Selling Your Mastercraft Licenced Business

Vendor Guide



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Introduction

There comes a time in life when you'll decide you're ready to do something else. When that time arrives you want to ensure it's a successful undertaking, for all parties involved. That means you as the business owner, the future owner of your licence and the greater Mastercraft group.

The Mastercraft National Support Office has developed this guide to step you through the process of selling your Mastercraft Licensed business. This guide will highlight the things you need to consider as you contemplate your next chapter and step back from the Mastercraft family.

The guide has been written with three specific goals in mind:

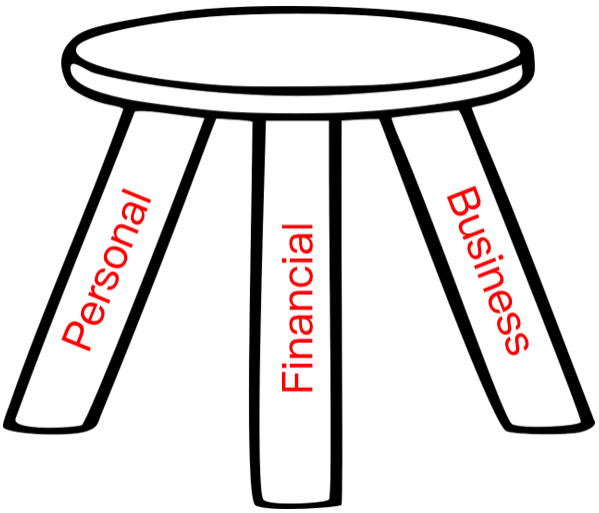
1. Allowing our Licensees to reap the rewards of their years of effort – building a business of value that is saleable
2. Ensuring that the group (Mastercraft) stays strong and endures – developing legacy businesses that thrive through changes in ownership
3. Achieving a great experience for all parties (Licensor, current Licensee, and future Licensee) – making the transition as smooth as possible

If the Mastercraft National Support Office team are included early in your planning, we can help you achieve the best possible outcome. Promoting the features and benefits of the Mastercraft Licence to any prospective purchaser will help you maximise the sale price.

Naturally, the Support Office team will maintain strict confidentiality in respect of you and your business transaction.

The Bigger Picture

When you start the process of exiting your business it pays to take a step back and think about the bigger picture. Exit planning should be considered a three-legged stool, comprising:



1. **Personal** – Answering the question, "What Next?"
2. **Financial** – Ensuring you're financially prepared for the next chapter
3. **Business** – Maximising your business's transferable value

All legs need to be given attention as research (Exit Planning Institute) shows too many owners (75%) have regrets a year after they have handed over the company keys. Ensure this doesn't happen to you by giving equal consideration to all three elements:

Personal

Owning a business is often all consuming and whilst you may look forward to the day that you don't have to worry about it all, there is often a loss of identity without that purpose. Ensure you have things to move towards afterwards and that there is balance to cover all your needs.

Financial

Once you've taken the time to ensure you know what you'll be doing with your time, you need to ensure you have the funds to cover it. How much are you relying on the sale of your business to cover your future needs.

Business

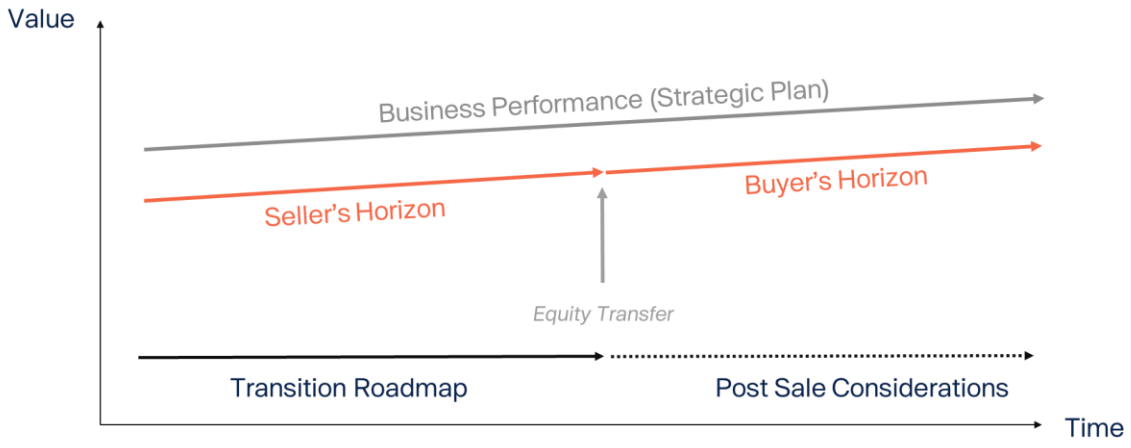
With an understanding of your personal and financial future, how do you set the business up to achieve that? Is it in the right shape to achieve what you need through the sale process. Will you be playing a role in it past your exit?

