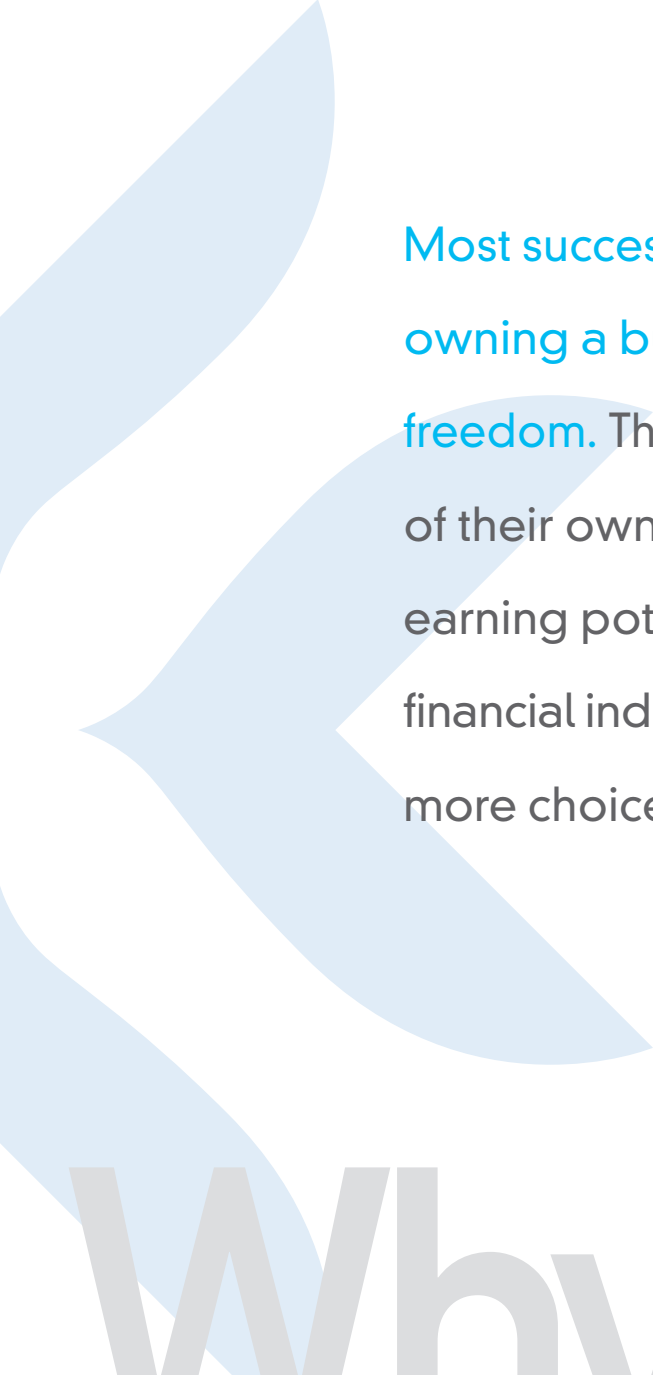


How to successfully purchase a quality business



Most successful business owners will say that owning a business gives them tremendous freedom. They are their own boss and in control of their own destiny. They have increased their earning potential, and are working towards financial independence. In short, they have more choices in their lives.

Why buy a

Good reasons to buy a business:

1. Make a profitable investment.
2. Pursue a new and exciting opportunity.
3. Be your own boss.
4. Utilise your individual and business skills.
5. Increase your earning potential.

Business ownership will generally outperform any other investments.

Good businesses usually provide good cash flow, and owners have used this cash flow to make other profitable investments, such as buying property, including, in many cases, the building their business is in.

The key to success, however, is to buy a quality business – one where there is potential for the new owner to use their skills and energy to take that business to the next level.

Many businesses for sale are poorly presented, over priced or in a poor state and, according to industry statistics, over 90% of the people who begin the search to buy a business fail to ever complete a purchase – even after looking for as long as eighteen months.

Tabak has rigorous selection processes for the businesses that approach us – and we will only take on those that meet our strict quality standards. You can be sure that a business bought through Tabak is profitable, secure and has potential for future growth.

business?

What's a good price for a business?

As investment expert Warren Buffet says, "It makes more sense to buy a great business at a fair price than to buy a fair business at a great price."

