

Avoid A Crash and Burn Tips for Vendors and Purchasers

Courtesy of our friends at the Urban Dictionary I have unearthed what I believe to be the definitive description of this month's bulletin title: Crash and Burn : to come to grief or fail spectacularly.

If you are an industry professional active in the management rights industry I suspect this description may resonate with you. Our own observations and feedback from the coal face suggests that deals have never been harder to hold together with many "surprises" along the way.

Why is it so?

Let's have a look at the key moving parts, the accepted best practice processes and see if we can identify some clues.

The Listing

A basic summary of the business and real estate on offer. Absolutely critical that information be accurate and supported by an up to date accountant prepared Profit and Loss for sale purposes. We are finding that even immaterial discrepancies between what is presented and what turns up in due diligence reports is spooking buyers. Good agents already know this and are insisting on sighting source documents such as agreements to validate what the vendor is saying.

The Buyer

Better researched than ever and also more sceptical. In some cases, a very clear example of a little knowledge being a dangerous thing. Some will launch their own due diligence and market enquiries and ignore the accepted purchase process. This is to be discouraged. Many also listen to uninformed advice from non-industry experts and acquaintances and come to flawed conclusions. The purchase process of due diligence, financial verification, valuation and bank finance is a tried and true journey that we believe all purchasers should be prepared to follow when they decide to make an offer on a building. Our advice, leave the research and review to the experts.

The Vendor

Trying to obtain the absolute maximum price and that's how it should be. Frequently influenced by stories and rumours of record multiples that inevitably are not true or do not apply to their particular business. Often obsessed with getting back what they paid regardless of the real value of the business today. Sorry, the buyer doesn't care. Many need a good firm agent to tell them the facts of life and not win the listing by telling them what they want to hear. Good luck with that!

The P and L for Sale Purposes

Prepared by the vendors accountant and almost never a real-world reflection of the day to day operational outcomes of the business. Accountants frequently disagree with content but act on vendors instructions. Allowances for labour costs becoming laughable in many cases. Astute agents making a point of highlighting reasonable labour allowances as a positive selling point when marketing on real world P and Ls. Vendors sneaking forward income into historical P and L with a particular trend in BC salaries and bundling outcomes. In my view the single biggest challenge facing the sale process right now is the accuracy of P and L for sale purpose documents. When a vendor says "What should I allow for wages?" I can't help thinking the answer is "How about what it costs you". Our advice, produce a reasonable and detailed P and L and achieve a higher multiple. Respect the contract condition that clearly states a verification period and don't try and include income not earned in that period. Simple.



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Tips for Vendors and Purchasers

The Banks

Getting ever more difficult to deal with. Pressure on credit quality and pricing combined with fear of regulators and staffing cuts has resulted in a drop in experienced people trying to deliver a more complex and conservative lending outcome. Disconnects between the people on the front line and credit departments becoming apparent in some banks. Debt servicing guidelines and prior experience two areas of focus by some lenders. Interest only terms becoming more difficult to obtain with clear trend toward P and I options only. Never a more important time to ensure a buyer has a range of options and an experienced finance broker assisting them (shameless plug).

The Valuer

In our industry, we are not exactly spoiled for choice when it comes to valuers. There are only a hand full of firms who specialise and are on the bank panels. To no great surprise these firms are flat out and valuations can take longer than we might like. The situation is exacerbated by a move by most banks to an automated valuation instruction system. Like so many systems designed to streamline the process it doesn't and valuation instruction delays are certainly an area we focus on with every file. For the record, I wouldn't be a valuer for quids!

The Process

I think more often than not at the moment we are dealing with finance extensions and the need to clarify information that, in some cases, should have been dealt with early in the process. I can't put my finger on any one reason for this but I do know that requests for finance extensions scare the hell out of vendors. We always articulate the reason for the request and we encourage lawyers acting for purchasers to detail the reason. Invariably the reason is not a deal killer so it's essential that clear and honest communication be maintained. In our view finance clauses should be at least 35 days with 45 days being preferred for more complex transactions. Having communicative and pro-active lawyers on both sides of a deal is invaluable.

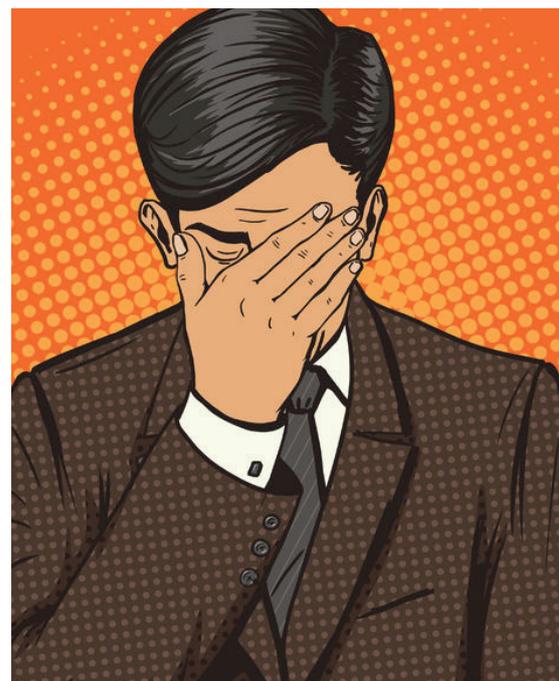
Summary

Here's a little story:

In the US presidential campaign of 1992, James Carville, an aide to candidate Bill Clinton, earned widespread acclaim (or notoriety) for his dogged insistence that everyone working for Clinton should remain focused on the plight of working people. "It's the economy, stupid," he said over and over until it became a mantra and part of the American political lexicon.

To paraphrase our mantra to clients: It's the process stupid! Its tried and true. Do your research for sure but once we hit the road rely on the process. It works. Of course, our clients are not stupid, I hope.

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