Maximising your Outcome

Mindset – How to Approach the Sale

The next owner of your business is purchasing its future returns. So whilst they will be interested in past returns (as they are an indicator of the future), your task is to give them confidence of what it can achieve in the future.

The best way to do this is to consider yourself a *custodian* of the business. You're running it at this point in time and enjoying the returns it provides. One day you'll hand it on, in great shape, to another custodian so they can put their stamp on things and enjoy what it can deliver in the future.



Think to the Buyer's Horizon

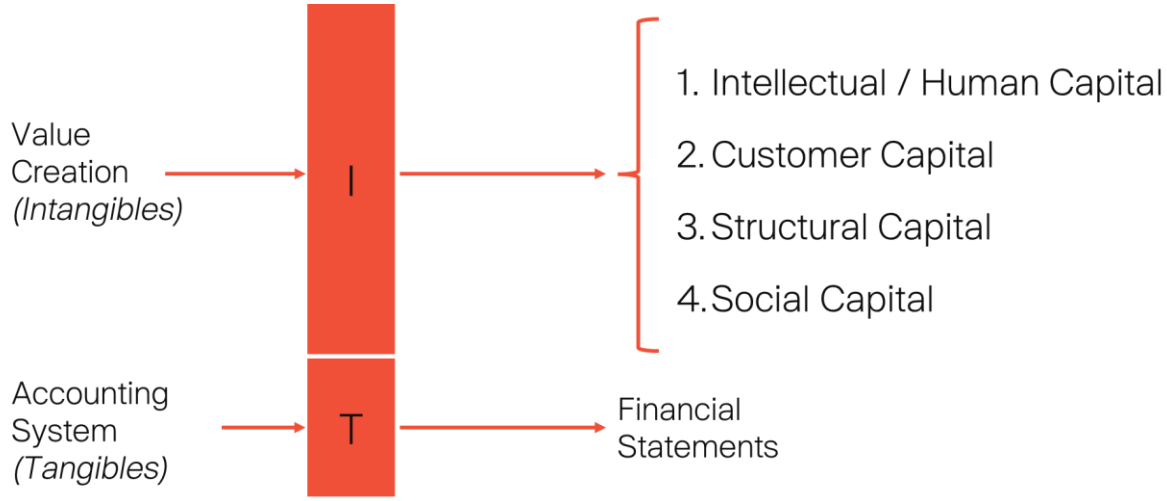
Sometimes owners only consider up to the point of sale, at which point their *race will be run*. This thinking does both the current and future owners a disservice.

The All Blacks talk about themselves as custodians of the jersey, building on what those of the past have achieved, and looking after it for the future. Thinking like the All Blacks will ensure you have an enduring asset that potential purchasers can see value in and want to be part of.

Value - Beyond your tangible assets

Your annual financial statements will show you what the physical assets of your business are worth. These are generally *tangible assets* (which are part of your company and used to produce revenue, eg plant, vehicles, and equipment) and *stock* (which is deployed as part of serving clients).

The other consideration is *intangible assets*. Intangible assets represent the *secret sauce* of your business demonstrating its ability to generate a return. Businesses can build intangible capital in the form of four prime areas:



Customer Capital

Having a broad range of customers, with contracted revenue and limiting customer concentration provides more certainty for the new owner.

Human Capital

The talent within the business is a key element of your business' market worth being the biggest determinant on how well your organisation operates.

Structural Capital

Training, documentation, technology, tools and equipment that enable your employees to function at a high level.

Social Capital

How the business interacts internally and externally, embracing a vision and purpose, ensuring the whole is greater than the sum of the parts.

The Process of Selling

Worth - How Businesses are Valued

Businesses are valued on a multiple of their returns. There are two common measures that are applied to businesses within the Mastercraft licence network.