If you are looking for a bargain, it is important to understand that 'turn-around businesses' seldom do turn. It makes far more sense to buy a profitable business that has an opportunity for you to add value to it.

Tabak's experience, expertise and unparalleled market data enables us to value the businesses we choose to present to buyers fairly and accurately. You can be sure that you will always pay a fair price for any business you buy through Tabak.

What kind of buyer are you?

Business buyers tend to fall into two main categories – internal and external.

Internal buyers can be family members (if it is a family business),

or partners, management or even staff.

External buyers are either strategic buyers – generally large corporations, equity groups or companies that have a strategic reason for buying a business – or financial buyers who tend to be individuals rather than companies. Financial buyers are the most common buyer for the majority of small to medium priced businesses.

Why buy a

How ready are you to buy a business?

The process of purchasing a business can take some time – and will require effort, motivation and commitment on your part. Meeting with your Tabak team can help you assess how ready you are to start this process. We can discuss what kind of business would be most suitable for you, whether you have the necessary time and commitment, and we can run through the financial arrangements that will be required of you.

For most, buying a business is a once or twice in a lifetime transaction – so it is important to start the process with confidence. This brochure will describe in detail the steps in the sale and purchase process, so you can understand what is involved and begin to prepare yourself for this exciting new stage in your life.

business?

Good reasons to buy a business through Tabak.

1. **Quality:** Tabak has a rigorous evaluation and selection process to ensure our buyers are presented with only quality businesses.
2. **Expertise:** Our team draws on years of professional experience to successfully mediate between buyer and seller, ensuring the entire purchase process runs as smoothly as possible.
3. **Commitment:** We will be with you at every step – from structuring the offer, through all negotiations, to a satisfactory closing of the sale.
4. **Objectivity:** We provide you with comprehensive information and objective advice, so you can be sure you will be buying a quality business at a fair market price.
5. **Priority:** We give priority to buyers who are registered on the Tabak Clientbase. Most of our businesses are sold first to our registered buyers, with no need for public marketing.

Choose your professional advisory team carefully.

The calibre of the professional representatives and advisors who will form your business purchase team can make or break the deal – so it pays to choose carefully. Engaging your team early can make the process go more smoothly.

How to ensure a successful outcome from the sale

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

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

- An accountant: who will 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, and ensure you have full legal protection.
- A business banker: who can help facilitate a smooth transition by assisting with banking arrangements.

e process



An experienced business broker can make all the difference.

Tabak has thoroughly evaluated every business we decide to present to you, so you can be sure it is a genuine and suitable opportunity.

However, bringing together a buyer and seller is just the start of the sales process. A successful purchase is one made under the right conditions, and at a price and terms that are acceptable to you. 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 and may become anxious about what to say when dealing directly with each other.

How to ensure a successful outcome from the sale

- We will protect your confidentiality – and that of the seller – at all times through proven systems and processes.
- We will provide you with detailed and professional information memorandums that will present an accurate picture of each business for your analysis and consideration.
- Our years of experience will ensure the business you are presented with is correctly valued.
- We will co-ordinate the communication and information flow to both parties during the due diligence process.
- We will assist you with structuring an offer that will be acceptable to both you and the seller.
- And we will correctly identify the right moment to close the transaction, ensuring the satisfaction of both parties.



e process

The Tabak Clientbase – the advantages of registering.

Registering with the Tabak Clientbase has several advantages:

- More chance of a match with pre-qualified business opportunities that meet your requirements exactly.
- Advance information on new business opportunities before we market them more widely.
- Confidence that each business meets Tabak's strict quality criteria.
- The opportunity to view a range of businesses in different categories, and their values, before you buy, so you can make a more informed choice.

Establish a fair market value for a business.

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

A fair market value is the amount at which the business would change hands between a willing buyer, when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts.

Valuation Approaches and Methods

There are three basic approaches to business valuation:

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

How to ensure a successful outcome from the sale

Within each approach there are a number of methods and some hybrids. An analysis of each is shown below.

