

"Seller Beware", Due Diligence Works Both Ways

By Tom Taulli

Traditionally, the buyer performs due diligence. However, smart sellers know that it's a two-way street. After all, for both parties it's important to truly understand each other, to make sure that the other is strong and a "good fit", and to uncover possible alternatives to acquisitions. And most important, the seller doesn't want to get burned. Nothing could be worse: You give a chunk of your life's energies into building a company, and then you sell it to a con artist who "pays" you with a small lump of cash and a big pile of worthless stock certificates.

A seller has a lot at stake. True, if you sell for 100% cash, the risks are minimal. But this is rare. You are likely to have your compensation based on the stock of the buyer. In a way, selling a company is similar to buying stock for a portfolio: The seller wants a stock that will grow.

But instead of having to start to investigate a prospective buyer from scratch, the seller should be informed ahead of time. That is, the seller should have its own set of screening criteria and keep abreast of the marketplace. So, when the seller is approached, it won't have to scramble.

In performing due diligence, the seller should employ the same checklists as the buyer and ask equivalent questions. Areas of emphasis include the following:

Financials: Has the buyer's growth been better than its peers? Also, check for danger signs, such as increasing receivables. How much cash does the company have? Does it have enough to pursue its goals? Also, perform a ratio analysis on the company.

Strategy: Do you believe in the buyer's goals and strategies? Do you think the company is headed in the right direction? Does the buyer have a history of M&A strategy, if so, how have the acquired companies or "brands" fared?

Products/Services: Does the company have a competitive product line? Will your product line enhance the company's growth?

Management: Finally, do you think the buyer has a strong management team? Do they have prior experience with growing strong companies?

Actually, the last two questions are critical. But, unfortunately, many sellers do not ask them. You want to make sure that your company is in capable hands. And, no doubt, you want a buyer that can help grow your company. So, do not be afraid to ask "due diligence" questions to the buyer. It is customary. In fact, if the buyer is resistant, this is an ominous sign that you may be dealing with the wrong buyer.