SDE

(Seller's Discretionary Earnings)

EBITDA

(Earnings Before Interest, Tax, Depreciation, and Amortisation)

SDE – Seller Discretionary Earnings

SDE represents the total financial return to a working owner. It includes the business's net profit plus one full-time owner's salary, interest, depreciation, and any personal or one-off expenses. It's mainly used for owner-operated businesses where the buyer will work in the business.

EBITDA - Earnings Before Interest, Tax, Depreciation, and Amortisation

EBITDA, by contrast, represents the operating profit of a *managed* business, excluding any owner's remuneration or private adjustments. It's the preferred measure for larger or systemised operations, where the buyer is investing for return rather than stepping into day-to-day management.

Because SDE already includes the owner's salary, the SDE multiple will be lower than the EBITDA multiple when comparing the same business.

By understanding which figure the multiple is applied to, buyers and sellers can make fair, like-for-like comparisons and avoid overstating or understating a business's true value.

Enduring Returns - Future Maintainable Earnings

When appraising a business, the most critical figure is not what it earned last year, but what it can **sustainably earn going forward**. This is referred to as the **Future Maintainable Earnings (FME)**, a measure of profit that reflects the business's ongoing earning capacity (under typical trading conditions).

Future Maintainable Earnings is established by reviewing the last several years of financial performance, adjusting for **non-recurring, discretionary, or abnormal items** (normalising), and weighting each period according to its relevance. The goal is to isolate a level of earnings that can be reasonably expected to continue, forming the basis for applying an appropriate multiple.

Drivers of a Resilient Future Maintainable Earnings

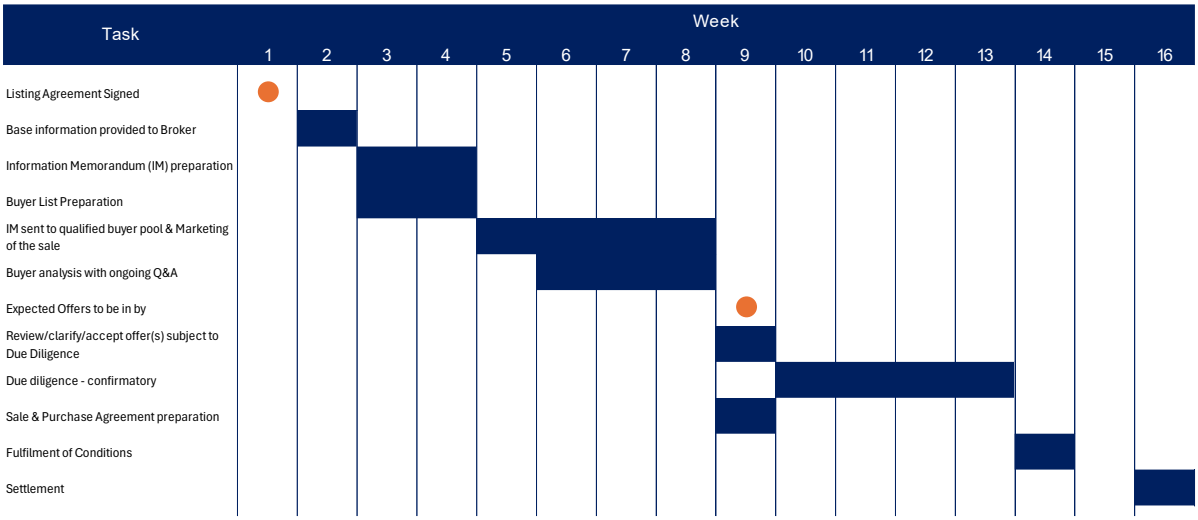
A strong or "resilient" Future Maintainable Earnings is one that can be **defended and sustained** through market cycles. The key attributes that underpin this include:

- **Consistent Historical Performance:** Stable revenue and margin trends signal predictable cash flow and operational discipline.
- **Diverse Customer Base:** Reduced reliance on one or two key clients lowers volatility and earnings risk.
- **Recurring or Contracted Income:** Maintenance work, service contracts, or repeat customer arrangements strengthen earnings visibility.
- **Management Depth:** A capable second tier of leadership ensures continuity post-sale and reduces key-person risk.
- **Operational Systems:** Documented processes, job management platforms, and accurate cost tracking provide transparency and reliability.
- **Balanced Cost Structure:** Control over overheads and labour efficiency ensures profits are maintained even during quieter periods.
- **Forward Work Pipeline:** Confirmed orders or ongoing projects provide evidence of earnings continuity beyond the last balance date.