Earnings-based Methods

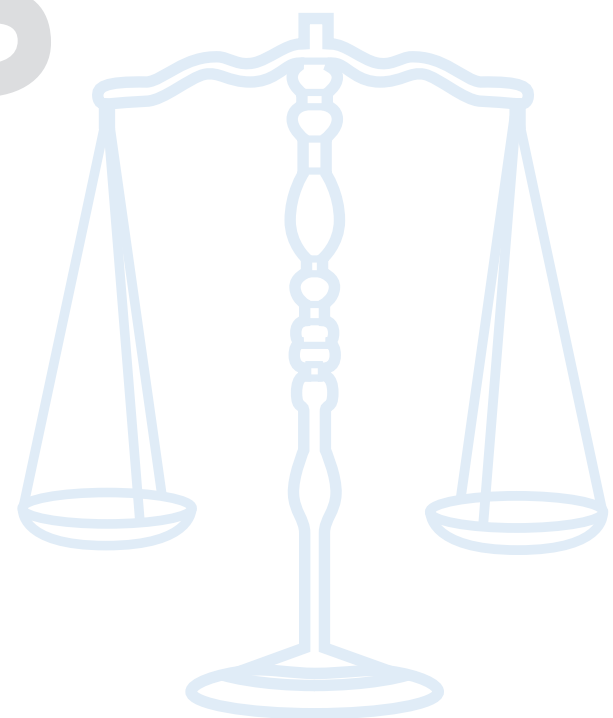
These include:

- Future Maintainable Earnings
- Capitalised Earnings
- Capitalised Dividends
- Discounted Cash Flows

Earnings-based methods determine 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 profitable, closely-held businesses, earnings-based methods are usually the best and most commonly used by valuers and other professionals.

<p>Asset-based Methods</p> <p>These include:</p> <ul style="list-style-type: none"> • Notional Realisation of Assets • Adjusted Book Value 	<p>These methods include adjusting each asset and liability on the balance sheet to fair market value, and then the values are summed. They 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.</p> <p>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.</p>
<p>Market-based Methods</p> <p>These include:</p> <ul style="list-style-type: none"> • Market Data Comparison • Rules of Thumb 	<p>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.</p>
<p>Hybrid Methods</p> <p>These include:</p> <ul style="list-style-type: none"> • Excess Earnings • Super Profits 	<p>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.</p>

process



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 one Proprietor/ Owner's Income, Interest, Tax and Depreciation) is commonly used as the earnings base. 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

Tabak appraises businesses using the following four steps.

1. Establishing a Net Operating Surplus

We require at least two years full financial accounts plus the current year's 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 each business, considering all aspects that will or may have an effect on the business value.

How to ensure a successful outcome
from the sale

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 each business. Each business will be compared to other similar businesses 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 and opportunities 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.



process

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.

1. Register your interest in the Tabak Clientbase.

Tabak has an exclusive nationwide database of buyers who have registered with us and been through the introductory stage of the business purchase process. Around 70-80% of our business sales are made direct to our registered clients.

The Sale process a step-by-step

Registering with the Tabak Clientbase has several advantages:

- It will provide us with a good understanding of your requirements, which will enable us to match you with pre-qualified business opportunities.
- You will receive two weeks advance information on new and suitable business opportunities before we market them more widely. This will enable you to investigate them early, and therefore be in a position of advantage.
- You can have confidence in any of the businesses we present to you. Tabak analyses each business with our thorough evaluation process. All businesses must meet our strict quality criteria before we agree to present them to buyers.

Step guide

Communication to our Clientbase is conducted by email, which has proven to be a fast and efficient way of bringing new business opportunities to your notice.



2. First meeting with your Tabak broker team.

At our first meeting with you, we will discuss the process of buying a business, whether the services of the Tabak team will be right for you, and what you are looking for in a business opportunity. We will also explain our strict confidentiality processes.

To better understand your requirements, we will ask you for information regarding your:

- Vocational history
- Financial resources
- Business requirements
- Motivation and commitment to purchasing a suitable business

The Sale process a step-by-step

This information is entered into your client file and is then available to the Tabak team. This information pre-qualifies you to purchase a particular size or type of business and you will be advised of new business opportunities as they come to the market.

Confidentiality is a key aspect of our business sales process. Before receiving full details on a particular business you will sign a legally binding confidentiality agreement that requires you not to disclose the fact that the business is for sale, or any other details you receive about the business. All information remains the property of Tabak and must be returned to us.

Our sellers are also bound by confidentiality and are not at liberty to disclose any details about prospective buyers until a sale becomes unconditional.

