



## 10 Tips for Purchasing a Business

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Buying a business is more than buying the stock and changing the lock. Follow these tips to ensure that at the end of the purchase its not your barrels of hard earned money going up in smoke.

### 1. Know your Objectives

Superprofit? Adequate return on your investment? Short term loss for long term growth? Security? Lifestyle? Personal interest? Your reasons will influence the perceived value of a particular business for you.

### 2. Know Why the Vendor is Selling

Finding out can flesh out important issues regarding the business. Are there difficulties that will also impact on you?

### 3. How Much will the Business Cost

You need not only enough money to buy the business but also enough working capital to operate the business during the purchase and transition period. Set-up costs, ongoing stock, tax structuring (including depreciation, GST accruals, and use of tax losses) and the entity you choose to purchase the business with, all add to the real cost of the business to you.

### 4. Get Good Legal & Accountancy Advice Early

Depending on the size of the business and the complexity of issues involved, you will want to undertake either a focused or wide ranging due diligence exercise. While you do not want to have a lot of double up, it is important to note that an accountant and a lawyer will look at the same information from very different perspectives and often information gained by one will feed into issues requiring consideration by the other. At the very least, the accountant and lawyer should copy letters to you to each other to ensure that no areas of due diligence are missed and all issues arising are being addressed from both perspectives.

### 5. Know your Deal Breakers

A thorough due diligence exercise can throw up many issues, both large and small. It is important to be clear from the outset about what issues would make you walk away from a deal. Non deal-breaker issues may be dealt with in a variety of ways including re-negotiation of the purchase price, holding of retentions, additional warranties or disclosures by the vendor etc.

### 6. Determine your structure

Obtain early advice on:

1. whether to buy the shares of the vendor company or just the assets of the business
2. the entity you will use to purchase the business eg sole trader, partnership, LAQC, trading trust

These issues, and formation of any new entity, along with registration for income tax and GST, always need to be thought through and sometimes completed before the agreement goes unconditional.

### 7. Assess Goodwill carefully

As a rule of thumb, if you could generate the same profit as the vendor does by just buying the equipment or setting yourself up a similar business, then there is no goodwill aspect. If, however, the existing business can generate more profit than you would as an identical start-up, then a goodwill component exists. Of course, putting a value on this most intangible of assets can be extremely difficult so take good advice.

### 8. Ensure you are getting everything required to continue operating the Business

Detailed lists of tangible and intangible assets are useful to identify not only chattels and stock but also intellectual property, supplier and customer contracts, employees (if applicable), complete and up to date business accounts, regulatory licences (health, liquor etc) and of course, assignment of any lease or property. Where possible individual values should be attributed to each asset to enable depreciation to be claimed.

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## 9. Watch for Ongoing Obligations

Whether you buy shares in an existing company (thus assuming all liabilities of that company to date) or simply the assets and goodwill of an existing business, you will need sufficient indemnities from the vendor to cover issues arising prior to settlement. These include trade warranties given to customers, bad debts, obligations to employees (both those whose employment terminates on settlement and those who stay on with the business), outstanding tax, ongoing disputes or litigation, and so on.

## 10. Consider Post Settlement Issues requiring attention

The decision to purchase and the purchase itself are often the easy part. Make sure you plan for issues that may arise after the purchase including any additional expenditure, staffing requirements, vendor assistance, licence applications, and 'out-of-left-field' events that may occur so that you are as ready as you can be to give your new business the flying start it deserves.

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