

Business Due Diligence

Great! You have decided to purchase a business, but what's next?

Buying a business is always a very exciting period in your life. However, before you contractually commit to the purchase you need to engage in a process called due diligence on the proposed business you are buying.

Once you decide to buy a business you need to obtain as much information about the business and purchase as you can. As a buyer you will want some form of certainty that the business you are buying is in the condition it has been represented to by the seller. This process is called due diligence. Due diligence includes considering both financial and non-financial elements of the business.

Due diligence can be performed prior to signing a contract but in that case you can lose out to another buyer who signs before you do or performed once you have signed a binding contract to acquire the business. A time limit is imposed for this to be done. As a minimum, it is recommended you allow 15 business days to conduct your due diligence. This period obviously changes depending on the size and complexity of the transaction.

At the conclusion of your due diligence you should be in a position to understand the financial health, risks and the competitive arena in which the business you are acquiring operates.

Broadly speaking, due diligence can be broken up into eight key areas:

1. Financial performance;
2. Financial position;
3. Tax;
4. Customers;
5. Suppliers;
6. Employees;
7. Legals; and
8. Competitive landscape.

A good due diligence checklist can provide some assurance for you on those eight key areas when buying the business. Warranties as to the accuracy of the information can be included in the Contract to protect you. A typical checklist might include:

- Copies of the last three years of financial statements including profit and loss and balance sheet;
- Up to date management accounts for the year to date;
- Copies of tax returns for the last three years including all schedules;

- List of plant and equipment, fixtures and fittings including depreciation schedule;
- List of any stock expected to be sold with the business including any valuation documentation on same;
- Copies of any lease/hire purchase documentation for any assets under finance;
- Copy of aged debtors ledger;
- Copy of aged creditors ledger;
- Schedule of sales by customer for year to date;
- Copy of lease agreement if premises are leased;
- If a franchise, ask the vendor for a copy of the franchise agreement and disclosure statement;
- Copies of any agreements – suppliers, contractors, agency, distribution, intellectual property;
- Copies of permits, certificates of registration etc with government authorities, appropriate to the nature of the business;
- Copies of any employee records including leave entitlements;
- Details of insurance policies (Eg WorkCover) and dates of cover; and
- Any industrial awards or enterprise bargaining agreements in place applicable to employees.

Remember this list is by no means exhaustive and buyers should always obtain independent professional advice when considering your due diligence.

Selling?

If you are thinking of selling is also vitally important to do Due Diligence on your own business before listing for sale, if you want the buyer to see your business in the best light. Get all your records, legal, financial and otherwise checked and in order so the buyer can't find a reason to knock your asking price down.

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