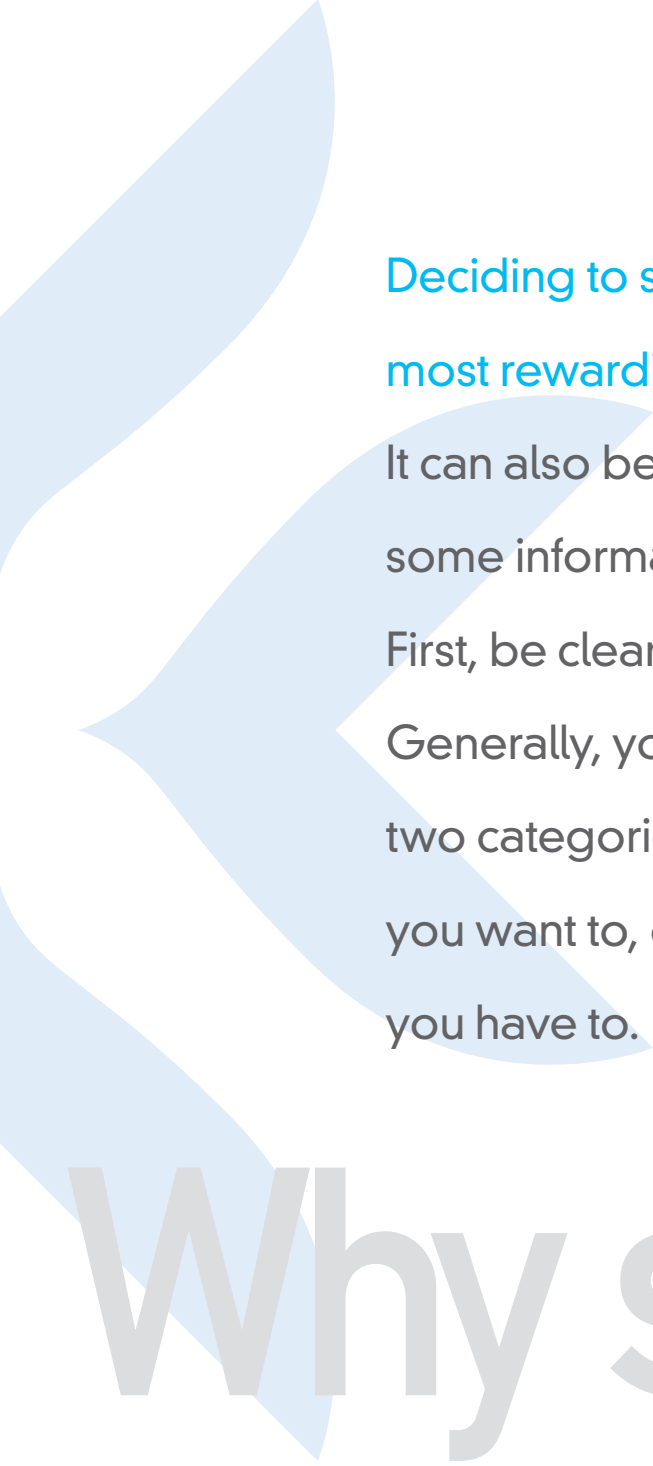


How to successfully sell your business



Deciding to sell your business can be one of the most rewarding decisions you'll make.

It can also be one of the most difficult. Here is some information that can help make it easier.

First, be clear about why you want to sell.

Generally, your reasons will place you in one of two categories – you're either selling because you want to, or you're selling because you feel you have to.

Why sell your business

“Selling your business doesn't necessarily mean retiring!”

Good reasons to sell your business:

1. Free yourself from the daily stresses and commitment of business ownership.
2. Take advantage of the one off, tax-free capital gain from the sale of your business.
3. Reward yourself for your years of hard work – and enjoy seeing your success recognised.
4. Free yourself to pursue other interests and opportunities. Selling your business doesn't necessarily mean retiring!

Many people who feel they have to sell do so because of health problems, such as stress or incapacity, personal problems, such as divorce, or problems within the business itself, such as a partnership dispute or a financial downturn.

These are perfectly valid reasons to sell. However, in these circumstances, owners generally want to sell quickly. And it's worth being aware right from the start that while a quick sale may be possible it may mean you have to compromise on price.

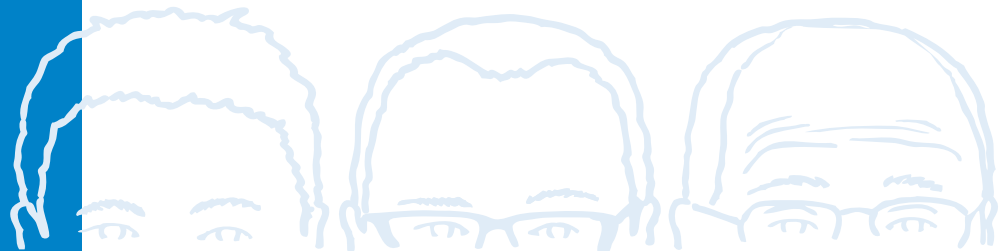
Most people who want to sell do so because they want to realise their equity, pursue other interests, relocate, free themselves from the daily stresses and commitment of business ownership, start a different business, or simply retire.

In these circumstances, the owners are generally more willing to wait for the right buyer to offer the right price.

However, waiting too long can also have its downside. When your business is at its most profitable, and with strong future growth, is when it will command the best price. Owners of profitable businesses who wait to sell can lose an average of 42% off the value of their business. It's also worth knowing that the average New Zealand business owner is aged 50+, and it's estimated that as many as 40% – or around 300,000 businesses – will want to sell up within the next five to ten years. That means there could be a glut of businesses for sale – and simply not enough buyers.

business?

Waiting too long could reduce the value of your business by as much as 42%.