3. Receiving business Information Memorandums.

As a registered buyer you will initially receive information on new business opportunities through an email flyer. This one page email document provides brief details on the new business being marketed – and if this stimulates your interest you can then request further detailed information.

A member of the Tabak team will contact you and discuss the business. If you wish to continue with your inquiry you will receive an Information Memorandum.

Our Information Memorandums are developed with the highest degree of ethics, and, to the best of our knowledge, include full disclosure of all relevant facts and business information.



The Information Memorandum contains:

- Overview of the sale process
- Business overview and structure
- History, current and future trends relating to the business and industry
- Growth opportunities
- Business information
- Major competition
- Major suppliers
- Marketing
- Contractual information
- Main strengths of business
- Reason for sale
- Plant and equipment and stock information
- Lease details
- Information about the tangible and intangible assets
- Photographs and promotional documents

The memorandum is a highly confidential document and you must sign a confidentiality agreement before it is released to you. You are at liberty to discuss the content with your accountant, solicitor and banker only.

4. Meeting the owners and visiting the business.

After you have analysed the Information Memorandum and the business appears to meet your requirements, you will then want to meet the owner. This is an integral step in the purchasing process.

The Sale process a step-by-step

Normally, your Tabak business broker will set up a meeting with the owner at Tabak offices, so you can discuss aspects of the business. This is where you can get a better understanding of the business and how it operates.

The next stage is to visit the business. Depending on the type of business, this could be during business hours or it may be outside normal business hours, particularly if staff are not aware of the impending sale.

At this stage, no formal offer to purchase has been made, and while every effort will be made to ensure your questions are answered, there will be certain business matters that cannot yet be disclosed.

In consultation with your advisory team, you now have to satisfy yourself that you have enough information in order to make an offer for the purchase of the business.

ep guide



5. Sale and purchase agreement.

When you are satisfied that the business meets your requirements, you should secure a legal option to purchase this business. This is normally completed by way of a sale and purchase agreement or a heads of agreement.

For most small to medium sized businesses a standard sale and purchase form is used. In the case of very expensive and complex businesses an agreement may be drafted from scratch by the purchaser's solicitor and refined by negotiation with the seller's solicitor and advisors.

In most cases, your Tabak business broker will put together this agreement and guide you through the process.

Putting together the agreement

Because agreements to buy and sell businesses are contracts, all due care must be taken when drafting them. Your Tabak business broker is experienced in this area, and will work with you and your solicitor to ensure that the agreement contains nothing adverse but does contain any information and conditions which are necessary for a successful outcome.

Once this agreement is completed it should then be taken to your solicitor for approval before it is signed.

The Sale process a step-by-step

Options for purchase

When buying a business you have two options:

1. If it is a company, you can purchase the shares of the company.
2. Or you can purchase the business assets as a going concern.

Most often businesses are presented for sale as a going concern, which would be the recommendation of most solicitors. This means you can incorporate your own company to purchase the business and gain the advantages of trading as a company, without taking on the liabilities of the seller's company.

What goes in this agreement?

To put this agreement together your Tabak business broker will require some key information.

This will include full particulars of the transaction including parties, a description of the business, the price and breakdown of assets, the deposit amount, possession date, lease particulars, turnover warranties, stock variance amount, restraint of trade and handover period.

A number of special conditions will be inserted covering the scope and term of the due diligence period. These will relate to finance, re-employment of staff, requirements around plant and equipment, further information about the seller's ongoing assistance, assignment of leases, special warranties, and will include any other condition specific to the purchase of this business.

Most of these conditions have been standardised by Tabak and have been used and approved by solicitors many times. They are there for your protection and give you the right to withdraw from the purchase of the business at any time during due diligence period.

This sale and purchase agreement will now form the plan for the actual sale of the business from which all parties and their respective teams of advisors will take specific actions, within specified times.

Step guide



Once this agreement has been approved by your solicitor you will be asked to sign it and it will be presented to the seller.

In a situation where there is more than one offer being presented to the seller, your Tabak business broker will ask you to complete a multiple offer declaration. This document is designed to inform you that there is another offer being presented and to ensure you understand that the offer you have made is your best offer and that you have been made aware that you may not have a chance to make a better offer. Again your Tabak business broker will fully explain this to you if the situation arises.

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 you through the due diligence process.

6. Due Diligence

The signing of the conditional Sale and Purchase Agreement is still only half way through to completing the transaction.

