



Scot Cockroft,
VR Owner in Dallas, Texas

How Do I Perform Due Diligence Correctly?

Adriana Hofman
Santa Monica, CA

Dear Adriana,

When you perform due diligence on a business that you're looking to buy, it doesn't end when you shake the seller's hand. You have to verify all the assets included in the sale of the business. A VR Business Intermediary will assist you throughout the entire process of buying a business, specifically, in the area of due diligence.

A VR Business Intermediary will assist you in this basic principle to help you avoid financial losses. Too often buyers can be the victim of inadequate information supplied by the seller that could have been avoided had there been professional representation involved.

For a successful business transaction to take place, the following must take place between the buyer and seller:

- **Clear communication;**
- **Careful planning;**
- **Resolve any possible situations – tax debts, collections;**
- **Understanding every aspect of the business.**

FOCUS OF DUE DILIGENCE

The scope of this process is always expansive, usually depending on the size and significance of the acquisition, price, availability of financial information, amount of risk, time allotted, etc.

Due diligence must focus on a variety of information:

- **Company Background and History** – i.e. nature of business, location, facilities and management as well as recent developments, future plans, lawsuits, government restrictions and environmental considerations;
- **Industry Information** – A buyer not familiar with which industry the business operates needs to review everything from competition to industry growth rates as well as government regulations, patents, trademarks and copyrights;

- **Finances and Accounting** – Impact of inflation or recession on operations, current value, replacement cost data, future capital requirements for growth (Balance sheets of prior fiscal years as well as income statements, budgets and forecasts can help you here);
- **Taxes** – Reviewing the tax status of the acquisition will help you determine the liabilities and whether they are properly stated in the books, as well as focus on monetizing a portion of the purchase price through proper tax planning strategies;
- **Other Areas of Concern** – Timing, industry relations, marketing, manufacturing and distribution, research and development, international factors and discretionary expenses.