Timing is important:

1. When your business is at its most profitable with strong future growth is when it will command the best price.
2. A quick sale may mean you have to compromise on price.
3. Waiting too long could reduce the value of your business by as much as 42%.

Once you've made the decision to sell, your next aim will be to get the best price for it.

So how do you know if your business will be attractive to buyers?

If you can answer 'yes' to the majority of the questions below, then with the right pre-sale preparation you will be able to sell it for an excellent price – no question about it.

How easy will it be to sell your bus

1. Has your business been operating in its current form for at least two years?
2. Is it profitable – and are those profits sustainable?
3. Are there documented agreements with key suppliers and customers?
4. Could your business continue to operate if you – a key person – were to leave?
5. Can you provide up-to-date and accurate financial information?
6. Do you have established and documented systems and processes for managing all aspects of the business, such as employment, operations, safety and health, maintenance, marketing, etc?
7. Is all physical plant or facilities (if appropriate) well maintained?
8. Does your business have potential for growth?
9. Can you provide a business and financial plan for the next 1 to 2 years?
10. Do you have a suitable lease and is it transferable?

“With the right pre-sale preparation you will be able to sell it for an excellent price.”

Business



Don't be too concerned if you cannot immediately answer 'yes' to these questions. With a bit of guidance from your Tabak business broker there is enough time for you to make improvements. We suggest you read the section on page 10: prepare your business for sale. This can help you map a plan of action, which you can discuss with your accountant and your Tabak business broker.

Your Tabak business broker will help you determine a reasonable time frame for the sale of your business right at the start.

It's important to be realistic because setting too short a timeframe may lead to discouragement if the business is not sold within it. And a quick sale may mean you have to compromise on price. Too long a timeframe can reduce the enthusiasm and motivation of both buyers and seller – and potentially the value of your business.

A reasonable time frame for both preparation and sale will depend on several factors, including the sales method you opt for and economic conditions. Here are the main ones, with indicative timeframes:

1. The readiness of your business for sale

Good pre-sale planning and preparation is the key to achieving the best price for your business. How well your business is prepared for sale will determine how long before it can be put on the market. It may take no more than a week, or it may take up to two years.

How long will

2. Finding a qualified buyer

Once your business is on the market, timing depends on finding the right buyer who is prepared to pay the right price. Tabak has a database of pre-registered, pre-qualified buyers and most of the businesses we take on are sold to our client database without the need for public marketing. A suitable buyer can generally be found within six months.

3. Satisfying the due diligence process and closing the transaction

This generally takes between 15 to 25 working days. You'll find this outlined in detail in our step-by-step guide to the sale process starting on page 14.

4. Time until possession and settlement date

This generally takes between one month and three months once unconditional.



it take to sell?

Good pre-sale
planning and
preparation is the
key to achieving the
best price for your
business.



An experienced business broker can make all the difference.

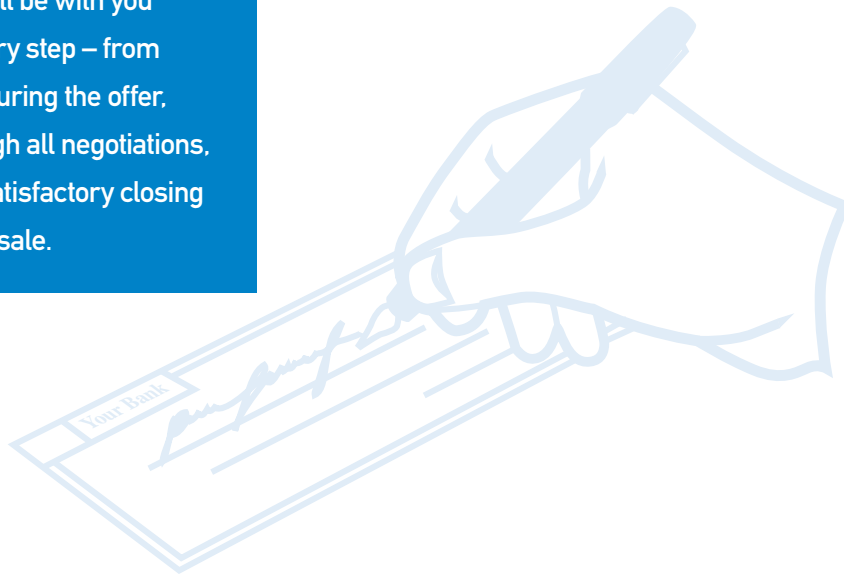
The key to selling your business successfully will be finding a qualified buyer who can purchase your business under the right conditions, and at a price and terms that are acceptable to you. Tabak has a large client base of pre-qualified buyers, so you can be sure any buyer we introduce to you is serious.

How to ensure a successful outcome from the sale p

However, bringing together a buyer and seller is just the start of the sales process. Our strength lies in the skilled handling of negotiations leading to a satisfactory closing of the sale:

- Our expert, professional team will guide you through every step, acting as mediator between buyers and sellers, who are natural adversaries.
- We will protect your confidentiality at all times through proven systems and processes.
- Our years of experience will ensure your business is correctly valued, professionally presented and efficiently marketed.

We will be with you at every step – from structuring the offer, through all negotiations, to a satisfactory closing of the sale.



process

Good reasons to sell your business with Tabak:

1. Success: we have a sales success rate of 80% (5 year average), well above the industry average. Most of the businesses we take on are sold to our large database of pre-registered buyers, without the need for public marketing.
2. Commitment: our specialist team will actively market your business to achieve the best possible sale price. We operate nationwide, marketing to serious buyers throughout New Zealand.
3. Quality: we pre-qualify all potential buyers to ensure they are serious.
4. Expertise: we will be with you at every step – from structuring the offer, through all negotiations, to a satisfactory closing of the sale.
5. Confidentiality: we protect your business's confidentiality at all stages through proven systems.

