

**Want to sell
or
buy a business?**



BUSINESS BROKERS AND CONSULTANTS

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BUSINESS CONSULTANTS

Associates throughout South Africa

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THE FAIR-BRO FUNDAMENTALS:

- A prompt and professional service
- Total confidentiality and trust
- A full understanding of your requirements
- A comprehensive assessment and an unbiased report and valuation
- National, International and Local listings and advertising
- Genuine and qualified Buyers
- A fair and honest transaction
- Satisfied Sellers and Buyers

OUR SERVICES AND WHO WE ARE:

- We are Business Brokers and Consultants, we were established in 2002.
- We operate out of offices country wide - a head office in Claremont and satellite offices in Cape Town; Garden Route and the Overberg; plus offices in Pretoria, Johannesburg /North Rand and East Rand (Gauteng), as well as KZN.
- Full Brokerage Service is provided to these areas - coverage extends to the entire Western Cape, Gauteng and Kwa-Zulu Natal, and the network also services the Eastern Cape, Free State, Northern Cape, Limpopo, Mpumalanga and North West provinces of South Africa.
- We aim to meet our clients' requirements in the areas of acquiring or selling business opportunities.
- We list businesses for sale that are domiciled off-shore, on a referral basis.
- We deliver a professional service and qualify the opportunities that we market as well as prospective Buyers.
- We only list businesses with a proven track record and Buyers are also required to meet our standards.
- We negotiate mergers and acquisitions in terms of specific mandates.
- We provide Consulting Services through a Group company - Fair-Bro International Consultants; established to assist ailing businesses, provide due diligence facilities and general business consulting.

Prompt & Professional Service:

- We respond to your enquiry soon after it is registered
- We set-up an appointment at a mutually convenient time
- We undertake a full and written assessment
- We note and understand your needs and clear all queries
- We analyze the data and submit our recommendations
- We obtain a signed consent and conclude an agreement to list the business/requirement

Total Confidentiality:

- All information is received and submitted in the strictest of confidence
- Fair-Bro's principals, brokers and staff sign confidentiality agreements
- We do not disclose information without our client's prior consent
- We do not list your name or the business name
- We do screen prospective Buyers who are also required to sign confidentiality agreements

A Complete Assessment & Recommendations:

- We submit our assessment and valuation
- We resolve any issues and queries
- We propose and discuss a selling price and terms
- We agree the listing price and terms
- The Seller signs the approval and commission agreement
- We proceed with the business listing and prepare a detailed presentation

Listing the Business:

- We list the business for sale on our national and international website
- We advertise the business in the local press
- If required, we advertise in the national and international press
- We research our database for qualified Buyers
- We network with accounting firms, other associates and their principals

Negotiating /Finalising the Transaction:

- We receive enquiries from interested Buyers whom we interview and qualify
- We set-up appointments and provide information in line with agreed confidentiality
- We do all the negotiating between Seller and Buyer
- An offer is submitted, negotiated and a deal is finalized
- We provide all the document templates
- The agreements are prepared, signed and all deposits are held in the nominated attorney's or Fair-Bro's trust account
- We manage, monitor and track the entire transaction
- We assist the purchaser in applying for funding and prepare business plans
- The deal is concluded when all the conditions are met, the purchase price paid and commission settled

CONSULTING SERVICES:

Fair-Bro International Consultants (Pty) Ltd is a separate company within the Group, headed up by Hilary Marshall (CA (SA) and CPA) and offers the following services:

ACCOUNTING & TAX:

- Preparation of annual financial statements
- Preparation of reports to assist management
- Forecasts and budgets
- Monthly bookkeeping/accounting services
- VAT returns
- Payroll preparation
- Tax opinions - outsourced
- Preparing business plans for finance requirements
- Income tax returns
- All statutory returns
- Company secretarial services - outsourced
- Company and close corporation formations - outsourced

BUSINESS CONSULTING:

- Business valuations
- Forensic investigations
- Due diligence reports
- Special purpose presentations

Requirements for Consulting Services may be submitted on-line via the website or by e-mail to: consultants@fairbro.co.za.

All communication will be in terms of the strictest confidentiality and will be subject to signing the standard NDA (Confidentiality Agreement).

