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### **Using Sell-side Due Diligence to Maximize Deal Value, Minimize Negotiations**

The notion of conducting due diligence from the seller's side gained traction in the United States after the 2007 recession, when banks and other financial institutions tightened lending standards and steered clear of deals with even minor issues. In this environment, sell-side due diligence was vital to keep an M&A transaction intact. Even with today's improving credit availability and economic performance, sell-side due diligence provides several distinct advantages:

*Verifying the accuracy of financial information.* The easiest way to jeopardize a deal is to raise buyer concerns about the reliability of data offered by the seller. Because all relevant financial, operational and tax issues are reviewed for accuracy and GAAP conformance by an objective and credible third-party resource, sell-side due diligence directly addresses this issue.

*Identifying adjustments that positively impact EBITDA.* When prospective buyers conduct due diligence, their analysis looks specifically for any negative adjustments to EBITDA. On the other hand, a sell-side due diligence analysis can review historical financial performance, validate (or challenge) earnings assumptions and often uncover positive adjustments impacting EBITDA. That detailed, third-party assessment can not only increase the company's purchase price, but reduce the likelihood of buyer renegotiations after a letter of intent has been signed.

*Uncovering issues to avoid deal-killing surprises.* No one likes to receive unexpected, last-minute information before committing to a major purchase decision. For example, if a company has a series of unresolved state and local tax liabilities in jurisdictions where it does business, those issues can represent significant tax, penalty and interest liabilities for a prospective buyer. A sell-side due diligence process would not only flag such issues, but provide management with options for fixing the problem or accurately presenting the information to prospective buyers, including the development of credible responses that address buyer concerns. This upfront disclosure helps build trust, keeps multiple buyers interested in the process, maintains deal momentum and eases final negotiations.

*Allowing business leaders to stay focused on goals.* When company leadership teams opt to take M&A due diligence in-house, they frequently underestimate the level of internal staff and resource support needed for adequate data gathering, analysis and reporting. When third-party, sell-side support is retained, it relieves stress on key personnel and allows the management team to focus on day-to-day operations and the achievement of key business targets in support of a transaction.

### **Key tax issues and opportunities**

The tax ramifications of any prospective M&A deal are a significant issue for players on both sides of the table. By using sell-side due diligence, a business owner or private equity group can identify any

significant tax issues early in the process and frame those concerns in the best possible light. Examples of those issues include worker classifications, uncertain tax positions and accounting method changes. Aside from an early warning on potential tax issues, sell-side due diligence can also be a great tool for helping structure a transaction. A well-designed tax structure adds a significant amount of value to the seller, since it could generate a higher purchase price, while minimizing the owner's tax liability. Sound tax structuring can also identify key elements to make a deal more attractive to prospective buyers. If the seller has net operating losses (NOLs), or if the deal contains significant transaction or compensation expenses, those items can generate future tax deductions that can help a buyer offset post-transaction income. At the same time, the seller can use these potential tax benefits as a means to boost the company's purchase price.

Companies that invest in sell-side due diligence will gain a significant edge in any transaction, since the process helps minimize surprises, while maximizing tangible value. [Download](#) the full white paper.



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