- We can create a competitive atmosphere amongst buyers, and assist you with evaluating offers and with creating a suitable financial structure.
- We will co-ordinate the communication and information flow to both parties during the due diligence process.
- And we will correctly identify the 'right moment' to close the transaction, ensuring the satisfaction of both parties.

Choose your professional advisory team carefully.

Selling a business is usually a once in a lifetime transaction for most owners, so it's important to start the process with confidence. The calibre of the professional representatives and advisors who will form your business sales team can make or break the deal – so it pays to choose carefully.

How to ensure a successful outcome from the sale p

As well as an experienced Tabak business broker, you can expect to have on your team:

- An accountant: who will prepare the required financial statements and provide you with financial and tax advice. They will also assist during the due diligence process.
- A solicitor: who will advise on all legal documentation and agreements, ensure you have full legal protection, and provide advice on the correct company or business structure to facilitate the sale.
- A business banker: who can help facilitate a smooth transition by assisting the buyer with banking arrangements.

We recommend that you engage your team early and that the professionals you choose are qualified business specialists, who have had experience with business sales process – it can make a huge difference. Your Tabak business broker will work comfortably with these professionals.

process

We recommend that the professionals you choose are qualified business specialists, who have had experience with business sale process.



Prepare thoroughly for the sale of your business.

Good pre-sales preparation of your business will help create a strong sense of value from the buyer's perspective – and therefore a willingness to pay a premium. This section will give you an idea of the things you need to know about preparing your business for a successful sale.

How to ensure a successful outcome from the sale

First – prepare yourself.

The main aim in preparing your business for sale is to present the best outwards face to a buyer. You are a major component of this outward face, so it's important to prepare yourself, so you can stay positive and focused throughout the process.

Stay positive: If you have created and nurtured your business, the sales process can be a time of emotional conflict. It can be a time of anxiety, and it can also be time-consuming and disruptive to your normal routine. It's worth being aware of this right from the start, and keeping in mind that the end result – the sale of your business – will be emotionally as well as financially rewarding. In short, it will all be worth it!

Stay focused: It's also very important not to lose interest or separate yourself from the business – you do not want the business taking a negative turn during negotiations. Also, you may well be asked to stay on with the business for a short time after the sale, to make the transfer to the new buyer as smooth as possible. All the more reason to ensure it's business as usual throughout the sales process.



process

Understand the possible tax consequences of selling your business

There can be financial and tax consequences as a result of selling your business. Unless you have these issues clear in your own mind, you should discuss them with your accountant before you begin to market your business.

Here are a few general points to bear in mind:

1. Generally there is no capital gains tax currently in New Zealand. You should not be taxed on the proceeds of the sale of your business unless you are a trader and buy and sell businesses for a living.
2. When a business is sold there are often tax implications relating to the depreciation of your plant and equipment. This is called 'depreciation recovered'. You may have a tax implication or have to repay some of the depreciation previously claimed on plant and equipment if you sell any of your plant and equipment at a value that is greater than its depreciated value. Your accountant will be able to advise you on this matter.
3. If you are selling shares in your company. There maybe some benefits, but there are potential dangers and difficulties of which you need to be aware. When selling shares it is important to seek legal and tax advice early.

When preparing your business to achieve the best possible sales price, you should focus on reducing any perceived risks and maximising profits.

Maximise profit: Most businesses are valued by a capitalisation valuation method that utilises the net profit performance of the business (see page 16). Essentially, to achieve the best sales price, you need to operate your business in a way that generates maximum net profit while maintaining reasonable operating expenses.

Every \$1.00 you add to your bottom line net profit EBIT (Earnings Before Interest and Tax) could add around \$3.00 to \$5.00 to the sale value of your business.

Minimise risk: It's important to address any buyer concerns regarding risk. A perceived 'risk factor' will be weighed against the amount that a buyer will be willing to pay for your business. In short, the less the risk they perceive, the more they will pay.

How to ensure a successful outcome from the sale

34 ways to build better business value

On page 30, you'll find 34 sound ideas and recommendations to help you maximise your bottom line net profits. Read on and map a plan of action to enhance the value of your business.

12 Areas of Potential Risk

These are the main risks that may affect the valuation of your business. Your Tabak business broker will assess those that apply to your business and, if required, provide advice on addressing them.

1. **Owner Input:** for example, is the business too reliant on the owner?
2. **Staffing:** what is the level of staff retention, knowledge and company culture?
3. **Company History:** how long has it been running, and how is its financial stability?
4. **Industry Type:** does it have any unique products and services? How is it perceived by the public?
5. **Industry Growth:** what is the potential for growth, and how competitive is the industry?
6. **Systems and Processes:** what is in place and documented? How are they practised and evaluated?
7. **Lease:** what are the conditions of the lease?
8. **Plant and Equipment:** is it in good condition and well maintained?
9. **Customer Base:** is it broad and diverse, or is revenue dependent on a few key customers?
10. **Market Share:** is it high or low?
11. **Barriers to Entry:** how easy is it for new competitors to enter the market?
12. **Business Size:** for its size, is the business profitable and increasing turnover?

e process

1. First meeting with your Tabak professional broker team. An initial appraisal: our first meeting with you is designed to give you the information you need to decide if you want to sell your business, whether the services of the Tabak team will be right for you, and whether your business is appropriate for us to take on. As a rule, Tabak only takes on quality businesses valued at between \$500,000 and \$30 million.

The Sale process a step-by-step

In that meeting, we will discuss the following:

- The sales process
- Appraisal methodology
- The role of your Broker, and the services offered by Tabak
- Your reasons for selling
- Any specific requirements you may have

From this meeting, your Tabak business broker should be able to obtain enough information to start putting together a business appraisal. They may ask you to complete an appraisal questionnaire and will need at least two year's financial records plus the current years management accounts. More often than not your broker will also ask to have a site visit. From this information we will evaluate your business and complete an initial market appraisal.

