



Comfort Closes Deals

Add Value by Going Beyond Basic Book Keeping

Unless you are planning to transition your business to a family member who is already very well acquainted with your financials, a prospective buyer will likely insist on conducting due diligence before transfer of control.

In a nutshell, due diligence is a process for the potential new owner to determine the level of risk they are taking on with your business.

The first thing they want to determine is whether the financial numbers and projections provided are accurate and realistic. Usually the buyer will request access to all financial records of the company for the last 5 years, including accountant-prepared financial statements, tax reports, bank statements, payroll, and documentation of any key client contracts and invoices.

Sound like a lot of work to prepare? Well, unfortunately, all these documents are just table-stakes, they generally represent the absolute minimum a potential new owner will want to learn about a company.

The new owner needs to understand his risk, looking to see if the business will survive beyond the transition. The less risk they perceive, the more likely it is for the transaction to close. This is where offering insights into the business beyond the basics of record keeping can add value to the transition, by improving the likelihood of success of the due diligence.

So what types of insights would be helpful?

Here are some examples:

- Profit rates by item manufactured, or category of product/service sold
- How you price the products/service
- Rating of different suppliers, clients (not all clients are equal, which are the most profitable?)
- Sales by target market (target market could be a specific geography, or customer type)

- Reasons for any large fluctuations in past sales or profits
- Analysis of one time vs. recurring business expenses.

It is important to note that this is not about only showing good news. This is about providing an accurate picture of the business.

The new owner may handle some bad news, but will react very negatively to surprises. The new owner is taking it all, the good with the bad. The more comprehensive a picture they get, the more likely it is they will feel comfortable.

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Victor Barsoum is an M&A advisor and business intermediary with Sunbelt Brokers Premium.