

Ten Items that Make a Business Easy to Buy

In my 28 years of selling businesses, I continue to be amazed at how Sellers unintentionally make the due-diligence process difficult for Buyers. The Buyer needs to be assured that what the Seller is representing for sale is truly what is being acquired. Once a strong confidentiality agreement is made and price and terms are generally agreed upon, the Buyer needs to be assured that:

1. The financial records are clean and credible
2. The customers will continue to buy product or services
3. The key employees will stay employed
4. The vendors will continue to supply
5. There are no pending insurance claims, environmental issues or litigation
6. The landlord is willing to lease for reasonable terms
7. The equipment is in good condition
8. The payables are paid and receivables are collectable
9. Inventory is viable and saleable
10. All tax and legal matters are in compliance

First and foremost the Buyer wants to be assured of the profit of the company so he can make an offer based on that amount. The Intermediary should analyze the financials, making adjustments for discretionary items, not required to run the business. Be sure to have the Seller sign off on all adjustments. Perhaps the Seller drives a Mercedes but a less expensive vehicle would do just fine. Perhaps there was a one-time capital expenditure (roof) in one year that was made that reduced the profit. Often these items can be added back to the bottom line so the Buyer sees what it truly takes to operate the business. Why? Adjusting the profits has a multiplying effect on value. Make sure the adjustments are clearly explained by the Seller to the Buyer.

In preparing a business for sale, all of the above concerns need to be addressed thoroughly before going to market. As the Intermediary you should conduct a pre-due diligence with the Seller so that nothing will be discovered by the Buyer that you have not prepared for and disclosed up front so as not to negate a potential transaction near the closing.

This makes it easier, less costly and most importantly less time consuming for the Buyer to close the transaction. Why not make it easy for the Buyer? Obviously, care needs to be taken as not to disclose too much before an acceptable term sheet or letter of intent has been completed. Also, the order of releasing contingencies should be made in relation to the impact they may have on the business. For instance, you wouldn't want the Buyer to meet with key employees or customers until almost all other conditions are accepted.

It is important to be well prepared in advance of engaging with a Buyer and to provide full disclosure to assure compliance with all financial and legal requirements.

