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Executing the Plan

Knowing How to Perform Due Diligence as the Buyer

If you're a buyer and have signed the Letter of Intent with the seller, the next course of action involves putting together a team to assist you in conducting due diligence on the business. VR Business Sales can help recommend a variety of experts that are experienced in performing due diligence – i.e. accountants, attorneys, appraisers.



Before you start performing due diligence, prepare a list of areas to examine to ensure you've accounted for everything that makes up the business.

Examining the Business Operations

You will want to review with a CPA the current year's financial statements, looking specifically at monthly and quarterly reports, incoming orders as well as the backlog. Evaluate the business' products and services, and review the percentage of sales by product line as well as policies regarding structure for discounts and warranties.

Marketing

Ask for a list of the top 50 customers and sales breakdown by country (if export), and the company's market share compared to competitors. Discuss the potential of gain or loss of market share and the extent a barrier exists to entry for new competition.

Taking Apart the Balance Sheet

There are three particular areas you will want to focus your efforts:

- 1.) Accounts receivable;
- 2.) Inventory;
- 3.) Accounts payable.

Evaluating the Physical Location

When you visit the location of the business, you will want to make an assessment on its condition, how the owner is using the facility and the actual space.

- Determine the age of the location;
- Whether the property leased or owned;
- The cost and current value of the location;

Depending upon the type of business it is, you will want to look at the type of equipment that is used, what is being produced if any, who are the vendors being used.

Identifying Environmental Concerns

You will want to make sure that there are no possible environmental problems such as any ground, water or air pollutants. Have an inspector search for any mold, exposed asbestos from pipes, leaks in the ceiling or insect or rodent infestations. Any of these factors can lead to a transaction being halted immediately.

Review Current Management and Employment

Look at everyone that's currently employed with the business – evaluate who's in management and other key positions, what are their roles and responsibilities. Also assess the employee turnover and type of incentive bonus plan is in place.

Verifying Intangible and Intellectual Property

This is an area you don't want to ignore. Intangibles such as patents, trademarks and copyrights you will want to see whether they will be transferred over to you when you and the seller sign the purchasing agreement. For example, you will not be able to take control of any of these intangibles if they are owned directly by the individual owner and not in the name of the business. Therefore, don't assume that when you buy the business, you automatically own all intangible and intellectual property with it.