You and your advisors must now complete the process of Due Diligence.

The Sale process a step-by-step

Basically, the Due Diligence clause in the conditional agreement means that you can complete a thorough investigation of the business in its entirety. You can also terminate the agreement for any reason, however this rarely happens if the information contained in the Information Memorandum is accurate.

The normal time to complete a Due Diligence process is approximately 15-25 working days. A longer Due Diligence period may be required, depending upon the complexity of the business or other requirements, such as franchise approvals.

You'll find a Due Diligence checklist on page 24

Step guide



You will undergo the Due Diligence process in consultation with your advisory team.

Up until this point, you and your advisors have made a judgement call based on the information presented by the seller, both verbally and that contained within the Information Memorandum. Due Diligence enables you and your advisors to verify that the information you have received supports the conditionally agreed-to sale price.

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. You and the seller and your respective teams of advisors, including your Tabak business broker, need to work together to solve the inevitable differences in positions.

Once all the conditions contained within the Sale & Purchase Agreement have been satisfied, you will instruct your solicitor to confirm that the agreement is unconditional.

7. Unconditional contract

Once you have satisfied yourself as to all the aspects of the Due Diligence investigation, the agreement will be confirmed by your solicitor as being unconditional.

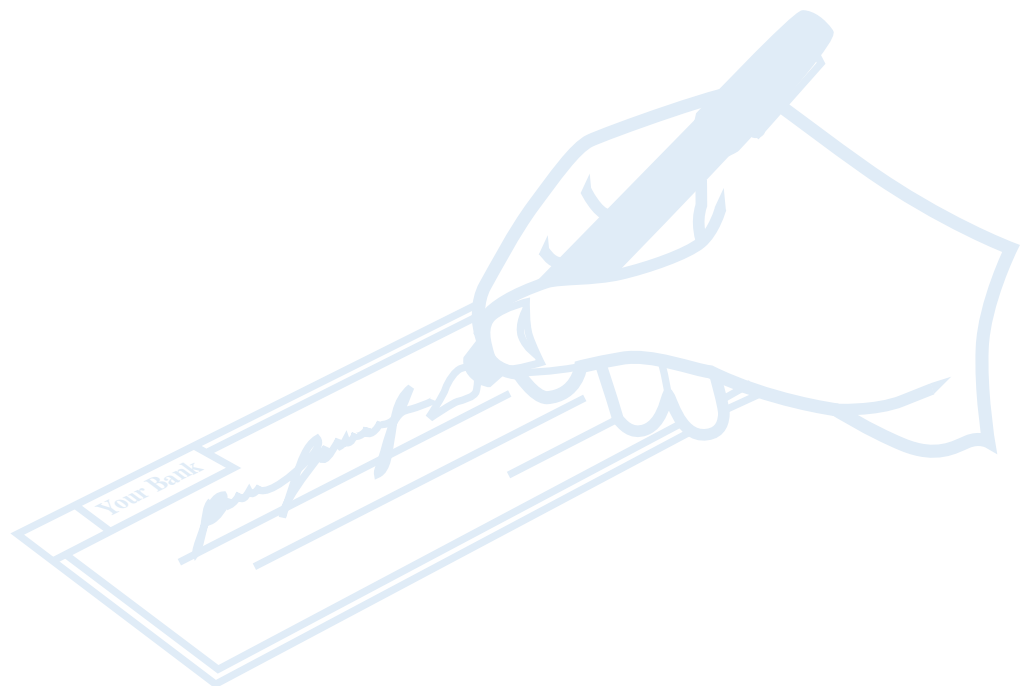
Confirmation of sale means that the sale is now official and that the agreed transaction must by law be honoured by both parties.

You will pay a deposit to Tabak Limited who receipts it on behalf of the seller and holds it in an audited trust account. The deposit is normally 15% of the purchase price.

The deposit must be held for a period of 10 days in the trust account before the funds can be dispersed. Earlier release can be agreed upon with the approval of both solicitors.

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

The Sale process
a step-by-step



8. The Possession & Settlement Period

Between the period of the unconditional date and possession date, both parties along with 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; the stock take, verifying the plant and equipment list, and attending to the period of seller's assistance.

Stock take

A stock take 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; 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.