A resilient Future Maintainable Earnings gives both vendor and purchaser confidence that the level of profit being multiplied represents a realistic, repeatable figure. In practice, businesses with systemised operations, diversified income streams, and minimal owner reliance consistently achieve **higher multiples**, as buyers can clearly see the sustainability of earnings post-transition. This is an advantage of being part of a licensed group such as Mastercraft.

Time – Preparation versus Sales Process

A standard time frame to sell a business through a broker is around four months.

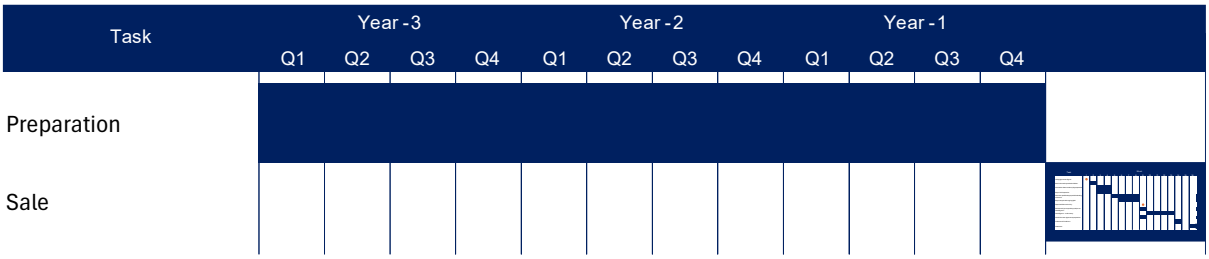


This will vary depending on several factors

- quality of the business
- quality of the broker
- prevailing market conditions
- owner's expectations
- and to a degree *luck*

You can increase your chances of getting *lucky* by preparing well for your exit. This takes time, deciding what steps you're willing / able to take, ensuring those steps are implemented and giving time for them to take effect so the results can be seen and the benefit acknowledged by the potential acquirers.

A smart way to work through this is breaking it down on a quarterly basis and actioning bite sized activity that builds having a cumulative effect. The longer you have to do this the better, **but ideally you would allow three years**, *building intangible capital* so you can display the *drivers of resilient Future Maintainable Earnings*.



Time – Friend or Foe

Elapsed time is both your friend and your foe in selling your business…

Friend

In the preparation stage time is your friend. It gives you space to build in the intangible capital that shows you're a business of value and will take effect in *Future Maintainable Earnings*.

There's a saying in exit planning, ***you can never start too early, but you can start too late***. Make exit planning part of your business process sooner rather than later.

Foe

Once you're in the sale process time is your foe, and not your friend. You want to go into your sales process with a clear story and able to answer any questions. Even better if you're organised when entering the sales process providing the answers up front so a purchaser is not asking questions in the first place.

The longer a sales process progresses, the greater the chance for doubts to enter the purchaser's mind lowering your chances of success. And like real estate, if a business is on the market too long it goes stale and interest wanes.

There's a saying in the sales process, ***time kills deals***. Once the train is in motion you want to bring it to a conclusion as rapidly as practical.

Time – use it to your advantage as a Mastercraft licensee

Being a Mastercraft licensee comes with some distinct advantages in preparing for your exit:

- Firstly, much of the intangible capital a purchaser is looking for is already baked in through your licence (this fact is acknowledged by business brokers)
- Secondly, Head Office can assist with many of the inquiries a purchaser will have, knowing the systems, how they work and being able to share the advantages better than anyone
- Thirdly a purchaser will go through a period of due diligence (checking everything meets their expectations) – the National Support Office can guide them through this

The earlier the Mastercraft Support Office are made aware of the intention to sell your business the greater we will be able to assist your success. Where requested, we'll sign and comply with a standard confidentiality agreement so you can rest assured any plans will be kept confidential within the National Support Office and your professional advisors. Specifically we can:

- Provide the Mastercraft Licensee Opportunity brochure
- Recommend a business broker with experience in the sale and purchase of previous Mastercraft businesses
- Meet with a potential purchaser to explain the value and benefits of being a Mastercraft Licensee
- Demonstrate Mastercraft's marketing collateral
- Explain the Mastercraft License Agreement
- Explain how the growth fund contributions and expenses are managed
- Connect potential new purchasers with existing Licensees
- Connect you with previous Licensees who have been through the business sales process
- Invite potential new purchasers to Mastercraft events
- Provide Supply Partner pricing, (under a confidentiality agreement)
- Disclose and discuss national contracts, (under a confidentiality agreement)

