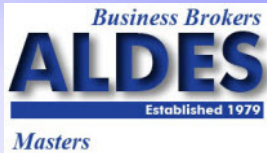


So you are buying a business



ALL THINGS FINANCIAL

Chris, a Property and Business Broker explores some important points to consider when buying a business.

Assume There Are Skeletons In The Closet!

Most businesses have some negative feature. You can be sure that any problems will come out later during due diligence and this could kill the sale. Often if the negative aspect(s) is clearly beforehand and discussed with the buyer, it may not be a serious problem because the buyer may feel that it can be overcome, avoided, or changed.

Caveat Businessus Emptor; (Let The Business Buyer Beware!)

Business brokers dealing with the public are bound to be honest and forthright as their conduct is governed by the Code of Conduct issued by The Estate Agency Affairs Board. But they also have a fiduciary relationship (position of trust) to uphold between themselves and their clients (the business seller, in most cases). They must present a business for sale in its "best light" without misrepresenting any significant facts. The best course of action for a buyer is to trust only what he can verify during a rigorous due diligence process and the best approach on the part of the seller/broker is full disclosure of all pertinent information.

A Business Is Worth Only Whatever Someone Is Willing To Pay For It.

Buyers and sellers are natural adversaries; the sellers want as much as they can get and the buyer wants to pay as little as possible. So, what process should you use to value a business?

Aldes pioneered the 3 pronged valuation method and uses Extra Earnings Potential, ROI and Payback. The average of these is usually within 10% of the selling price.

A Business Buyer Is Really Buying A Stream Of Earnings!

The assets of the business are just the tools of the trade that enable an earnings stream to be realised. Without the earnings stream, the business essentially has no value. You should note that in using this method, a business may actually be worth less than its fair market asset value or in many cases worth substantially more. A seller will be able to get the most they can for a business by showing a buyer the true investment value in the business based on provable earnings.

Ignore All Claims Of Unreported Income!

This is a very sensitive subject. Cash sales. Some business sellers may try to get you to accept their claim that they had significant amounts of cash income that did not show up on their Books and accordingly want you to include income in your valuation of their business. I highly recommend that you totally ignore these claims and deal only with the business's reported income. Who is to say if the business owner's claims are true? If he can lie to the SARS he can lie to you!

Many Sellers Stretch The Truth)

Most sellers are honest people. However, a buyer should approach all information provided



in the sale with some skepticism. Buyers are making a major financial decision and should carefully consider all information presented during a detailed due diligence process and insist on proof so that they do not get burned.

After Buying A Business, Do Not Change Anything (At First!)

Of course, this doesn't hold true if you're buying a turnaround situation; but in general, if the business you are buying is profitable, leave it alone while you learn how to manage it in accordance with the current status quo.

After say 6 months, make the changes.

Aldes Masters
Cell: 082 558 6577
Fax: 086 608 9389
E mail: chris@bondabilitysa.co.za
Web: www.aldes.co.za