Plant and Equipment

The plant and equipment as listed 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.

step guide

Seller's Assistance

This is normally for a period of up to four weeks, but the length of time required does vary depending upon the complexity of the business. The first two weeks will require a full time involvement.

The seller will often agree to consult informally or formally for financial consideration for an agreed period after the four-week period of assistance. This requirement, if applicable, also varies depending upon the complexity of the business.

For more information on how to ensure a smooth takeover, refer to the Checklist on page 26.

Checklist 1

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)

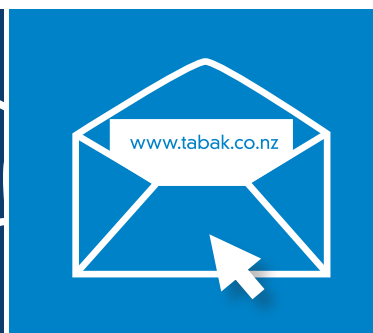
Checklist 2

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 take over your new business.

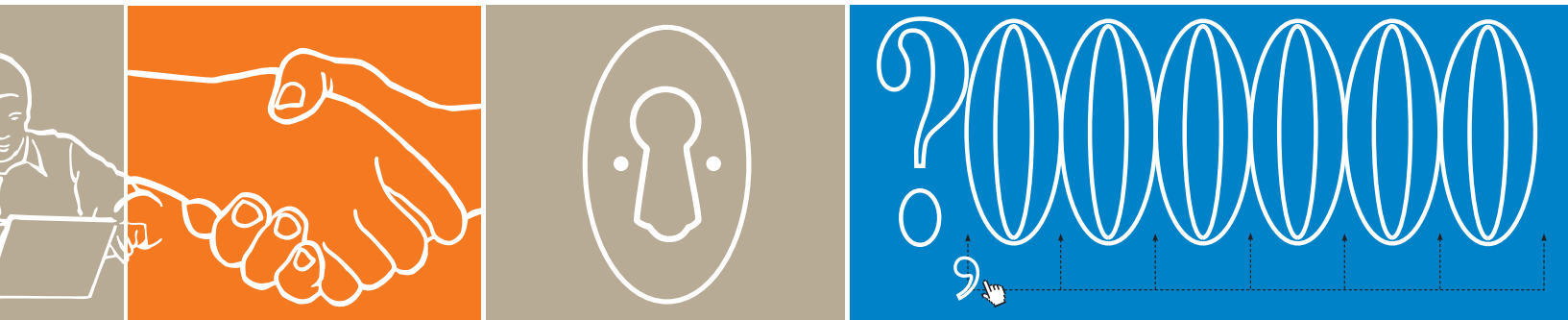
Seller Buyer Task

- | 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 Eftpos 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 changes |
| | | • 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 takeover 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:

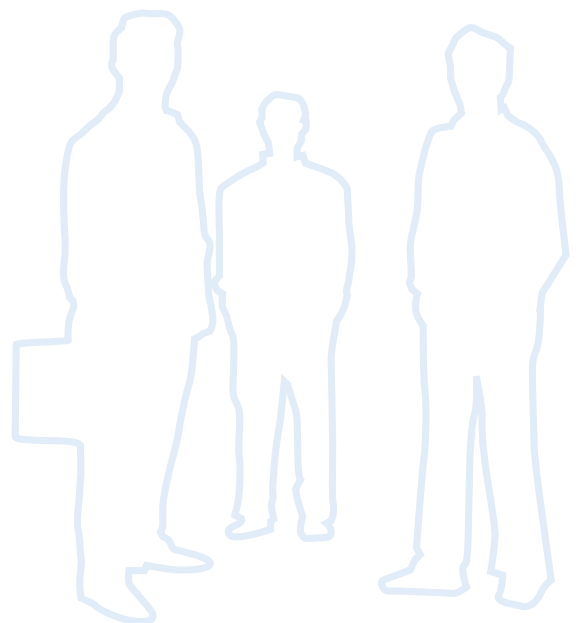
Auckland: (09) 307 3569

Hamilton: (07) 839 5863

Tauranga: (07) 578 6329

Wellington: (04) 499 0094

Christchurch: (03) 377 7491



www.tabak.co.nz



Auckland: 09 307 3569
Hamilton: 07 839 5863
Tauranga: 07 578 6329
Wellington: 04 499 0094
Christchurch: 03 377 7491
www.tabak.co.nz