TAURUS GROUP

September 2005

Management Buyouts The Easiest Exit Strategy

Bevan Pierce

It is said there are two things certain in life, death and taxes.

If you own your own business there is perhaps one other certainty, at some time you will exit the business. This time will come whether or not you are prepared for it but preparation can have a significant effect on the outcome. Research suggests only 10% of all businesses currently have an exit strategy.

Management Buyouts ("MBO") can maximise the value of your exit strategy and are arguably the easiest form of business succession as they involve people who already know and understand the business. In its simplest form MBO's involve selling the business to the existing staff .

The successes of MBO's are well documented, delivering significantly greater success than corporate acquisitions. The reasons for this success are largely represented by the impact ownership has on managers. Following an MBO, managers tend to be more focussed, make decisions that are better for the business, have an increased sense of purpose and see there is a direct correlation between their inputs and what they can get out of the business. Even the best performing managers have been shown to improve their performance, and that of the business, following a successful MBO.

Your business could be suitable for an MBO if you have:

- a good team,
- a strong business plan, and
- future profit capability.

The second issue is financial. Can your business demonstrate good historical performance, and importantly for the new buyer, does your business demonstrate the capacity to generate future profits. The answer to this issue is not just a requirement for an MBO but will apply to any exit strategy and satisfactorily addressing it can often take a number of years. It is this time dependency that means you should discuss your exit strategy with your Taurus adviser at your next meeting and we will be able to help you prepare a strategy to prepare your business for sale.

Owners often perceive their management team cannot afford to buy the business. Taurus Capital & Finance are experts at raising capital and along with debt options we are regularly in contact with several Private Equity partners. It is often surprising how little cash is required from the management team to complete an MBO. This is particularly true if the business has been well prepared for sale by the current owner.

Therefore, if you own a business with a good team then a Management Buyout could be an appropriate exit strategy for you. MBO's can create significant value for the management team and succeed more often than corporate acquisitions. Preparing your business for sale, whether by way of MBO or otherwise, can take years so you should consider your options as early as practicable.

Peter Drucker said, "the best way to predict the future is to create it". Contact us and we will be happy to discuss your exit alternatives and how we can help you create the future.

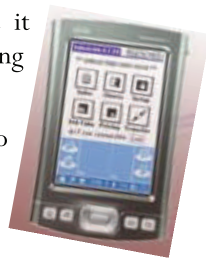
An Affordable Innovation For Mobile Sales Staff

Michael Kohing

Do you have mobile sales staff filling in manual orders? Need productivity gains in the back office?

Look no further as we may have a solution for you. SalesLink Mobile is a hand-held computer order system that enables your sales staff to complete orders whilst on the road and transmit them back to your office via a mobile phone. It integrates with over 36 accounting systems and removes the need to re-key orders and duplicate manual orders.

The hand-held is updated with stock and pricing information every time it integrates back to the accounting system.



For further information or to arrange a demonstration, contact Michael Kohing at Taurus.

DISCLAIMER: This newsletter is only for the general information of clients and is not to be taken as a substitute for specific advice. Consequently we accept no responsibility to any person who acts on information herein without consultation with us.

Taurus Group
Taurus Capital & Finance Ltd, Taurus Accounting Solutions Ltd, Taurus Financial Services Ltd, Taurus Mortgages Ltd
Level 3, Landsborough House, Corner Durham & Gloucester Streets, P O Box 3275, Christchurch, New Zealand
Phone: (03) 366 6087, Fax: (03) 366 6807, Web site: www.taurusnz.co.nz

Tax Stuff

Alan Calder

RENTAL PROPERTIES

If you buy a new investment property it is well worth getting a chattel valuation completed at the time of purchase in order to maximise your depreciation claims. Also in the year of the sale it is again worth going through the same process so as to minimise the depreciation recovered factor and hence your tax bill.