Reasons for awarding a Sole Mandate to Fair-Bro:

- **Brokers usually operate from the same "Pool of Buyers".**
Buyers usually contact all the Brokers advertising businesses for sale. These Buyers usually register with all the Business Brokerages, so engaging five different Brokers to market your business, does not mean that your business will be exposed to five times as many Buyers!
- **To achieve the best price, BUYERS and not BROKERS must compete for your business.**
Appointing an Exclusive Broker, all potential Buyers for a business are obliged to negotiate through that Broker, who is then in a position to create a "platform of competition" between all interested Buyers. Conversely, if each of these Buyers is introduced to the business by a different Broker, a situation develops where one Broker competes with another for the Seller's business, instead of Buyers competing with one another on the price!
- **Brokers are "answerable" to their Exclusive Mandate Sellers.**
Businesses under exclusive mandate are given priority on the Broker's list of businesses for sale. These businesses receive preferential treatment from the Brokerage.

- **Brokerage conflicts can occur when a business is marketed without an Exclusive Mandate.**

If one Brokerage brings a Buyer to see your business one morning and then another Brokerage arranges for the Buyer's business partner to see the same business in the afternoon, both Brokerages may claim to be the effective cause of a sale. As a consequence, both Brokerages may feel that they are due the full brokerage commission!

By dealing exclusively with Fair-Bro during the period of the Exclusive Mandate, you will avoid these competing claims for commission.

- **Unique marketing opportunities - use the full weight of the marketing effort.**

Fair-Bro offers marketing opportunities for your business that are unique and exclusive to us. We market businesses nationally through the print media and our branch network.

Fair-Bro maintains a Buyer's database that can be accessed regionally and nationally, utilizing a unique Broker referral system - Buyers belong to Fair-Bro and not the individual Broker. New business listings are featured on our website home page and all businesses on sole mandate to Fair-Bro, receive prime listing and advertising position.

SELLERS MYTHS

- 1. No-one will want my business!**

The fact is - for every business that is listed, there are at least 5 people looking to buy a similar business.

- 2. Buyers don't understand the true worth of my business!**

Buyers are usually educated and knowledgeable regarding businesses, but each may have different reasons for their interest. One may just require the assets to expand their business; another may think it is strategic to their future goals. Each Buyer has their own idea regarding the value of your business.

- 3. I just need to find that one Buyer!**

True - but unrealistic! A Seller needs to have realistic expectations and be able to provide supporting documentation that will meet the Buyer's requirements.

- 4. The business is doing well - I don't need to sell!**

The best time to sell your business is when you can present a track record of growth and ever increasing profits, to the potential Buyer. Some owners don't sell because they are concerned about what they will do next. Depending on the nature of your business, management contracts may be a viable way to stay involved and help the new owner meet future goals.

- 5. I am an absentee owner/silent partner and only break even, so my business is not worth anything!**

Untrue! Absentee ownership presents a lower risk to the Buyer. They do not have to know the business intimately to own it. Buyers can take the place of key employees and earn greater returns.

- 6. I can't do this to my employees!**

In most cases, it is important to the Buyer that the employees stay on. Also - new ownership can present new opportunities for the employees.

- 7. I don't need a Broker as I don't plan to sell for a year or two!**

Wrong! A Broker can provide you with the knowledge of what you and your company need to do, to prepare your business for sale. It is never too early to plan your exit strategy. A Fair-Bro International Professional is willing to take on such a relationship and will guide you through the process and prepare your business for selling, sometime in the future.

The Solution:

No matter what your reason for selling might be - appointing a Fair-Bro International Professional to help you compile a strategy, market and present your business to its greatest potential, is key. Using Fair-Bro International to guide you through the process will provide you with the assurance of our strictest confidentiality in dealing with prospective Buyers, thereby ensuring a successful transaction.

FAQ FROM SELLERS

- Q. How confidential is the information that I provide?**

A. Fair-Bro International will not divulge the business name, address, contact person and contact details nor shall we release any confidential information that might reveal your identity. All the directors, staff and appointed agents of Fair-Bro International sign confidentiality agreements.

