

Question

I want to acquire a business. How can I get it right?

Advisor's opinion

The right acquisition will build your business. The wrong one could bring it to its knees!

First, be sure it's not an impulse buy. One reason for failure is that the buyer should never have been buying in the first place. Yes, the opportunistic purchase can sometimes work well, but a strategic approach usually fares much better. Make sure you know why you are buying.

Don't pay more than you have to. Buyers are often disappointed by their returns simply because they paid too much. Get good advice and get your valuation of the business right. Sellers always have an inflated view of the value of the business – buyers think they can improve profitability going forward.

Yes, improvements can be made, but be realistic and don't let your enthusiasm and optimism cause you to pay more than you should.

Do your homework. You wouldn't buy a house without a survey, so undertake incisive due diligence. Yes, be sure you know what's in the balance sheet, but also focus on the future.

Do the projections stack up and support the price? Have you raised enough money? What about working capital?

Get the structure right. Should you pay in cash, shares or a combination? Should you buy assets or shares? The right structure will make an enormous difference in terms of tax and your risk exposure.

Don't relax when you shake hands on price – the devil is in the detail. Too many buyers forget that, whilst the price is agreed today, the entry date may be months away. Items such as debtors, creditors and cash move on a daily basis. You don't want any nasty surprises when you get the keys.

So, again, get good advice. Get this wrong and you could find yourself shelling out more than you thought. Get this right and you won't look back.



Gareth Magee


SCOTT-MONCRIEFF
EDINBURGH AND GLASGOW

Gareth Magee is a Corporate Finance partner with Scott-Moncrieff

E-mail: gareth.magee@scott-moncrieff.com

Tel: 0131 473 3500 or 0141 567 4500