Preparing for an Acquisition

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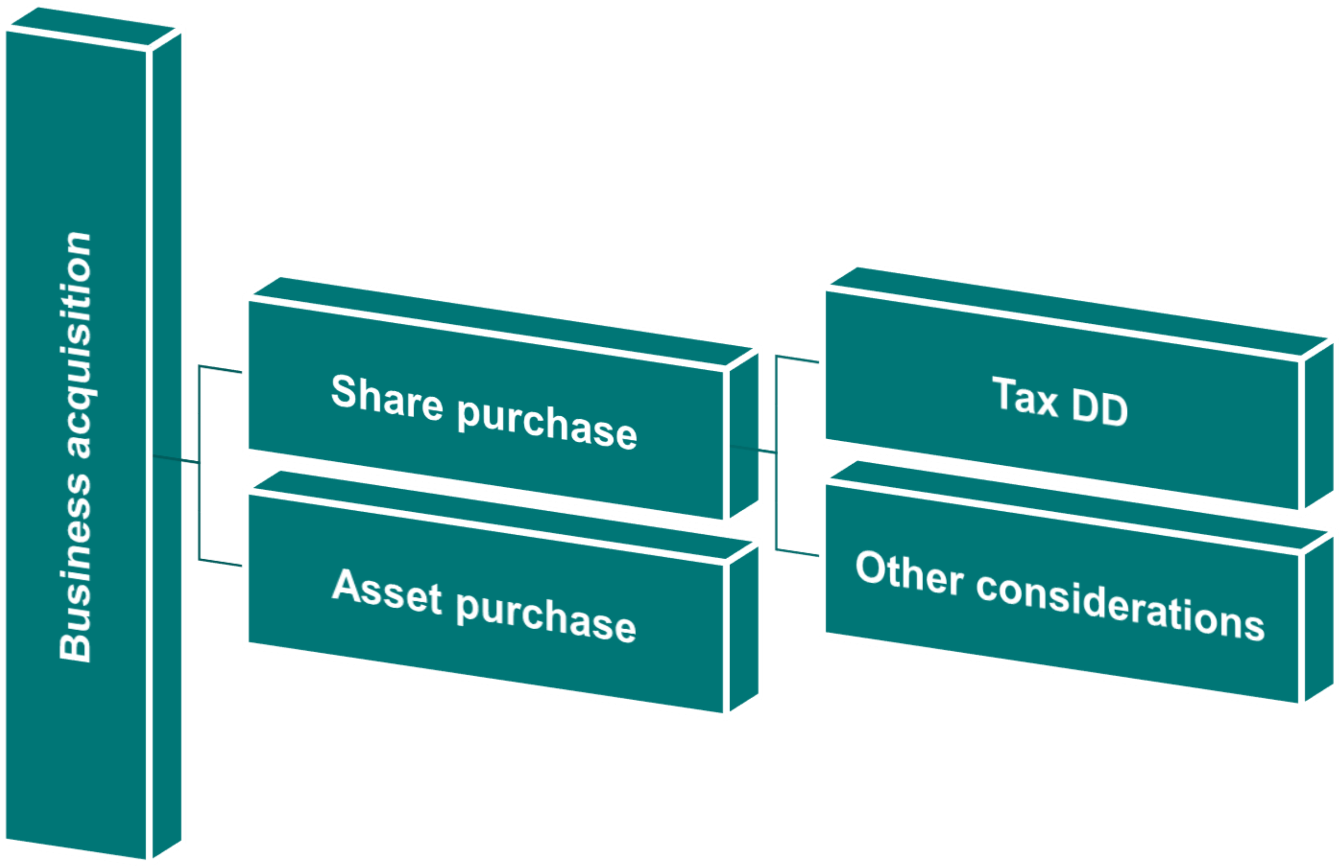
Agenda

What we are covering today

- Acquisition structuring
- Financial due diligence
- Tax due diligence
- Items that can materially impact the purchase price

Acquisition structuring



Assets or shares? A tax perspective…

Asset purchase	Share purchase
Vendor - limited access to concessions.	Vendor - access to 50% CGT discount (individuals & trusts) and concessions.
Administrative nightmare.	Administratively easier.
No Tax DD required – will require legal due diligence around title and security etc.	Extensive Tax DD required.
Not taking on any tax risk – no tax warranties / indemnity.	Extensive warranties and tax indemnity sought.
Duty payable on business transfers in certain states (e.g. QLD and WA).	Duty only payable if land rich.
GST levied unless transfer of a ‘going concern’. Impact dutiable value also.	No GST. Potential restriction on claiming GST credits relating to acquisition.
Value per contract = tax cost base (unless undissected then reasonable apportionment).	Potential to reset tax cost base of assets (tax consolidation) - simulates asset sale.

