

I started a printing business three years ago. At the time I needed extra capital so I sold 15% to a former colleague, who put in £15,000. Since then the business has done well making net profits of around £80,000 for the last two years.

I do the work and would like to buy back the shares held by this person. When I approached her I was surprised when she informed me that she now wants far more than the original £15,000 for the shares because the business is doing well.

Can she take this position?

Your business is now profitable and that is to your credit.

Your former colleague took a risk and bought into a business proposition which could have failed. As you are making profits the business (and therefore the shares) is now worth more.

The value put on the shares depends on a number of issues including net assets of the business and the expected profits going forward.

Start by scrutinising the company's Memorandum and Articles of Association. They may contain a formula for valuing shares or, if a value cannot be agreed, they may offer how this is resolved.

Similarly, they may suggest whether discounts are to be taken into account when valuing minority interests.

Do have the business professionally valued in writing by a reputable firm with industry experience. Do not use your own auditor for this as this is now not allowed under legislation.

Then discuss value with her and try to reach an agreement.

Alternatively consider whether there is scope for the company to buy back the shares. Provided that the company has retained enough profits in reserves it is a fairly straightforward matter for a company to buy back its own shares.

This means that you can use the company's money rather than your own. Consider the impact on the balance sheet before proceeding.

If you buy the shares personally you could take out a loan. Any interest you pay on that loan can be deducted from the tax on your annual income.

The author accepts no legal responsibility for the advice given. Comments and advice given in this column do not necessarily represent the views of Printing World.



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