



How to buy a business in Spain, without losing your shirt

You may finally be in the position to fulfill a life-long dream of moving to sunny Spain and to start your own business; you will find that buying an existing profitable business offers many advantages to starting from scratch (see our article: [Why buying an existing business](#)). That is true, but there are also pitfalls you need to be aware of, especially in Spain. An existing profitable business will have customers, employees, established product lines and the existing equipment necessary to run the business. But buying an existing business is a lot different from buying a new house or car. There are lots of things you must be aware of or your dream could turn into a nightmare.

If you do not have expertise in buying a business, your first step should be to hire professional representation. If you are going to spend (part of) your life-long savings on a business in a new country, it only makes good sense to invest in a highly competent professional looking out for your interest. Do not depend on what sellers or a sellers' representatives are saying. The seller is more than likely not represented by a professional business broker. He is selling on his own account or helped by some trusted advisor, most likely family member or a "gestor" – his bookkeeper – and it will be very hard to get relevant information from them, let alone reliable information.

The thought of owning your own business can generate strong emotions. So the second thing you must do is temper your emotions. As the Godfather said, "It's just business." Do not get emotionally attached to owning any business. Stay totally objective about the business. Being emotionally attached to owning any business can color your judgment and allow you to make a poor decision. If you want beaches, sea and views look for a nice house to live in; buying a business *is* business: it's your future income. A nice location of picturesque setting (beaches, sea and views) will not give you any fulfillment if you are losing money every month!

Sellers in Spain will not have taken great pains to present their businesses. The business can look like it is an ideal acquisition in an ad, but do not expect any more relevant or detailed information from a seller (and most representatives). The attitude is: come and see the business and we talk. Accounting in Spain is only done to comply with the law and to pay as little taxes as possible, not to show how the business is actually doing. Even (or especially) the external bookkeepers normally do not have a clue if a business is actually making money or not. All small companies in Spain work with an outside bookkeeper, "gestor" in Spanish. Bureaucracy in Spain is huge and the paperwork that needs to be filed for tax and registration purposes is complicated

The structure of the transaction is probably as important as the purchase price. Get competent advice on how to properly structure the transaction. You should be very careful to buy the stock of a small and closely held company ("S.L." or Sociedad Limitada, the Spanish equivalent of a Limited company). You may end up being liable for undisclosed liabilities. An even more serious problem could be potential income tax liabilities for prior year returns.



The following is a general list of things you should examine carefully. This list is general in nature and is not intended to be all inclusive. In any particular acquisition, there may be specific problems not covered by this list.

1. The company financial statements probably have not been restated to reflect certain add backs, generally owner's salary and owner's expenses. You need to do this for yourself. Often the owner is the most important employee of the business. It will often cost as much or more to replace him or to do it yourself. Look at possible "family and friend" employees that actually need to be replaced or, to the contrary, are essential for the business.
2. Understand the income drivers of the business. What really drives the business? Too often it is the owner and the relationships he has built up over the years.
3. The owner and/or his representative may present a set of income projections. Pay more attention to the assumptions than to the numbers. Always ask yourself if the assumptions are optimistic or realistic. Often they are best case numbers. Never buy on best case numbers.
4. Often the owner and/or his representative will list a few things that have the potential to increase the profitability of the business. Never pay for potential. Pay for the past but buy for the future!
5. Never assume that you can operate more efficiently than the owner has been operating. Actually expenses will probably rise somewhat. Don't plan on cutting cost.
6. Be sure to analyze the income statements for non-recurring income items. This might be sale of equipment, a one time job or something of that nature. You are buying an income stream. Make sure that all the items in the income statement were from normal recurring operations.
7. Is the business cyclical/seasonal? What is the income trend? Be sure to do trend analysis on major income and expense items. Be cautious of sharp spikes. Sharp spikes can often be temporary. Look for a trend.
8. Look for hidden deferred maintenance. If the business has a lot of machinery and equipment, there may have been some deferred maintenance. Be sure to check the maintenance records.
9. If the business has a lot of property and equipment, be aware that the taxing authorities will often re-appraise the taxable base upon a sale. This could increase operating cost significantly.
10. Some of the property and equipment may be under insured. Another chance for cost to go up.
11. Pay particular attention to the employment staff. How long have the people been with the company? Are they likely to stay as employees? Are they



expecting salary adjustments? Are the key employees under employment contract? What would be the cost of firing them?

12. Be sure to negotiate a long enough work-in period with the owner for a smooth transition.

Buying an existing profitable business can cut years off the painful process of growing a business. You already know there is a market and you have an established base. It is much easier to build on an established base than to start from scratch, especially in a new country. Just be careful. Do your homework. Do your due diligence. If you do, you should be able to buy a profitable business and enjoy the Spanish lifestyle fully dressed.