- Q. Can prospective Buyers identify my business?**

A. The information provided to prospective Buyers searching our listings is extremely broad so as to conceal your identity. This confidentiality is maintained until such time that you wish to have prospective Buyers introduced to you through Fair-Bro International.

- Q. How do I control the level of confidentiality?**

A. You may control and set the level of confidentiality that you require. When completing the questionnaire, the Broker will be able to specify the level of confidentiality and Fair-Bro International will use that to determine what information may be released.

- Q. Can I select how I wish to be contacted?**

A. The Fair-Bro International database will manage the referral of prospective Buyers so duplication will be avoided. The database will

store information relating to the method of contact that you have selected and Fair-Bro International will process all enquiries accordingly.

Q. What costs are involved using the referral service?

A. At the conclusion of a sale that results from an introduction which originated from the Fair-Bro International database, Sellers are required to pay a commission to Fair-Bro International and agree to the terms in writing.

The level of commission is based upon two types of service from Fair-Bro International, namely:

- The Referral Service - All enquiries are referred directly to the Seller for direct contact with the prospective Buyer. In this case Fair-Bro International does not screen or qualify the Buyer but merely provides the contact. The commission paid is therefore an introductory commission.
- The Full Brokerage Service - All enquiries received are referred to the appointed Broker through Fair-Bro International. Prospective Buyers are always screened and qualified, appointments are set up and negotiations and offers are managed, submitted and drawn up by Fair-Bro International. If required, the sale agreement is also prepared and monitored.

Q. How do I activate the referral service?

A. After submitting the details of the business being offered for sale onto the Fair-Bro website (LIST A BUSINESS) after selecting The Service Option; the Seller is presented with an on-screen contract which you are required to print to your printer. Sellers may view the referral service commission contract on line.

FAQ FROM BUYERS

Q. How do I register my requirements?

A. Should you wish to be automatically advised of new listings that meet your criteria, please complete the information on Fair-Bro's website - Log Buyer's Request to be advised of suitable business listings by email. Right click the link to visit that screen. Alternatively, download a Confidentiality Agreement/Buyer's profile from the DOWNLOADS page on Fair-Bro's website, for submission to the Fair-Bro office of your choice.

Q. Is the info that I provide kept in the strictest confidence?

A. Fair-Bro International will not divulge your name and contact details, nor shall we release any confidential information that might reveal your identity. All the Directors, staff and appointed agents of Fair-Bro International sign confidentiality agreements with referred Buyers.

Q. Who pays the Broker's commission?

A. The commission is paid by the Seller out of the gross proceeds received from the sale of the business.

HELPFUL POINTERS - Selling or Buying:

THE SELLING PROCESS

1. Consider, and make the initial decision to sell your business.
2. Evaluate your business and establish a preliminary asking price.
3. Consider the Tax implications relating to Capital Gains Tax and other taxation issues.
4. Engage your professional advisors and a Broker to represent you.
5. Conduct a thorough due diligence of your business.
6. Prepare a detailed selling memorandum for the business.
7. Identify the source of qualified potential Buyers.
8. Market the business to potential Buyers.
9. Negotiate with and receive offers from interested Buyers.
10. Conduct a detailed due diligence on the Buyers who are finalists.
11. Execute a letter of intent with the proposed Buyer.
12. Assist the Buyer with the due diligence.
13. Structure and complete documentation for the sale.
14. Sign the purchase agreement.
15. Satisfy the conditions to the closing.
16. Close the sale.

PREPARING TO SELL A BUSINESS

1. Ensure that your accounting records are up to date.
2. Clean up your premises. Neatness and good housekeeping creates a good impression.
3. Prepare information in advance that an interested Buyer will usually ask for:
 - Schedule of fixed assets and valuation
 - Summary of inventory
 - List of accounts receivable
 - Summary of leased/rented assets and equipment
 - Copy of lease covering premises
 - Copies of all pertinent contracts
4. If you are basing your asking price on earnings, then have at least the last three years financial statements available.
5. Once all of the above are prepared, call in a reliable Broker to provide an assessment and valuation.
6. Many Sellers represent themselves and end up doing a bad job because they have wanted to save the Broker's commission! Avoid this trap - appoint a professional - you will benefit in the long run.

