

Preparing to Sell a Business: Due Diligence Checklist

If you are considering selling your business, preparing for due diligence in advance can help reduce the stress and workload that comes with a sale. Due diligence is the process by which a buyer conducts a business, legal, and financial investigation of the target company in preparation for a possible sale. To keep the sale running smoothly, you should be aware of what to expect as you start the process. Use this checklist as a guide to preparing for due diligence.

Build a Team

Effective teams generally consist of an attorney, broker, CPA, appraiser and personal financial planner.

Get an Accurate Business Valuation

Although going through a business valuation is not a simple process and can take several months, this is a crucial early step. Negotiations often break down because the buyer and seller fail to come to an agreement on the value of the company for sale. An appraiser can help you determine the right approach to and assist you in determining an accurate valuation.

Compile the following information:

Financial and Tax Documents

Buyers want to ensure that finances are as expected with they proposed the M&A deal. There are many documents that will come into play during due diligence, including but not limited to:

- Audited financial statements, balance sheets, earning statements and cash flow statements
- Credit reports
- All promissory notes, commercial paper, loan or credit agreements, letter of credit, and financial surety/performance bonds
- Schedules and details of any existing defaults under credit arrangements
- All federal, state, local and foreign tax returns
- Employment tax filings
- Real estate and property tax filings
- Tax liens

Legal/ Liability Issues

Legal and liability issues are a major focus during due diligence. Prepare a list that includes all permits and licenses from public authorities, and any pending or threatened action or proceedings that could result in the suspension or revocation of business activities.

Intellectual Property

Document all intellectual property, patents, innovations, invention studies, copyrights, computer programs and anything else that may be relevant. Include a list of all IP-related pending litigation, including the status of settlement discussions.

Operations

A potential new owner will want to understand your day-to-day business processes, vendor relationships, management systems and customer relations. Buyers may ask for information such as a list of all products and services, contracts of agreements with customers, and a listing of all business application software and number of licenses.

Customer Base

You may need to produce a complete customer list that includes names, addresses and phone numbers, as well as a list of any major customers lost.

Organizational Charts

Include supervisory levels and the number of their employees. In addition, prepare a list showing total employee headcount over the prior three years.

Human Resources

Potential buyers will seek information around employee turnover, benefits, health and safety, and air and water pollution control.

Marketing

Marketing information is key to a successful M&A deal. The buyer will want to a list of major competitors, survey and market research reports, a schedule of the company's current advertising campaigns, and physical marketing materials.

Preparing for due diligence takes time, so if you are able to anticipate the type information that will be required, you can help keep the momentum moving forward. By preparing in advance, you can demonstrate to your professionalism and even potentially raise the value of the company in the eyes of the seller.