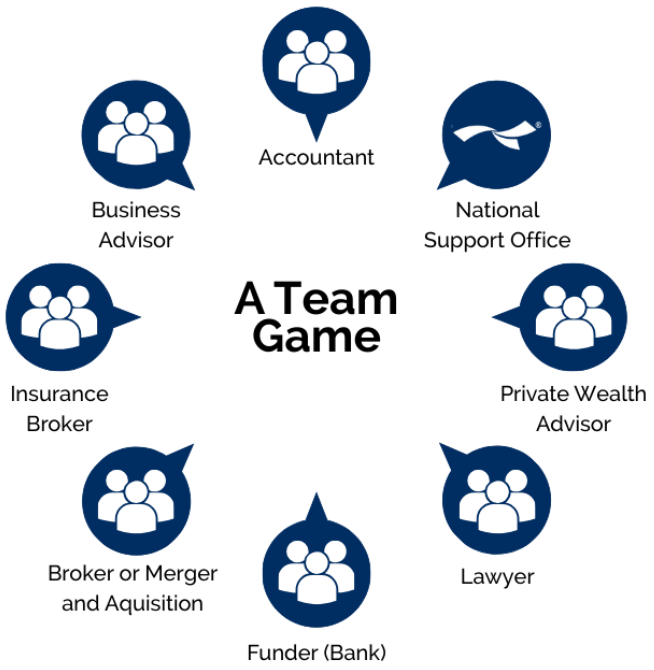
These advantages do come with obligations. Mastercraft relies on having strong licensees and for the group to stay strong and endure, it must ensure that incoming licensees are both right for the community and the community is right for them.

This is not an instant decision, and we need to be fair to both parties through your exit, as well as the community. So, the earlier you bring us into your sales process with your perspective purchaser and the longer we have to work with them and the more likely it is that we can all get the best result.

What to be aware of

It's a Team Game

Exit Planning is not a path that should be walked alone. It is a team exercise requiring different capabilities from a wide range of experts, many of which you probably already have as part of your external advisory set. From our experience, you will need at least some (or all) of the following:



Connect your professional advisors (including business brokers, accountants, and lawyers) with a representative from the National Support Office early in the sale and purchase process. The National Support Office is comfortable sharing knowledge of the Mastercraft Licence benefits with professional advisors.

We are here to help as much as we can, however, Mastercraft will not engage in the following activities prior to or during the business sale and purchase process

- Business valuation
- Financial disclosure
- Financial negotiations
- Disclosure of business trading information
- Legal matters other than related to the Mastercraft Licence Agreement
- Purchaser due diligence outside of the Mastercraft Licence Agreement

Structuring – Financial and Tax Considerations

When selling a business, it's crucial to understand that the transaction is typically treated as a **capital event**, not an income event. In New Zealand, this means that **the proceeds from the sale are generally tax-free**, provided the assets are sold at their book value and the remaining value is attributed to goodwill.

In most cases, the sale is structured as an **asset sale**, with the purchase price apportioned between:

- **Tangible assets** such as plant, vehicles, and equipment,
- **Stock**, and
- **Goodwill**, representing the intangible value of the business.

Where assets are sold **at or near book value**, there is **no taxable gain or loss**. The goodwill component is treated as a **capital gain**, which is **not subject to income tax** for the vendor.

Because each sale structure is unique, both parties should seek **specialist accounting advice** before finalising the apportionment schedule.

Mastercraft – Strength of the Community

Licensees have the benefit of being part of a nationally recognised reputable brand, a committed and loyal network of Supply Partners, and importantly, a network of likeminded, experienced, and passionate business owners who are willing to share their extensive knowledge. Mastercraft has the distinct market advantage of having a national brand and supplying our products and services locally. We call this 'think national, act local'.

For Mastercraft Kitchen Licensees, the 10 year transferrable between owner workmanship guarantee provides a level comfort and reassurance to our customers as they choose who to engage for services. The scale and longevity of Mastercraft give comfort that we'll be there for the future in the unlikely event of things going wrong.