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Key tax considerations

- What are your intentions with the target – fix and flick versus hold?
- What does your current structure look like? What is your preferred acquiring vehicle, and will it be onshore or offshore?
- How will you finance the acquisition?
- Are you buying a single entity or a group of entities? Is the Target a (or part of a) tax consolidated group?

Key tax considerations

- Future tax benefits? Will you be able to utilise carried forward losses - how much value should be attributed to these?
- What will consideration look like? Are you giving shares in yourself and/or will there be an earnout?
- Will you need FIRB approval? Clearance certificate?

Due Diligence

Due diligence can be the difference between a good and a poor deal.

Financial Due Diligence
Key considerations

- Why are you interested in the Target?
- What are the reasons why you would:
  - (a) Not proceed with the acquisition
  - (b) Like to pay less (or willing to pay more)
  - (c) Restructure as a business acquisition rather than a share purchase
- What might stay the same v's change post acquisition?
- What level of detail do you need?

Financial DD – what does it involve?

Purpose

- Understanding of principal activities & structure of Target business
- Understand key Business drivers
- Find deal breakers

Investigate

- Quality of earnings
- Non-recurring items
- Cash flows
- Working capital
- Net debt
- Employee entitlements
- COVID stimulus

Process

- Data room
- Management Q&A
- Identify risks & mitigation strategies
- Net asset value adjustments
- Recommendations

Actions

- SPA drafting
- Rectify errors
- Implement recommendations

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Tax DD – what does it involve?

Purpose

- Understand tax characteristics of Target
- Any skeletons in the closet?

Investigate

- General tax 'health'
- Income tax
- Employment taxes
- GST
- COVID stimulus
- Grants (e.g., R&D)
- Duties

Process

- Data room
- Management Q&A
- Identify risks & mitigation strategies
- Recommendations

Actions

- SPA drafting – W&I
- W&I Insurance
- Rectify errors
- Implement recommendations
- Advice / ATO engagement

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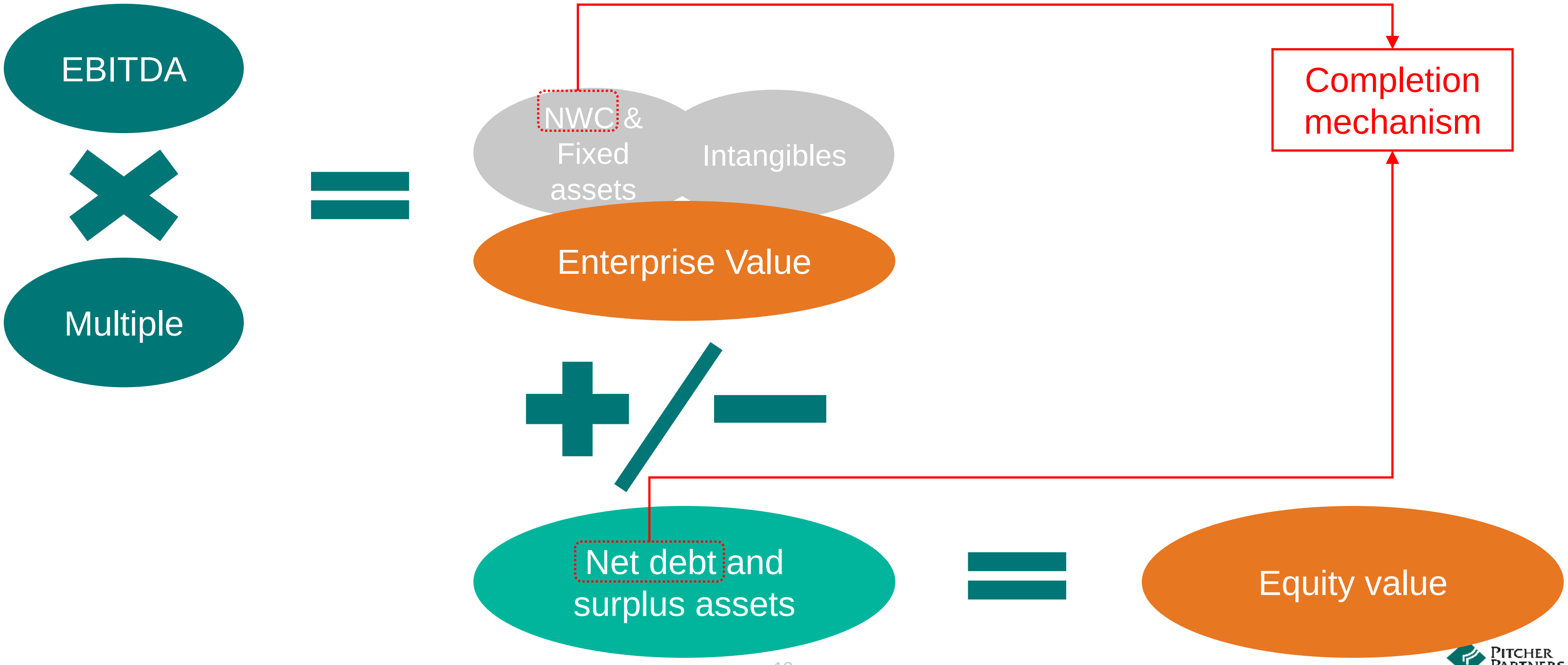
Business valuations 101

