

Are You Sure Your Deal is Completed?

When it comes to your deal being completed, having a signed Letter of Intent is great. While everything may seem as though it is moving along just fine, it is vital to remember that the deal isn't done until many boxes have been checked.



The due diligence process should never be overlooked. It is during due diligence that a buyer truly decides whether or not to move forward with a given deal. Depending on what is discovered, a buyer may want to renegotiate the price or even withdraw from the deal altogether.

In short, it is key that both sides in the transaction understand the importance of the due diligence process. Stanley Foster Reed in his book, *The Art of M&A*, wrote, “The basic function of due diligence is to assess the benefits and liabilities of a proposed acquisition by inquiring into all relevant aspects of the past, present, and predictable future of the business to be purchased.”

Before the due diligence process begins, there are several steps buyers must take. First of all, buyers need to assemble experts to help them. These experts include everyone from the more obvious experts such as appraisers, accountants and lawyers to often less obvious picks including environmental experts, marketing personnel and more. All too often, buyers fail to add an operational person, one familiar with the type of business they are considering buying.

Due diligence involves both the buyer and the seller. Listed below is an easy to use checklist of some of the main items that both buyers and sellers should consider during the due diligence process.

Industry Structure

Understanding industry structure is vital to the success of a deal. Take the time to determine the percentage of sales by product lines. Review pricing policies and consider discount structure and product warranties. Additionally, when possible, it is prudent to check against industry guidelines.

Balance Sheet

Accountants' receivables should be checked closely. In particular, you'll want to look for issues such as bad debt. Discover who's paying and who isn't. Also be sure to analyze inventory.

Marketing

There is no replacement for knowing your key customers, so you'll want to get a list as soon as possible.

Operations

Just as there is no replacement for knowing who a business's key customers are, the same can be stated for understanding the current financial situation of a business. You'll want to review the current financial statements and compare it to the budget. Checking incoming sales and evaluating the prospects for future sales is a must.

Human Resources

The human resources aspect of due diligence should never be overlooked. You'll want to review key management staff and their responsibilities.

Other Considerations

Other issues that should be taken into consideration range from environmental and manufacturing issues (such as determining how old machinery and equipment are) to issues relating to trademarks, patents and copyrights. For example, are these tangible assets transferable?

Ultimately, buying a business involves a range of key considerations including the following:

- What is for sale
- Barriers to entry
- Your company's competitive advantage
- Assets that can be sold
- Potential growth for the business
- Whether or not a business is owner dependent

Proper due diligence takes effort and time, but in the end it is time and effort well-spent.

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