This initial appraisal will give you an indication of the projected price range for your business and enable you to make the decision to sell your business or not.

It's important to remember that this initial appraisal is a guide only. If you do decide to sell your business through Tabak, then we will need to undertake an in-depth analysis of your business to make sure our initial findings are correct.

Protecting your confidentiality: there are many good reasons for discretion by sellers when marketing their business. No reputable broker can ever guarantee you complete confidentiality, however, we have processes that are rigorously enforced to ensure your confidentiality is protected as much as possible.

To protect the confidentiality of your business while it is on the sale market, Tabak will:

- Use discreet generic advertising methods
- Qualify prospective buyers before giving them detailed information
- Have each prospective buyer sign a legally binding confidentiality agreement that requires them not to disclose the fact that the business is for sale or any of the details they receive about your business. They must also return all information back to us if they do not proceed to purchase.

This initial appraisal will give you an indication of the projected price range for your business.

Step guide



2. Valuing your business

We have a saying at Tabak that “the best price is a fair price”. Establishing a fair market value for your business is vital to the successful outcome of the sale process.

At Tabak we are focused on helping business owners achieve the fairest price for their business. A fair market value is the amount at which the business would change hands between a willing seller and willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts.

We base our appraisal methodology on our judgment of any risks and opportunities that potential purchasers may perceive. We look at the business through the eyes of a purchaser and their professional advisors and attempt to balance this with the value that the owner will see in their business.

Valuation Approaches and Methods

There are three basic approaches to business valuation:

- Earnings – based
- Asset – based
- Market – based

Within each approach there are a number of methods and some hybrids. An analysis of each is shown in the following table.

The Sale process a step-by-step

Earnings-based Methods

These include:

- Future Maintainable Earnings
- Capitalised Earnings
- Capitalised Dividends
- Discounted cash flows

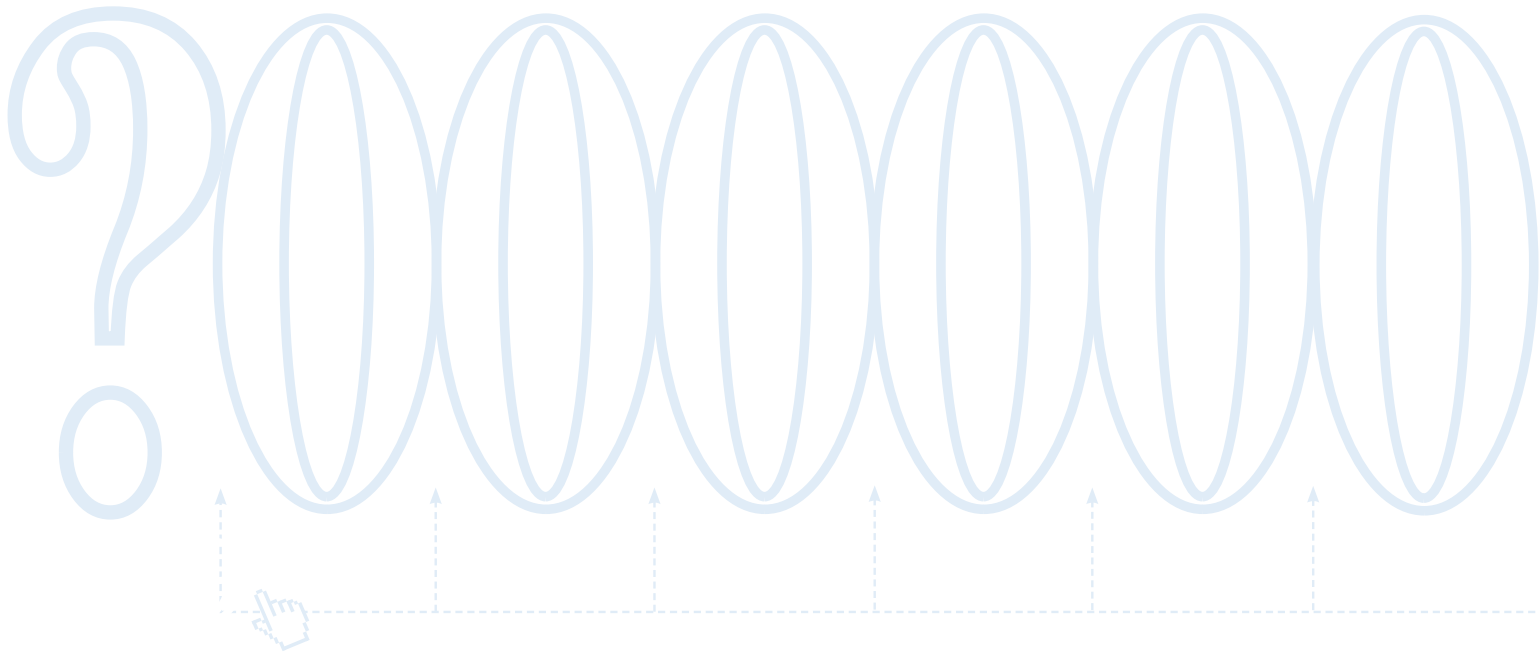
Earnings-based methods determine a probable future income of the business and capitalise this income stream to determine the business’s value. The adjusted or normalised income stream, which is the probable future income stream, can be determined by adjusting each revenue and expense item on the income statement. In a profitable, closely held business, earnings-based methods are usually the best and most commonly used by valuers and other professionals.

Asset-based Methods

These include:

- Notional Realisation of Assets
- Adjusted Book Value

These methods include adjusting each asset and liability on the balance sheet to fair market value, and then the values are summed. The methods are commonly used to determine a liquidation value or in a business situation where the value of the assets far exceeds the value of the business based on a capitalisation value. This approach ignores the earnings of a business and should receive minimal attention when valuing on-going closely held businesses which generate earnings by selling products or rendering services.