Capitalisation of future maintainable earnings

Private trading businesses are typically valued by capitalising future maintainable earnings



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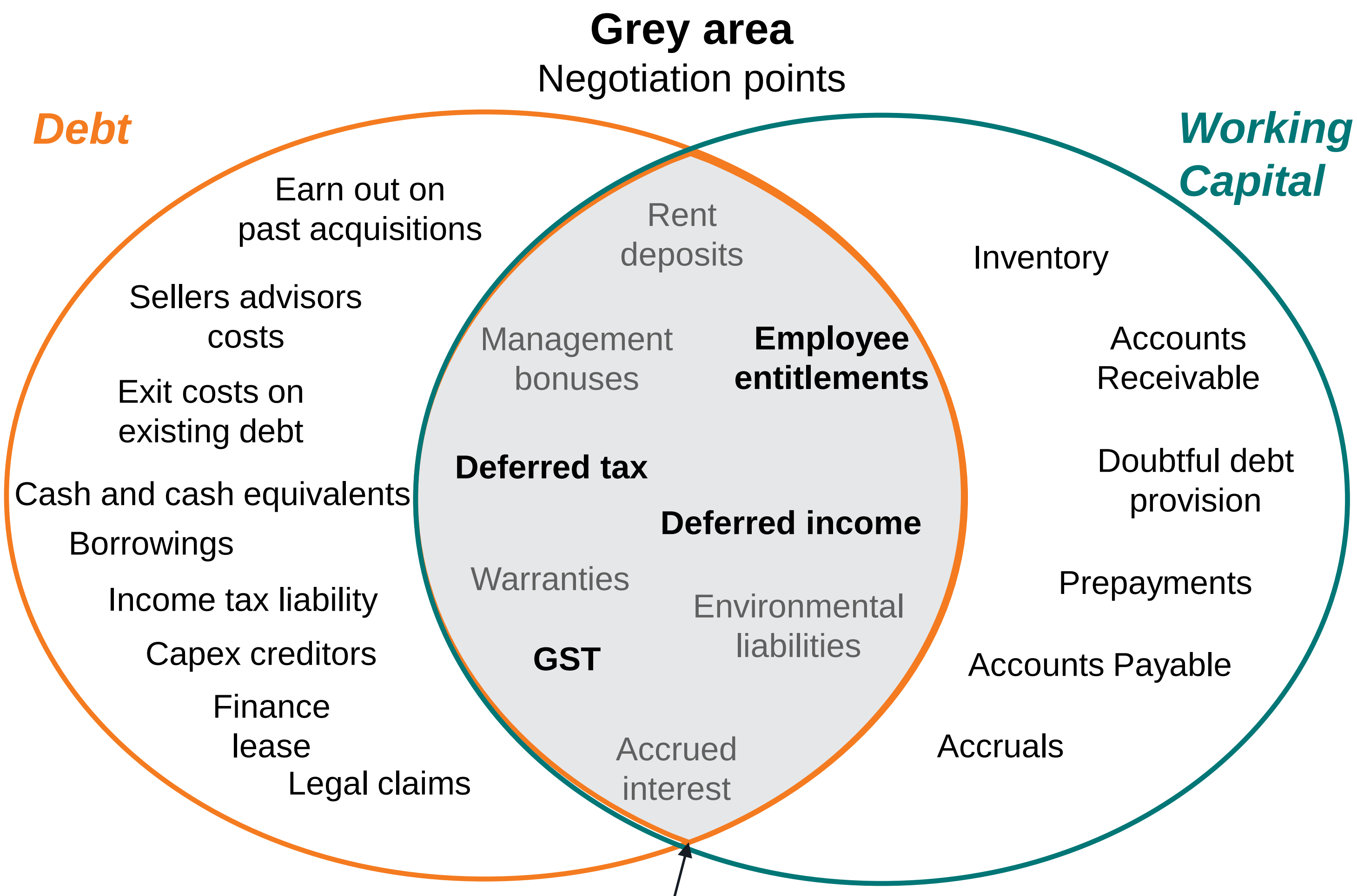
Implication of classification

How purchase price changes due to classification as debt / WC

	Example 1 **'Debt like' in working capital**	Example 2 **'Debt like' in net debt**
Enterprise value	500	500
+ Cash	100	100
– Debt	-	(100)
Net debt / surplus cash	**100**	**–**
Assets	400	400
Liabilities	(200)	(100)
Target Net Working Capital	200	300
Completion Net Working Capital	200	300
Working Capital Adjustment	–	–
Purchase Price	**600**	**500**

Grey area
What's in and what's out?