THE SELLING MEMORANDUM

This outline can be followed, although not all of the information needs to be included in all cases. Choose the information most important for your specific industry and situation.

Part 1. Introduction and Summary: A comprehensive summary highlighting the most important points a Buyer should know.

Part 2. Description of Business: Form of ownership (company, CC,

partnership, etc.); reason for sale (very important); brief history of company, overview of product lines with percentage sales & GP of each line; the key success factors for the company - why the company is successful (pricing, service, innovative products, etc.).

Part 3. Asking Price and Terms: Are you selling shares or assets? What is the asking price? What are the terms? How was the price arrived at (for example: 3X earnings)? Caution - don't set the price too high. While you want to leave a little room to negotiate, listing a price 50% higher than you are really willing to take will turn off Buyers.

Part 4. About the Industry, Products and Customers: Describe the industry and current trends. Is the industry growing? What market share does the business have? Describe major customers - don't disclose names, just describe types of customers e.g. major chain stores. Describe how your products/services fit in with the industry and who the major competitors are. For products: describe each product line and its importance to sales and profits. Discuss patents, trademarks and royalty arrangements. Outline the channels of distribution and how products are marketed. Mention new products recently introduced or in the pipeline.

Part 5. Personnel and Management: Prepare an organisational chart; describe key management, the marketing/sales organisation and other human resources of the company. Mention the employment trend of the workforce and disclose any relationship or problems with organised labour or unions.

Part 6. Buildings and Equipment: For each long-term asset, include a description, age, condition, location and fair market value. If appropriate, include photos, drawings and/or information from appraisals.

Part 7. Long-term Plan: Detail the 5-year goals for the company, and the strategies and resources required to reach those goals. Be realistic but optimistic, and specify key assumptions made.

Part 8. Financial Information: Summarize three years of financial statements, with quarterly breakdowns of sales and expenses if possible. If sales are seasonal, provide sales by month for a three-year period. Include projections for at least three or five years. Be realistic (but optimistic) in all projections - include expected wage increases, etc.

Part 9. Appendix: This is the section to put product literature, detailed asset lists, appraisals, photos, maps and drawings and all other important documents.

The selling memorandum should not include copies of actual financial statements; those can wait until later as long as the summaries in Part 8 provide sufficient information.

RESPECT THE BUYER, DON'T ASSUME

When preparing your business for sale and you are busy assembling the information that you will be showing to prospective Buyers,

remember that: You will NOT fool a clever Buyer. If you are less than truthful with the information that you initially provide and the Buyer becomes interested and looks deeper, they will uncover the truth, your credibility will be destroyed and you will lose a Buyer.

Look at it this way:

In order to afford your asking price and payment terms, a person will need to have some serious and hard-earned cash. Business people with serious cash tend to be pretty sharp. You can certainly dream about it, but don't count on having a dim-witted relation of a rich, recently deceased uncle as your business Buyer! There are many other issues that need to be addressed and more questions need to be asked. If in doubt consult a Business Broker to assist you.

THE BUYING PROCESS

1. Consider, and make a decision to buy a business.
2. Research and educate yourself as to the type of business you wish to buy.
3. Determine how much you can afford to pay.
4. Search for sources that list businesses for sale.
5. Engage professional advisors.
6. Evaluate the businesses being offered for sale.
7. Place an option on the business in which you are interested.
8. Negotiate with the Sellers of the business.
9. Submit an offer subject to a due diligence.
10. Perform a due diligence on the business.
11. Structure and complete documentation for the purchase.
12. Obtain a contingent financing commitment.
13. Sign the purchase agreement.
14. Satisfy the conditions to the closing.
15. Close the purchase.

WHAT TO LOOK FOR WHEN BUYING A BUSINESS

1. What are the reasons for selling?
2. What track record does the business have?
3. Identify key customers and suppliers and establish their trading terms.
4. View and obtain copies of all legal contracts. Pay special attention to the lease agreement covering Business premises.
5. Establish what assets are encumbered.
6. Ask for details of current or pending litigation that the business might be involved in.
7. Establish external factors that might negatively affect the business.
8. Find out whether any other party holds any right or title to the business.
9. Ensure that there are no disputes with the Revenue Service that might impact on future payments.
10. Do not accept any figures at face value. Have them checked out by a professional and request certification by the external accountant to the business.
11. Is the Seller prepared to sign a Restraint of Trade agreement when a sale is concluded?