App guide

Establishing a fair market value for your business is vital to the successful outcome of the sale process.

Market-based Methods

These include:

- Market Data Comparison
- Rules of thumb

This method uses data from comparable business sales to estimate the value of the business being appraised. After all the market is the market. It may also sometimes involve using industry 'rules of thumb' where a prevailing formula exists for valuing business in a particular industry. Both methods provide an effective sanity check where other methods are being used.

Hybrid Methods

These include:

- Excess Earnings
- Super Profits

Hybrid methods normally consider both income-based and asset-based valuation techniques. The most popular hybrid valuation method is the excess earnings method. Under this method, a business's excess earnings, or earnings over the norm, are determined. Excess earnings and Super profits methods should only be used if there is no better approach because without careful analysis and judgment they can produce wildly inaccurate valuations.

Method Adopted by Tabak

The most common business valuation method used is the Earnings based model using 'the capitalisation of future maintainable earnings'. This means demonstrating the most likely earnings that the business can generate in the future after considering the risk of achieving those earnings.

This method is used by most knowledgeable professionals and is an effective method to determine a fair market value for a business as a going concern, through capitalisation of current and/or sustainable net earnings. A key to using this valuation method is having an objective history of financial results on which to base sustainable earnings.

Financial Analysis

When valuing small to medium businesses, the most popular earning base tends to be EBIT (Earnings before Interest and Tax). The applicability of using EBIT is that it separates financing and tax issues from business issues and makes an allowance for either a working owner or a manager.

For smaller businesses under the \$500k sale value, EBPITD (Earnings before Proprietor/ Owners Income, Interest, Tax and Depreciation), is commonly used as the earnings base.

The Sale process a step-by-step

The applicability of using EBPITD is that it separates financing and tax issues from business issues and allows for the fact that the salary and perquisites of the working owner represent a significant portion of the total benefit generated by the business.

The Valuing Process

Your Tabak business broker will appraise your business using the following four steps.

1. Establishing a Net Operating Surplus

You will be required to provide at least two years full financial accounts plus the current years trading using P & L Management Accounts and a forecast budget for the next financial year.

2. Business Analysis

Tabak will conduct its own evaluation process on your business, considering all aspects that will or may have an effect on the business value.

3. Market Comparison

A significant strength in our appraisal is the comparison of the subject business with other related sales data. Tabak focuses on business sales above \$500k and as such has access to a wide range of current market sales within the value range of your business.

Your business will be compared to other similar business that have been sold by Tabak in order to establish a fair market value.

4. Capitalisation Rate

The final step in the process is to select an appropriate capitalisation rate that reflects the perceived risks that a potential buyer may have a view on.

The capitalisation factor applied to most very good business operations providing evidence of sustainable earnings is normally 20 – 40% for EBIT and 30 – 60% for EBPITD.

This method is used by most knowledgeable professionals and is an effective method to determine a fair market value for a business.

Step guide

Breaking Down the Sale Price

A business can essentially be sold by two methods:

1. The sale of company shares (if it is a registered limited liability company).
2. The sale of the business as a going concern including all of its assets.

The 'capitalising of future maintainable earnings' (FME) method represents the fair market value of the business and focuses on the income that the net assets can generate and not the nature of those assets. The composition of tangible and intangible assets within the proposed value is addressed when setting the capitalisation rate.

3. Agency agreement

The agency agreement authorises your Tabak business broker to act on your behalf. Once you have made the final decision to sell and you are happy with the initial market appraisal, you and your Tabak business broker need to sign a formal contract granting your broker the authority to sell your business.

It is important to note that selling a business is not in any way like selling a property and can take six months or more to sell.

This contract, while being relatively straightforward in its content, should not be taken lightly as it contains clauses dealing with the owner's responsibilities.

A summary of the key clauses is as follows:

- *If the Business or any part of it is sold by the Agent or through the instrumentality of the Agent or to anyone introduced to the Business during the term of the contract of agency; the owner agrees to pay the Agent the commission and other agreed payments specified below. The Agent is authorised to deduct commission as set*

The Sale process a step-by-step

out below from the deposit upon confirmation of the sale of the Business.

- *Prior Agency arrangements – we have not appointed any other Agents to sell this business and acknowledge that we have been advised of the need to cancel such appointments before giving Tabak the authority to sell our business.*
- *The person signing this contract as Owner warrants that, if not the sole owner of the Business, he/she has the authority of all the owners to enter into this contract.*
- *I/We have read the particulars as set out in this authority and certify that they are true and correct and hereby indemnify and agree to hold indemnified, Tabak Limited, its servants and agents, against all costs, claims, damages, expenses, liabilities or proceedings whatsoever which may arise from use of any information provided.*

4. The Information Memorandum

Many potential business sales fail because of a lack of honesty and disclosure. To ensure an orderly and successful sale, the Information Memorandum must be developed with the highest degree of ethics, and full disclosure of relevant facts and business information.

All legitimate buyers will be completing a due diligence review of your business and any potential problems will most likely be discovered during this examination. An undisclosed problem may cause irreparable damage, as the good business relationship is compromised and a buyer will naturally wonder whether there are other hidden problems. Full disclosure to a prospective buyer prior to and during the due diligence process is the best policy.

The completed Information Memorandum will establish a comprehensive and professional document that can act as a powerful marketing tool. It is designed to present your business as 'premium' to prospective buyers and their professional advisors.

You will be asked to supply your Tabak business broker with detailed information about your business. It will also contain a vendor disclosure.

