

## Guideline for the buyer

We have drawn up a short guideline for private persons, which offers a first introduction to issues in connection with the purchase of a company.

Are you planning to buy your own company? The purchase of a company may be difficult and it is important that you remain cool-headed.

Business Broker AG offers many different companies, which might be suitable for you. Check whether a company suits your talents, your capacities and your lifestyle. However, please do not forget that the perfect company does not exist. First and foremost, you will be taking a big step: as a business owner, you are in charge.

Please take the time to work through the guideline and to answer the questions for yourself. This will help you to sort out your targets and your motivation, your financial and your personal starting point:

1. A business owner is called a business owner because he/she does business!
2. Important questions to be considered and answered previous to the purchase
  - a. Establish or purchase a company
  - b. What should you pay attention to when buying a company?
  - c. Why do you wish to buy a company?
  - d. What is your time frame to find the right company?
  - e. Are you willing to invest an important part of your financial funds into a company?
  - f. Are you sufficiently independent to take decisions by yourself?
  - g. Is your family supporting you as a business owner?
  - h. Are you open in your search or are you looking for a specific kind of company?
  - i. Do you have appropriate expectations?
  - j. Do you need security?
  - k. How do you define success?
3. The purchase process
4. How does a broker help you?
5. Do you need a lawyer?

### **1. A business owner is called a business owner because he/she does business**

To buy a company is a major step and a challenge for which you have to overcome your fears and concerns. Almost 90% of the people, who purchase a company have never been the manager of a company before.

A person who always wants to be on the safe side should never start their own business.

When you start your search, you should consider that being a business owner is more than just a job. It means a change of lifestyle. Very often, such a change is considerable: normally you work longer hours, you have to make all decisions by yourself and you need to be willing to do all kinds of jobs. In other words: you are responsible for all kinds of work necessary for the success of a company and to keep it going. In reality, this means you have to wipe the floor or change a light bulb yourself.

What are the reasons for a private person to become a business owner?

- Take your destiny in your hands
- Proud of service or product
- Flexibility
- Financial opportunities
- Recognition
- Safety
- Privacy
- Status
- Contact with clients and staff

## **2. Important questions which should be considered and answered previous to the purchase of a company**

### **a) Establish or purchase a company?**

Approximately 50% of all cases of insolvency occur during the first four years after the foundation of a company. This alarming statistic shows that people often do not consider three important factors before they establish a company: bad location and/or poor quality of a product, insufficient financial reserves and, last but not least, they are overwhelmed by demands.

When taking over an already existing business you can be sure that the location that the founder of the company had chosen is good and that the right products are in the portfolio, otherwise the company would not have existed for a long time. In order to manage the third point, being overwhelmed by the demands, it is advisable to accept the help of the former company owner. Most business owners are willing to support the new owner on their way to a successful business independency.

### **b) What you should pay attention to when purchasing a company?**

Unfortunately, the initial question of many potential buyers is the price of a company and only as a second thought they consider what can be earned from it.

Important is the question, how much capital you need in order to finance the purchase price. However, there is no point in considering a purchase of a company if the requested amount of funds is higher than what you are able to finance.

Buy a company, which you find easy to identify with. Being a proud business owner is an essential ingredient for success. On the other hand, the firm shall generate sufficient earnings in order to guarantee the coverage of your cost of living as well as the financial costs.

Last but not least, consider the potential of a company, which may still be concealed. What can be improved to make the company more profitable? A saying goes: „Don't buy a company that cannot be improved!“

### **c) Why do you wish to buy a company?**

If you are not really motivated to buy a company, let it be. You must be entirely committed to become a business owner and this includes the right motivation. Being a business owner still is the basis of the „great American dream“, but this does not mean that it is everybody's dream.

If working in a large organisation does not satisfy you anymore, going to work everyday only means earning money to you or if you have a job without any perspectives, then being independent may be the right option for you.