These guarantees are in addition to any generic obligations that may exist and we do not offer the *10 Year Transferable Craftmanship Guarantee* for Electrical and Plumbing work. The explicit terms and conditions of the *10 Year Transferable Craftmanship Guarantee* are available at https://kitchens.mastercraft.co.nz

The sale of your Mastercraft licenced business is a going concern. That means the obligations put in place will endure through the change of ownership, therefore, it is important that both parties understand these obligations and they are included in your sale and purchase agreement. Specifically, you will need to agree a workable solution for handling future guarantee claims on work completed in the last 10 years by the vendor.

Clauses will need to clearly state:

- who pays for the repair or replacement of guarantee claims
- nature and scope of the guarantee
- process for notifying a claim
- available remedies
- any limitations
- the requirement for ongoing access to the job information (products, specifications, suppliers, installation dates, etc.)

Important note:
The sale and purchase agreement **must** clearly define how guarantee claim costs will be met. Options may include a contingency fund set aside by the vendor for future claims, or an agreed deduction from the sale price to cover anticipated guarantee costs.

Frequently Asked Questions

Q. When is the best time to advise the Mastercraft National Support Office of the intended sale of the business?

A. The earlier in the process the better and **before** marketing your business.

Q. Will the Support Office enter into a confidentiality / non-disclosure agreement with the Vendor?

A. Yes

Q. Why involve the National Support Office in my sale?

A. Support Office staff know the Mastercraft Licence model inside out and back to front. We can help you by explaining the benefits of our Licence model to your professional advisors and any potential purchasers. The information supplied will be timely, up to date, and accurate. The Licensor also needs to check that the prospective purchaser is of sound commercial reputation, fiscally robust and of reputable character.

Q. Does the Support Office get involved in any negotiations between the Vendor and any potential purchaser(s)?

A. No

Q. Does the National Support Office receive any payment from the sale of the business, the business broker, or the purchaser?

A. No

Q. Is the Support Office privy to any Vendor financial information shared with professional advisors or potential purchasers?

A. No

Q. Will Support Office staff travel to attend a meeting with Licensees and prospective purchasers?

A. Yes (within New Zealand)

Q. What information will Support Office staff share with prospective purchasers?

A. ***Brand*** - Group Growth Fund purpose and contributions, branding expectations, brand corporate identity

Supply - Supply Partner businesses, obligation to use Supply Partners, benefits provided by Supply Partners

Knowledge - Group benefits, annual Communications Days and Conferences, attendance obligations, and other Licensees contact details.

Q. Can my prospective purchaser attend a Communications Day or Annual Conference?

A. Yes (at the sole discretion of the National Support Office)

Q. Who can be considered as a Mastercraft Licensee?

A. Any prospective purchaser(s) who is of sound commercial reputation, fiscally robust and of reputable character. Consideration will be given to their ability to fit and operate within the existing culture of the wider group and shall be at the sole discretion of the National Support Office.

Q. At what point should a prospective purchaser be presented with a Mastercaft Licence Agreement by the National Support Office?

A. Allow a minimum of one month prior to an intended unconditional date for the prospective purchaser's Professional Advisors to review the new Mastercraft Licence Agreement.

Q. At what point should a prospective purchaser sign the Mastercaft Licence Agreement?

A. Before the sale and purchase of the business has become unconditional.

Checklists

Planning your business sale

- ☐ Intention to sell business
- ☐ Exit Planning – building value
- ☐ Review of business financials by Accountant
- ☐ Preparation of budget for future year's trading
- ☐ Decision to sell business
- ☐ Appointment of business broker to manage sales process
    - ☐ Inclusion of *10 Year Transferable Craftmanship Guarantee* conditions in Sale & Purchase Agreement
- ☐ National Support Office to meet with business broker
- ☐ National Support Office meeting of prospective purchaser(s)
- ☐ Prospective Purchaser to attend Mastercraft Communications Day (Optional)
- ☐ Sale and purchase agreement signed
- ☐ Licence Agreement signed

Licensing Check List

- ☐ Mastercraft National Support Office notified of intended business sale
- ☐ Professional Advisors engaged
- ☐ Professional Advisors given Support Office contact details
- ☐ Support Office provided Professional Advisor contact details
    - ☐ Accountant
    - ☐ Lawyer
    - ☐ Business Broker
- ☐ Licensee to arrange a meeting between the potential purchaser, Licensee, and National Support Office staff
- ☐ New Licence Agreement presented by National Support Office to purchaser
- ☐ New Licence Agreement signed by purchaser