Step guide

CONFIDENTIAL

The following information will be required:

- Last three years profit and loss accounts
- Last trading year balance sheet
- Current trading year financials
- Projections for future years
- Monthly sales figures for the last 24 months
- An overview of the business from your perspective, covering its history, current situation and future areas of growth
- Information about the industry your business is in, competitors, businesses strengths and weaknesses
- Information about your plant and equipment, plus a depreciation schedule
- A copy of the deed of lease
- Any other important information about your business

This information allows Tabak to compile a comprehensive Information Memorandum for marketing your business. Your final approval of the document will be obtained before it is made available to prospective buyers, and it will only be released to qualified buyers who have signed a confidentiality agreement.

5. Identifying your buyer

Your Tabak business broker will work with you to identify the most likely type of potential buyer for your business. Your preliminary judgement is important because this will guide the selection of the sales method. However, while this gives a firm basis on where to begin the marketing process, it does not lock you into a narrow sales plan – any successful marketing plan must be flexible.

The Sale process

a step-by-step

Here is a guide to typical categories of potential buyers:

Financial / Investor buyers: are the most common and usually the most motivated buyer of small to medium priced businesses; they tend to be individuals rather than companies whose major concern is return on investment.

Strategic buyers: are generally large corporations, equity groups or companies that have a strategic reason for buying a business.

Employment / Lifestyle buyers: these buyers are primarily interested in buying a business that will provide employment for themselves or a family member. They may look for a business that operates in an industry that has ties with their personal interests and or experience.

Family / Employee / Partner Buyer: a sale to a family member, employee or partner is essentially a sale to a financial buyer. If you are planning on selling to any of these buyers it is important to still prepare your business for sale.

Many buyers fall into one or more of these categories and make decisions about buying businesses based on their personal requirements. To achieve a successful sale it is important to understand their motives for buying a business.

Once you have identified your buyer a marketing strategy can be planned. Your Tabak business broker will establish a target marketing strategy and keep you informed of the progress of the marketing.

Step guide

If you are thinking of transferring your business to family members you still need to prepare your business for sale.



6. Marketing your business

The primary role of your Tabak business broker is to attract prospective qualified buyers to your business. A qualified buyer is a person who your Tabak broker believes is ready and able to buy your business if it meets their requirements.

At Tabak, we have an extensive client base of qualified buyers – and 70% - 80% of our business sales are matched to these buyers without public advertising. All our buyers have been qualified to determine their:

- business requirements
- financial resources
- motivation and commitment to purchase a suitable business.

The buyers on our client base normally have two weeks to consider a new business opportunity (if it potentially meets their requirements) before the business is advertised to the public. This greatly increases the confidentiality aspect of marketing your business.

When planning an optimum public marketing strategy there must be some allowance for flexibility in response to the feedback of advertising. The marketing plan will be the most effective way of reaching your business's largest target market.

Directing marketing and advertising strategies at your target market may include national newspaper advertising; brochures; relevant magazines; mail outs to market sectors or databases; internet and local newspaper advertising.

Your Tabak business broker will consult you on all aspects of marketing, including the level of confidentiality required (such as whether to disclose your business name), and the general wording of advertising.

The Sale process
a step-by-step

7. Sale and purchase agreement

Reaching a conditional agreement is an integral part of the sale process. The buyer will reach a certain stage where, if the business looks to meet their requirements, they will be encouraged by your Tabak Broker to enter into a Sale and Purchase Agreement or a Heads of Agreement.

This is a major psychological step for the buyer to complete as negotiations move from verbal to documented agreement. Your Tabak business broker will discuss the offer with you and your advisors, particularly the price and the terms and conditions of the offer, which will almost always include a due diligence review clause inserted for the benefit of the buyer.

The Sale and Purchase Agreement is the plan for the actual sale of the business from which all parties and their respective teams of advisors will take specific actions within or by specified times to bring the business sale to a closing. The Sale and Purchase Agreement is a result of the negotiation process and should record everything that the buyer and seller agreed to.

After agreement is reached, and the Sale and Purchase Agreement is duly signed by both the buyer and seller, your Tabak business broker will focus on guiding the buyer through the Due Diligence process. Your Tabak business broker is responsible for helping you gather and provide any further information required by the buyer or the buyer's professional advisors.

A qualified buyer is a person who your Tabak broker believes is ready and able to buy your business if it meets their requirements.

op guide



8. Due Diligence

After signing the conditional Sale and Purchase Agreement, the transaction is still only halfway through to completion. The buyer and their respective advisors must now complete the process of Due Diligence. Due Diligence is the process of investigation and confirmation by the contracted buyer of your business's financial and operational performance.

Now is the time for the buyer and their advisors to verify that the information received supports the conditionally agreed-to sale price. Basically, this clause means that the buyer can complete a thorough investigation of the business in its entirety. The buyer can terminate the agreement for any reason – however, if the information provided is accurate, this seldom happens.

The normal time frame for a potential buyer to complete a Due Diligence process is approximately 15-25 working days. In some instances a longer Due Diligence period is required depending upon the complexity of the business or other requirements, such as franchise approvals.

Until the point of signing the conditional agreement, the buyers' professional advisors normally have had minimal input. The buyer and their advisors usually have made a judgement call based on the information presented by the seller, both verbally and within

The Sale process a step-by-step

the Information Memorandum. Now is the time for the buyer and their advisors to verify that the information received supports the sale price. You should have all the relevant information available, which will avoid unnecessary delays and present your business in the best possible manner.

There will always be points and issues that will require further clarification, and the real challenge in the Due Diligence process is finding common ground between the parties. The buyer and seller and their respective teams of advisors need to work together to solve the inevitable differences in positions.

Due diligence can be a stressful time for both buyer and seller, so it is important to work closely with your Tabak broker who will guide you and the buyer through this process while ensuring that confidential information is protected and any interruption to your business is limited. Once all the conditions contained within the Sale and Purchase Agreement have been satisfied, the buyer will, after instructing their solicitor, confirm the agreement is unconditional.

You'll find the key areas of Due Diligence investigation outline in the Checklist on page 32.