VALUATION METHODS

There are two methods suggested to determine the price of a business:

1. The business' ability to generate sales, cash flow and/or profits.
2. The value of the business based on its assets.

The method to use depends on the condition of the business as well as the type of Industry.

Valuation based on Sales:

In some industries, the norm is to determine value by using a multiple of the annual sales. Consulting firms, radio stations, temp agencies, PR or ad agencies, professional practices, retailers and insurance brokers are often valued using a multiple of annual sales. The multiple depends on the type of business, the predictability of sales from year to year and many other factors. Generally, the industry multiple is the starting point and is then adjusted based on specifics of the business. If your business has low fixed costs, few assets and little retained earnings, the sales multiple technique may be appropriate.

Valuation based on Earnings:

The price is based on the company's ability to generate a stream of profit (which can be defined in different ways) or cash flow (sales less expenses). The Seller then projects this stream of cash over two, three or more years to calculate the worth of the business. Often, discounted future earnings are used to calculate the "net present value".

Valuation based on Assets:

Many businesses are sold under less-than-ideal conditions. What if there are no profits or cash flow? What if the owner passed away suddenly and there is high financial risk for a new owner taking over? In these cases assets may be used to value the business. The value of the tangible assets usually sets a rock-bottom selling price for the business. Intangible assets may be worth money too - goodwill, customer lists, trademarks, patents, leases, permits and contracts are all intangible assets that can be factored into the price. Many Buyers resist paying a lot for intangibles, but it pays the Seller to evaluate each one for its worth. Hire an appraiser when the price of a business will be based largely on assets rather than cash flow.

TAX IMPLICATIONS

- When contemplating selling a business, the most asked question is - what structure would be most tax efficient for the Seller? The tax consequences of such a sale are as important from the Buyer's perspective.
- The most common options available to a Seller are to sell the business as a going concern, including all assets, operations and staff, or to sell the assets only or, if the business is not held in the Seller's personal capacity, to sell the shares of the company that owns the business (or

the members' interest in the case of a close corporation). Each of these has different tax consequences which will affect the net result for the Seller.

- The most important taxes which will affect the transactions are VAT, CGT (capital gains tax - applied at different rates for different entities), Secondary Tax on Companies (applicable to companies and closed corporations or members) and stamp duty.
- If the business is sold by a company and the shareholders wish to receive the proceeds of the sale through a dividend, the question of winding up the company may be considered, which has special tax consequences.
- The Seller must also be careful not to incur a recoupment on depreciated assets.
- The purchaser must consider the different tax treatments of individuals, trusts and corporate entities when deciding what vehicle to use to purchase the business.
- The purchaser should also be aware of the provisions of the Income Tax Act relating to assessed losses when buying a business (or the shares in a company that owns a business) with an assessed tax loss. If the purchaser chooses to buy the shares or members' interest, he must ensure that extensive tax warranties are included in the sale agreement.

CGT Dispensation for Retirees

Owners of small businesses have been given a special dispensation when they sell their businesses in order to retire. This is because many small business owners build up retirement capital in their businesses. It does not matter whether the small business is held directly or whether it is a company, close corporation or partnership.

The gain or loss on the business is disregarded under the following conditions:

- The market value of the assets of the business does not exceed R5 million;
- The retiree holds at least 10 percent of the share capital;
- The retiree has been involved in the operations of the company and has held ownership or shares for at least five years;
- At the time of the sale, the retiree must be at least 55 years old, or in ill-health and unable to continue with the business;
- The retiree's estate receives the benefit on death;
- The retiree, in their lifetime, does not exceed the total exemption from CGT as prescribed by SARS.
- All such gains must be realised within two years of the first disposal; and if more than one business is being sold, the total amount cannot exceed R5 million.

**When in doubt consult a professional tax advisor
– it could save millions!**