

## Covering All the Ends

### Performing Due Diligence before Making the Deal

Whether you're a buyer or a seller, you have to determine whether the business transaction being put together is as good as it looks on the surface. This is why performing due diligence is an important and integral part of the process.



Too often, inadequate information is submitted or less than honest representation is presented in a sale. Many buyers will handle the evaluation ineffectively and not obtain the right information to determine whether purchasing that business is the best decision. Due diligence may sound overwhelming, but is necessary when a large financial investment is involved.

### Determining the Scope

VR has the expertise required to facilitate the due diligence process, and ensure negotiations result in a successful transaction. The scope of due diligence for a buyer can range from reviewing financial information and visiting the business to a complete and comprehensive review. How deep you go into due diligence depends on:

- The size and relative significance of the business being purchased;
- Availability of accurate financial information;
- Degree of inherent risk; and
- Time allowed for investigation;

### WHERE TO FOCUS

Regardless of the size and scope of due diligence, VR will help you focus on the areas of the business that require review to ensure a successful transaction can be completed.

### Background and History of Business

From the beginning, the information on the business that should be gathered includes:

- The location and facilities;
- History of the business;
- Management;
- Recent developments;
- Future plans;
- Lawsuits;
- Government restrictions; and
- Environmental considerations.

### Analysis of Industry

If you're not familiar with the industry, which the business you're looking to purchase is located, an industry review should be included in your due diligence. You should learn about the competition within the industry, the trends as well as the growth rates and external factors that affect growth and profitability of a business. There should be a familiarity of state and federal regulations, and an examination of any barriers to entry for the specific industry.

Additionally, you should understand the importance of trademarks, patents and copyrights of the business and the industry.

### **Examining Accounting Information**

The buyer should examine the impact of inflation or recession on the business operations. Sources can be:

- Balance sheets of prior fiscal years;
- Statements of income;
- Statements of changes in financial position;
- Budgets and forecasts for the future.

Each VR business intermediary will point out the importance of understanding any differences between the buyer and seller in accounting practices and principles, since this can disclose questionable habits and methods.

### **Taxes**

Reviewing the tax status of a business does two things:

- 1.) It satisfies the buyer that the liabilities of the business are properly stated in the books, and
- 2.) Focuses on the buyer's ability to monetize a portion of the purchase price through proper tax planning strategies.

From the beginning, there must be clear and open communication channels to prevent any misunderstandings and allow for careful planning of the deal. Every VR business intermediary will be able to coordinate the inquiry correctly and facilitate the investigation that produces correct information.