

CEO Worldwide Discussion File

Due Diligence – “the final frontier”

By Colin Thompson

Once initial sale terms are agreed your buyer will review commercial aspects of your business - such as contracts, staff and key customers - to ensure the claims you have made about the business are accurate. This process is known as `due diligence`.

Do not start due diligence until you have agreed a price and terms with the buyer. The investigation period is negotiable - but should last at least three weeks, although all sales are different. The process can be speeded up if you and your staff are as co-operative as possible.

Your buyer and their advisers will probably need to spend some time at your business' premises reviewing original documentation, but try to ensure as much work as possible is carried out off-site. The process must be controlled to guard against it being used as an excuse for renegotiating the deal.

The due diligence process is likely to cover:

- the business' past and forecast financial performance
- accounts
- valuation of property and other assets
- legal and tax compliance
- any outstanding legal action against the business
- major customer contracts
- intellectual property protection

The final sale agreement

As the due diligence process nears its conclusion you and your advisers should finalise the sale agreement. This will contain the exact details of the sale, much of which should have been outlined in the heads of terms. There will have been compromise on both sides to obtain a final document that is acceptable. But you should maintain a dialogue with all parties to ensure the final agreement is acceptable and contains no hidden surprises about your future liabilities.

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Your advisers should ensure you fully understand the terms of the agreement you are signing and the full extent of any indemnities and warranties you have agreed to.

Remember;

Due Diligence: The last stage in the business-buying process: "The Final Frontier". This is the time when you will have access to all of the company's books, records and files. You will have a pre-determined due diligence period in which to investigate the information to ensure that it is true and accurate. The due diligence phase is also the time when many prospective business buyers make the most expensive mistake of their lives!

- Every Business Has Secrets
- Your Investigation Must Be Flawless!
- The only way you can determine if it's right and what the future looks like is by conducting such an exhaustive due diligence investigation that by the time you're done you'll know more about the business than the current owner does.
- There is no room for mistakes! You must conduct a due diligence investigation that is so complete that you leave no stone unturned.

About the author:

Colin Thompson is a former successful Managing Director of Transactional/Document Manufacturing Plants, Document Management/Workflow Solutions companies and other organisations, former Group Chairman of the Academy for Chief Executives, Non-Executive Director, Mentor - RFU Leadership Academy, Mentor - Coventry University, Mentor - The Chartered Institute of Personnel and Development, author/writer Business Advice Section for IPEX, Graphic Display World, News USA, Graphic Start, many others globally, helping companies raise their `bottom-line` and `increase cash flow`. Plus, helping individuals to be successful in business and life in general. Author of several publications, research reports, guides, business and educational models on CDROM/Software/PDF and over 2000 articles and 35 books published on business and educational subjects worldwide. Plus, International Speaker/Visiting University Professor.

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