### **d) What time-frame do you have to find the suitable company?**

If you consider purchasing a company in two years you should start to gather the necessary information already now. However, there is no point in starting to search the right company now. Each company you find today is ready to be sold immediately.

### **e) Are you willing to invest the most important part of your capital into a new company?**

The purchase of an own company is an important financial investment. If you are a person that does not want to run any risks, also from a financial point of view, you should reconsider your decision to purchase an own company.

### **f) Are you sufficiently independent to take all your decisions by yourself?**

If you run a small business, you have to take many decisions. You are the boss and you are responsible. All decisions are your decisions, whether they are wrong or right. You will take wrong decisions for which you must bear the consequences. Are you able to cope with such a situation and do

you have the strength to continue after such a failure? If you are constantly concerned and will have sleepless nights, an own company may not be the ideal option for you.

**g) Is your family supporting you as a business owner?**

If your family, especially your partner, does not entirely agree with your decision, you should reconsider becoming a business owner. It is mandatory that your partner supports you. He or she has to know that being the owner of a company is very time-consuming. On the other hand, being your own boss means very often that your working hours are more flexible and offers the possibility once in a while to enjoy a free afternoon with your family.

**h) Are you open in your search or are you looking for a specific kind of company?**

If you consider buying a company, it is advisable to be open to any kind of opportunity. There are many different companies and you should not narrow down your choice. Watch out for a company that guarantees you the income that you need (or at least the opportunity to do so), a company that you are able to finance and, last but not least, a company which offers opportunities to be successful by working hard.

**i) Are your expectations appropriate?**

It is important that you keep your feet on the ground when defining your expectations. Many owners have built up their business over many years, have invested time and energy and it often represents their entire fortune. Many sellers will be willing to support you financially for the purchase of the company, however, they will not give you any presents.

**j) Do you need security?**

If you need security, being a business owner is not the right option for you. Even if you examine all books and documents, you can never be sure since such figures are from the past. A new owner always brings changes along, no matter how small such changes are. Everyone has a different way of managing a company and times change fast. Consider a company under the aspect of its potential for improvement. Naturally, a company's past financial data is important, however it does not give any guarantee for the future. You are the guarantee!

**k) What is the secret of success?**

It is essential that you have enough financial assets to buy the company of your dreams and to be able to make the necessary amendments. As the starting phase may be difficult, you should be in possession of sufficient financial reserves.

However, being successful or not depends also on factors that you are able to influence in a significant way: Your willingness to work hard and long hours especially in the beginning. Successful business owners claim

to be at the same time secretary, vendor, bookkeeper and manager. That is exactly the attitude that will lead you to success! Think of not only being a „planer“ – think of being a „doer“!

### **3. Purchase process**

How does one buy a company? There is no right or wrong way to do it. The important thing is that you get answers to all your questions and that the information, which is necessary, is available in order to help you to make the right decisions.

The following illustrates the usual process:

#### **a) Gathering of essential facts and figures**

In the beginning, get information on prices, conditions, earnings, revised earnings and the general situation. For all companies for sale Business Broker AG draws up a short company description in which you will find the most important information.

#### **b) Visit the company**

In order to check whether you like the location and the visual appearance, go and visit the company as a client. It would be too early to have a discussion with the owner. If it is unusual or difficult to visit the company as a client, then arrange a meeting with the seller.

#### **c) Insist on answers to your questions**

If you like the company you should start trying to get answers to your questions. For example: What is the cost for the rent? For how many more years does the tenancy agreement run? How high was the turnover during the last few years? Is the seller in possession of figures, which prove his statements? At that moment it is not yet necessary to examine in detail the seller's books. At a later stage, there will be enough time for such an examination by means of a due diligence. It is now first and foremost important to get the answers that will influence your decision whether to buy the company or not.