9. Unconditional contract

Once the buyer has satisfactorily completed their Due Diligence investigation, their solicitor will confirm that the agreement is now unconditional.

Confirmation of sale means that the sale is now official. Both buyer and seller must, by law, honour the agreed transaction.

The buyer will pay a deposit to Tabak Limited – normally around 15% of the purchase price. We receipt it on your behalf and hold it in our audited trust account.

The deposit must be held for a period of 10 days in the trust account before the funds can be dispersed. If both solicitors approve it, an earlier release can be arranged.

The solicitors for both parties now complete all the required legal paperwork and consent to allow the transaction to be completed and settled on the date nominated in the sale and purchase agreement.

Step guide



There will always be points and issues that will require further clarification.

10. Possession and settlement period

Between the period of the unconditional date and possession date, both parties and their respective solicitors and accountants will attend to the final details and legalities relating to the sale.

There are three main areas of focus at settlement time:

1. The stocktake
2. Verifying the plant and equipment list
3. The period of seller's assistance.

The Sale process a step-by-step

1. Stocktake

A stocktake is normally, and more practically, conducted by both the buyer and seller together. Sometimes this is not preferred or appropriate and in such cases a valuer or nominated person acceptable to both parties is appointed to complete the task. The stock level is determined at cost, and the final value must fit within the stock variance allowance agreed in the sale and purchase agreement. The settlement sum will be adjusted depending on the value of stock determined at the stock take.

2. Plant and Equipment

The listed plant and equipment will be checked off and inspected for good operational order. Any variances from the agreement could also be reflected in the settlement figure. For instance, if a certain item of plant was destroyed and not present on the possession date, the value of this item could reasonably be deducted from the final settlement sum.

3. Seller's Assistance

Your assistance in the period immediately after possession date is an essential part of the total sale process. Your assistance will normally be required for up to four weeks, but the length of time will vary depending upon the complexity of the business.

Sellers also often agree to consult informally or formally for financial consideration for an agreed period after the four-week period of assistance.

Step guide



Your assistance in the period immediately after possession date is an essential part of the total sale process.

Checklist 1

34 Ways to Build Better

The following checklist is aimed at maximising your business's bottom-line profits – the major influence on the value of your business. So read on and map a plan of action to best enhance your business's value.

Financial Evaluation:

1. Examine your key financial operating ratios and percentages and, if necessary, develop and implement a plan of action to bring them inline with your industry norms eg. Gross Profit ratios, wage costs, expenses
2. Develop a preliminary business valuation to use as a benchmark that you can measure your valuation improvements against. Consult with your accountant or Tabak business broker
3. Evaluate all ongoing service and material contracts and agreements for possible competition or re-negotiation at more favourable rates
4. Examine your practices regarding unreported cash sales and implement a plan to begin bringing them into your revenue stream
5. Examine all miscellaneous expenses to ensure that no personal benefit items are being paid for by the company
6. Examine your travel and entertainment expenses to ensure that they are necessary to maintain the company's customary level of sales
7. Examine any personally owned assets that are leased back to the company for possible reduction in lease costs to a fair-market level
8. Collect or write-off all aging accounts receivable
9. Examine all product lines and services; are they contributing to profitability?
10. Settle all outstanding lawsuits, tax issues, disputes, employee grievances, and other similar issues.
11. Separate the real estate from your business if applicable. By separating the two you can bring the purchase cost of the business into a bracket with more potential buyers. The property could be kept as an investment or sold to a property investor
12. Have your financial statements professionally prepared by a qualified accountant to establish a solid financial baseline that future financial growth can be measured against
13. Consider having interim financial statements prepared if you are beginning the business sale process in the middle of your fiscal year
14. Your business may have developed a secondary arm that you have not had the time or resources to fully develop. Examine the possibility of separating the businesses financially and physically, selling one and developing the other

etter Business Value.

Capital Equipment Considerations:

15. Evaluate all leased and financed assets for possible conversion to owned assets to reduce expenses.
Capital purchases are registered in your balance sheet and not your trading or profit & loss accounts.
16. Examine your physical plant to identify possibilities for reduced cost and/or increased revenues.
17. Evaluate all office equipment and computer software for efficiency, productivity, and cost-effectiveness.
18. Evaluate all production-related equipment with the objective of reducing maintenance and repair costs, operator training costs, energy costs, downtime costs, and thus create a potential for increased productivity
19. Examine your need for luxury vehicles and eliminate those that are not necessary to maintain your business sales
20. Examine the need for all other 'nice to have' luxury items being paid for by the company such as boats, aircraft, ski lodges, sports equipment etc.
21. Ensure all business signage is up to date, in good repair and and clearly visible
22. Consider an employee uniform to convey a sense of teamwork

Staffing:

23. Evaluate the continuing need for family members on the company payroll
24. Evaluate every employee's position for elimination or conversion to less expensive contracted services.
25. Resolve any partnership and or shareholder disputes.
26. Take action to ensure the continuity of corporate management and key employees
27. Evaluate the possibility of hiring outside consultants to advise you on increasing company profitability.