If you are contemplating buying a rental property and are on a higher tax bracket we recommend that you use a qualifying company ("LAQC") structure so that any rental losses flow through to your own personal return in the earlier years and you have the opportunity to change the shareholding in the company to either your partner or a family trust when the rental property moves into a profit situation.

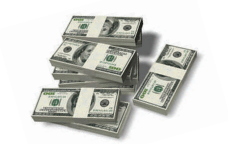
CONSIDERING RENTING YOUR HOME AND BUYING A NEW HOME?

We recommend selling the "old" home into an LAQC structure. That company borrows 100% from the bank to fund the purchase and makes a payment back to yourselves for the sale of the property. You are then free to use the funds to pay towards the cost of your "new" home and have maximum interest deductibility on your rental property.

TAX PLANNING FOR THE FUTURE

If you are starting a new business and expect a large income we suggest that you use a company owned 98% by your family trust and 1% each by you and your partner. This provides the optimal framework for asset protection and tax planning purposes.

THE DREADED USE OF MONEY INTEREST



If a company or a trust has a tax bill in excess of $2,500 or an individual has tax payable of more than $35,000 they incur use of money interest.

We find that the only real solution to minimising this is to:-

a) Know your tax position by monitoring your performance during the year, and

b) Making voluntary tax payments accordingly. This ultimately saves paying interest on tax owing at the rate of 13% p.a. when you have had money sitting in the bank at say 3% p.a.

Employment Relations Amendment Act 2004

Katie Mitchell

Important changes have been made to the Employment Relations Act 2000, following the implementation of the Employment Relations Amendment Act 2004.

The changes are:

Good Faith: The duty of 'Good Faith' has been extended and broadened by adding a new sub-section 4 (1a) to the Employment Relations Act 2000.

Restructuring / Employee Protection Provision: This has been tightened up to ensure that parties must deal with each other in Good Faith in relation to any proposal by an Employer to contract out work or sell all or part of the business.

Collective Bargaining: The parties engaged in collective bargaining <u>must</u> conclude a Collective Employment Agreement.

Passing on Terms and Conditions in a Collective Agreement: It will be a breach of Good Faith if an Employer passes on a term or condition to an Individual Agreement if it is substantially similar to that contained in an existing Collective Agreement.

Bargaining Fees: A bargaining fee can now be charged to non-union employees to recognize the work that the Union has put into negotiating terms and conditions for a Collective Agreement.

Individual Agreements: The Employer must apply Good Faith when bargaining for an Individual Employment Agreement.

Union Representative Discussions: The Act now specifies that 'discussions' that do not exceed a reasonable duration between an Employee and a Union Representative are not to be treated as a union meeting and no charges deducted.

Please ensure that all of your Employment Agreements are updated to reflect the amendments. These had to be done by April 1, 2005. We can provide you with assistance in updating Employment Agreements.

Contact the HR Department if you require any advice or assistance. For further information please go to our web site www.taurusnz.co.nz

Directory — *Taurus Group Limited*

Taurus Accounting Solutions Ltd

Wayne Bailey, Alan Calder
Michael Kohing, Chris Hardy
Claire Norris, Angie Mehlhopt
Kristin Cameron, Vera Richards
Jenny Kaye-Blake, Lynda Stevenson
Kellie Oliver-Morrish

Taurus Financial Services Ltd

Michael Kohing

Taurus Capital and Finance Ltd
Taurus Mortgages Ltd

Geoff Angus, Stephen O'Connell
Des Knowles, Bevan Pierce
Russell Latimer

Taurus HR

Dick Knapp, Katie Mitchell

Administration

Colin Reynolds (Admin Manager)
Kelly Drummond (Reception / PA)
Robyn Simpson (Admin Assistant)
Pru Fincham-Davis (Admin/PT Reception)
Liz Cave (Admin / PT Reception)

DISCLAIMER: This newsletter is only for the general information of clients and is not to be taken as a substitute for specific advice. Consequently we accept no responsibility to any person who acts on information herein without consultation with us.