### **What you should pay attention to:**

#### **1. How long does the company exist already?**

Normally, if a company has existed for a long period of time, this confirms that such company is profitable. It is not without reason that this firm has been on the market for many years. It shows that the owner had chosen the right location and the right product.

#### **2. How long has the current owner been in charge?**

An essential criterion for your decision to buy is information about the current owner. As a rule, the longer a company was in possession of

the same owner, the more successful a company is. Nobody keeps a company if one does not earn money on it.

### **3. For what reason is the owner selling the company?**

This is a very important question! The actual reason for the sale will influence the seller's flexibility regarding the purchase price and the conditions of payment. If an owner has taken over the firm only six months ago and claims to want to retire now, you should get sceptical. However, do not forget that business people often get tired of a branch after a certain period of time and start to look for a new challenge. The question of the reason for the selling is very important, therefore, you should insist on an answer.

### **4. Profit and Loss account of small and mid-sized companies**

Like any private person, companies try to pay as few taxes as possible. Accordingly, many expenses in the books are private expenses of the owner. It is worthwhile to have a closer look at the various expenses (costs for vehicles, travel expenses, expenses for representational activities, etc.). For example, the trip to Southern France, was it really a business trip? The company car, does it serve only for business purposes? We will support you in order to get these questions answered.

However, when doing such research, please do not forget that all and any figures relate to the past. There is no guarantee what the future will bring. What kind of policy for expenses will you implement when owning the businesses? To what turnover will your ideas and your hard work lead? The company's future is in your hands!

### **d) Evaluate the company**

Many sellers have a more or less clear opinion of the price at which they want to sell the company. Naturally, they determine the price according to their subjective assessment and personal needs.

We know the market of companies sales and, therefore, based on our experience, we are able to evaluate a company. The evaluation of a company is always based on the revised earnings, i.e. the money which you as the owner will get after deducting of the financing costs.

During the evaluation, figures are never absolute, but a value of a company is based on several aspects. It is important that you conduct such an evaluation of a company. In your opinion, what is the value of the company? There are many methods to answer such question, from a scientific approach to rules of thumb. If you feel unsure about doing such valuation on your own, consider consulting a professional, however, if possible this should not be your tax consultant. In order to exclude conflicts of interest, we can only help you with the evaluation if the seller is not our client.

### **e) Make an offer**

Once your essential questions are answered and you are still interested in buying the company, you should try to reach an agreement on the purchasing price with the seller. Usually, this is done by a non-binding offer that depends on several conditions, for example such as the in-depth examination of the core figures of the company.

The main reason for such offer is to check whether the seller will accept your suggestion of a purchase price and the according payment conditions. Do not forget that your offer is only binding if the information you received is true and if all your conditions will be fulfilled.

At this stage, if you have not yet come to terms regarding the financial aspects with the seller, there is no use in consulting external advisors that will make cost-intensive and time-consuming examinations.

### **f) In-depth examination (Due Diligence)**

Once you have come to terms with the seller, it is time to start an in-depth examination and solve the difficulties in crucial points.

## **4. What support does Business Broker AG offer?**

Business Broker AG gives you advise in connection with the purchase and the sale of companies. We are happy to accept your mandate for a selective search of a company, for an independent company evaluation or for support in price negotiations.

In order to exclude conflicts of interest we are only able to accept your order for advise if the seller is not our client.

If you are interested in one of the companies listed in our database, please contact us. We will inform you in detail about our offers and, after signing a confidentiality agreement, you will receive an extensive documentation of the company. We will take care of the entire sales process, however, we represent the sellers interests.

## **5. Conclusion**

The decision whether you should buy a company or not or the questions if you should start your own business anyway, has to be made by yourself. It is only up to you!

In the end it depends on you if you want to take the challenge to become a successful independent business owner. This is a step you have to take on your own. Nobody can take that decision away from you. Not your tax advisor, not your broker and not your friends. It is your duty!

We are happy to invite you to contact us by phone or by e-mail in order to arrange an initial meeting.