Keeping Systems & Business Practices Current:

28. Ensure the business's inventory is current and appropriately valued to maximise your last year's profitability . .
29. Ensure that all company leases, mortgages, agreements and contracts are fully assignable to a new owner. . .
30. Ensure product/service liability insurance cover is up to date
31. Ensure that all the business's sales and marketing literature is current
32. Ensure all the areas of your business premises are neat and orderly
33. Maintain rigid stock control procedures to operate your business cost effectively. Too much stock ties up your capital unnecessarily, and too little can lose you sales and profitability
34. Display all company awards, plaques, business affiliations etc prominently

Checklist 2

Due Diligence

Business Overview

- Description of Business
- The Business's products and / or services
- The Business's primary business markets
- The Business's primary customers
- The Business's primary suppliers
- Major or primary customer testimonials
- The Business's owned assets / plant list
- The Business's primary business locations
- The Business's leased assets

Marketing Information

- Sales catalogues, brochures, flyers
- Advertising examples
- Overview of internet site (if applicable)
- Product specification sheets
- Marketing plans

Legal Information

- Partnership agreement (if applicable)
- Joint venture agreements (if applicable)
- Copies of deeds of lease & assignments
- Zoning approvals and/or resource consents
- Territorial authority (if applicable)
- Franchise agreement (if applicable)
- Pending litigation (if applicable)

Financial History

- Profit & Loss statements for the previous three years if possible
- Monthly sales figures for previous three years
- Working capital requirements
- Aged Debtors & Creditors lists

Business Forecasts & Staffing

- Projection financial statements for the next three years
- Work in progress (with the percentage of completion)
- Planned new products or services
- Potential new business markets and supporting documentation
- Emerging new technology to be exploited
- Key-personnel employment contracts
- Personal biographies of key personnel
- Employment contracts (if applicable)

Miscellaneous

- Insurance details
- Owner post- sale employment contract (if applicable)

Checklist 3

Ensuring a smooth takeover of your business.

Now your sale has gone unconditional, this checklist will help you know what you may need to do before you exit your business.

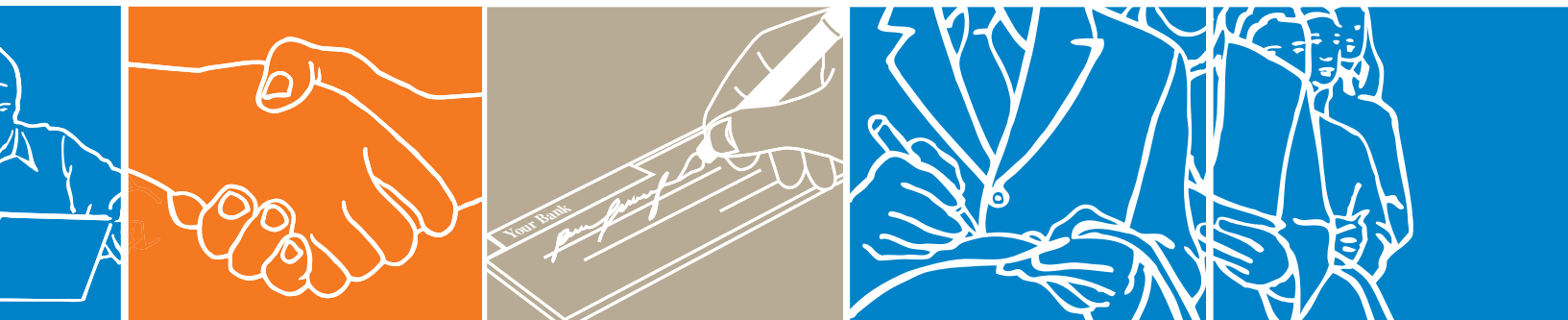
Seller Buyer Task

- | Seller | Buyer | Task |
|--------|-------|---|
| • | • | Ensure you are registered for GST in the correct title |
| • | • | Open trading accounts with your bank and arrange named cheque books |
| • | • | Organise the changeover for Eft-pos as it can take a little time |
| • | • | Find out as soon as you can (from your lawyer) how much will be required for settlement including rent, rates and other apportionments and organise to deposit with him/her |
| • | • | New Stationery requirements? Business cards, reprint invoice books etc |
| • | • | Open accounts with suppliers so you are ready to start trading from Day 1 |
| • | • | Change power accounts over – organise any cell phone account charges |
| • | • | Check if there is a web site host/supply to change |
| • | • | Organise a till float ready for the first day of trading |
| • | • | Organise petty cash, you may need more for incidentals during Week 1 |



Seller Buyer Task

- Register new membership with trade or industry organisations
- Decide if you are going to advise suppliers and customers of change of ownership and if so, prepare a letter, mail out or advertisement so it is ready to go.
- Find out what insurance covers are required and arrange to have them start at settlement. You may then have time to get comparative quotes.
- Start the ball rolling on Employment contracts for staff takeover.
- Talk to the vendor about the best way to handle debtors during the take over and have a system planned, remember you may be receiving money on their behalf.
- Ensure any keys, passwords, security codes etc are exchanged
- Ensure Franchise agreements are assigned.
- Sign over the current PO Box number
- Assign leases for premises
- Assign leases for vehicles



Talk to Tabak

Our sales success rate is 80% (5 year average).

Why wait? Talk to Tabak today.

Call the Tabak team nearest you:

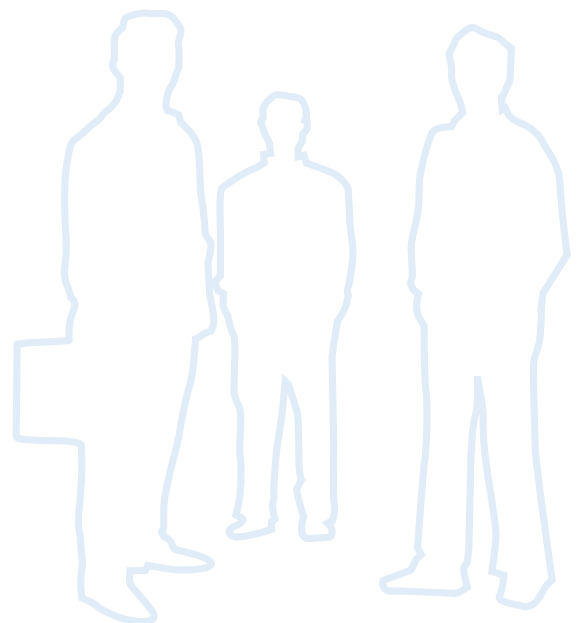
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