

What you should know before buying a franchise or an existing business?

A recent court case has highlighted why it is important to undertake a due diligence review and obtain expert professional advice when purchasing a franchise or an existing business.

The case, in the Full Federal Court of Australia, involved Lenard's Poultry, a prominent franchise chain with over 150 stores across Australia. One of its franchisees claimed it suffered significant financial losses when sales did not meet their expectations after having read information provided by the franchisor. Consequently, they were unable to meet the payments required under the franchise agreement and their franchise was terminated. The franchisees lost their business, received no compensation, and now may also be liable for all court costs.

The franchisees alleged that they were misled and deceived by information provided by Lenard's. The court held that it is the franchisee that carries the risk of a new business and emphasized the need for prospective owners to make their own detailed assessment of the business and to obtain independent advice.

Why a due diligence is necessary

A due diligence review is necessary to limit the reliance placed on franchisor/vendor information. The costs of buying a business with unexpected difficulties can be ruinous.

A typical due diligence review would include a check of the following:

- Historical Financial Data
- Current Financial Data
- Forecasted financial information
- Business Plans
- Contracts with suppliers, customers and staff
- Disclosure documents
- Franchise agreements
- Confirmations/representations from financiers, debtors etc

Moreover, a properly performed due diligence should provide an evaluation of the viability of the business, highlight key business drivers, and identify weaknesses that need to be addressed by the new owners.

Each due diligence review is unique but the overall aim is to provide the prospective purchaser with sufficient, relevant and timely information in order to assist them in their investment decision.

How Lowe Lippmann can help

Lowe Lippmann are experts in due diligence reviews. Additionally, we can assist new business owners by ensuring they are correctly set up for taxation and commercial efficiency. Key areas considered include:

- Business Structures (companies, trusts etc)
- Business Plans
- Cashflow forecasts, profit projections and budgets
- Funding requirements for the purchase of the business and ongoing working capital, and
- Finance applications

To give your new business venture every chance to succeed, contact

Tony Tassone, Partner
ttassone@lowelippmann.com.au
Ph: 03 9525 3777