A good accounting advisor is key to negotiating the best possible outcome for your client on either the buy or sell side

Key takeaways

Earnings adjustments have compound impacts on headline price

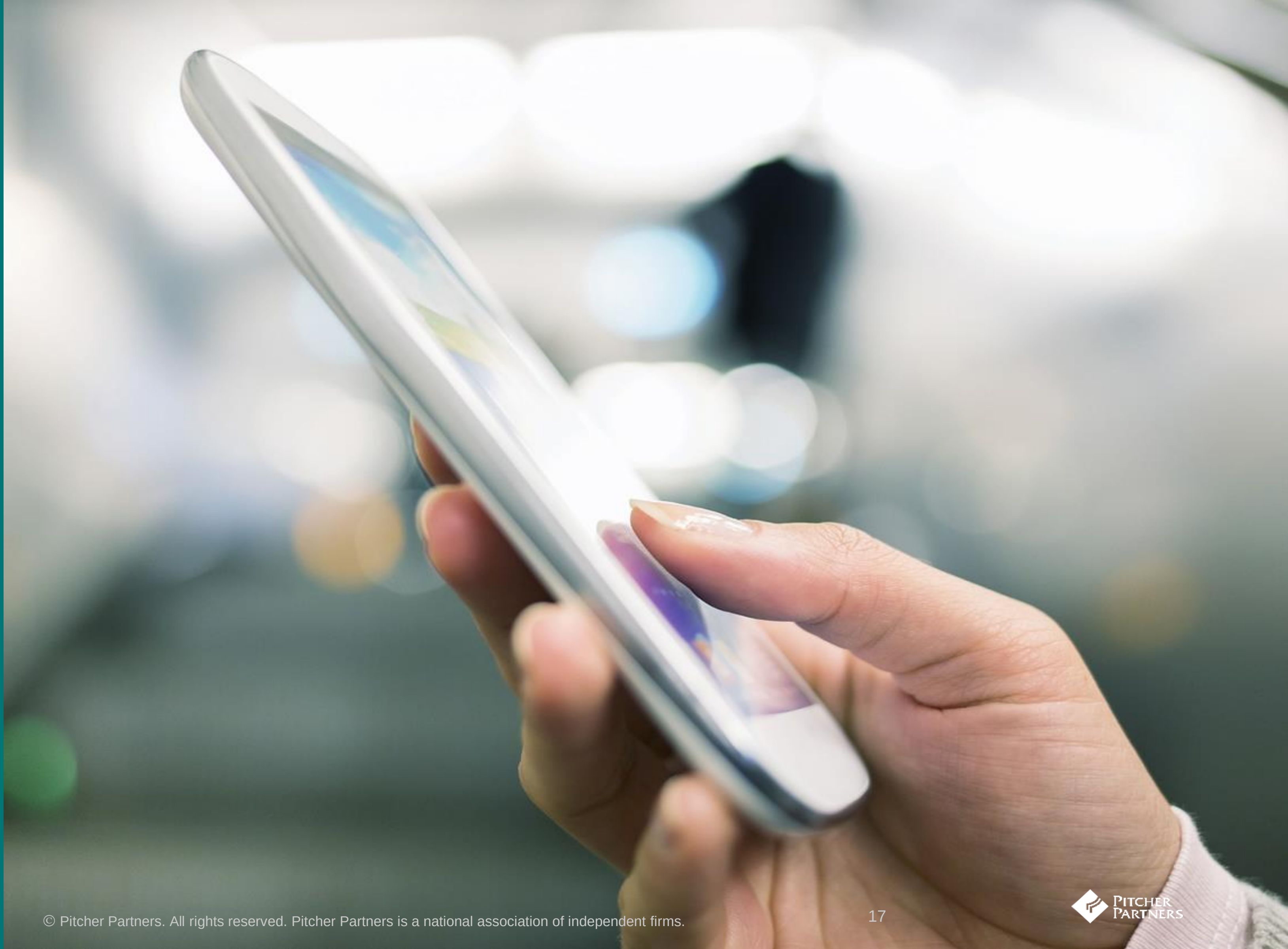
EBITDA × Multiple = Enterprise Value

Asset and liability classifications can have real impacts on purchase price

Definitions of Debt and Working Capital are important

A $ for $ reduction can be achieved for Debt **DEBT**	Only the movement relative to ‘Target’ / ‘Normal’ Working Capital results in an adjustment to purchase price **WORKING CAPITAL**

Q&A



Thank you

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