

Due Diligence – Ensure Your Company Is Exit Ready

A successfully performing business isn't necessarily an exit ready business

The statement above surprises private company owners and CEO's. They believe if their company is performing well an acquirer will fall in love with it. Unfortunately, too often this isn't true. Your company performance may attract an acquirer to desire acquiring it, but for a successful exit event, you will need to continue to impress them through their due diligence.

What is due diligence? Think of it as an investigative audit by a third party. They need to understand all aspects of what they might be acquiring. They need to understand what the opportunity is for them in owning your company and understand if there are any risks in becoming the owner.

Due diligence is not a cursory review of your business, it's exhaustive. We refer to it as a proctology exam to convey how invasive it is. A minimum of two years prior to considering a sale of your company to a third party you will want to conduct a due diligence dress rehearsal. This rehearsal will help you see if there are any gaps in your readiness and leave you time to make corrections. A typical due diligence may contain 300+ line items of data points and documents an acquirer will want to review. Here is a sample, high level listing of a few typical due diligence items:

Historical financials – 3 years, GAAP, audited or reviewed and reported to industry norms

Gross Margins – accurately reported at the product/service and customer level

Net Profit – reflective of any adjustments the Seller may be making

Customer & Supplier Contracts – well documented and fully executed

Company Ownership – legal documents current and accurately reflecting ownership structure

Employees – organization chart, job descriptions, policy manual, compensation history

Company Strategy – documentation of business strategy and sales opportunity pipeline

Environmental – up to date records related to any air or groundwater related matters

When the day comes that you want to sell your company you will want to be euphoric with the outcome. To achieve a euphoric outcome requires you build an attractive business and prepare your company to present well through due diligence. Don't let years of hard work fall apart because you missed this key component of a successful exit event.

About the Author

*Larry O'Toole has over 20 years as an experienced CEO of manufacturing and service businesses. He founded Yosemite Associates, LLC introducing the **Bank your moment**® and **Yosemite Business Diagnostics**™ campaigns to help owners extract the uncertainty associated with building their company worth. Larry serves on corporate Boards and provides advisory services to a diversified group of owners. Larry can be reached at 949.874.0787 or Larry.OToole@YosemiteAssociates.com.*