cover loan repayments, the cost of maintaining and replacing business assets, and allow you to progressively recover your investment over the commercial life of the business?
- what is the condition and current market value of the plant, equipment and other assets?
- was the goodwill of the business a realistic figure?
- is the profit percentage higher or lower than industry standards?
- how often are the sellers currently working in the business, what type of work they are completing and how much they are getting paid
- how many employees there are and will they be staying on, are there any entitlements such as annual leave, long service leave, etc that you will be accountable for
- are there any debts in the business and who is accountable for them

Use benchmarking reports to compare the sales and expenses of the proposed business against industry averages. Full reports are available from the Small Business Development Corporation.

Get the business valued

An independent valuation will confirm whether you are paying a fair price. There are three main methods of valuing a business.

- Return on investment = $\text{net profit} \times 100 \div \text{price}$
- Asset value = assets of the business + goodwill
- Market value = turnover x industry multiple (this is rarely used for retail businesses)



Look beyond the numbers

There's more to a business than financial data. A savvy buyer will look at aspects of a business that contribute to its earning potential and reputation and ask the right questions. Bear in mind there's always a reason why the business is up for sale.

Some other factors to a business include the location of the business, employee obligations if staff transfer with the business, competition in the industry, if current fitout is suitable and what licenses the business holds.



Negotiate the sale

You and the seller need to agree on things, including the:

- sale price
- deposit amount (usually 10% of the sale price)
- settlement period
- handover training (if any) for the buyer
- arrangements for existing staff



Understand the sale contract

A business sale agreement is a legally binding contract between you and the seller. It sets out terms, such as:

- the sale price
- the method of payment
- the handover date and details
- the details of assets included in the sale, such as property, equipment, fixtures, fittings or stock
- any conditions that you and the seller must meet for the sale to go ahead
- any restraint clauses, such as confidentiality or non-compete clauses, to stop the seller competing directly against the business after they sell

It's generally up to the vendor to draft the contract. Ensure your lawyer reviews all the paperwork before you sign anything.

Set up your business

Between the contract being finalised and the settlement date (when you officially take over the business), it's recommended you have the following in place:

- ensure all licences and permits relating to the operation of the business will be transferred to you at settlement date
- discuss with your accountant to setup the correct entity to purchase the business under
- arrange business bank accounts
- take out appropriate insurance cover
- consider ATO and GST registrations, if necessary
- undertake any training you need to successfully run your business



Thank You

For your Business

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