



You got an LOI! Next step: Due Diligence

You've built a successful company and at some point you decided you've taken it as far as you could without outside help. Or it took so much out of you that you're just tired and want to pass on the next phase of growth to someone else. Or you really want to do something else with the rest of your life. All valid reasons for wanting to sell your company. Whatever your reasons, you take action. Your financial statements have been audited and you got introduced to a good investment banker. Through your team's collaborative efforts you now have a **Letter of Intent** from a qualified buyer, and now they need to satisfy themselves that your company is everything you said it is. In the investor world that's called Due Diligence, and it's where the real work of closing the deal begins.

The buyer will select a consulting firm to analyze your company and its reports with a fine tooth comb. They will go well beyond the "reasonable" and "materiality" measures that guide auditing standards. Besides collecting copies of every legal document you've ever signed, their job is to try to prove every dollar of EBITDA that you have reported for the last couple of years, or to get as close to that as possible. Some would say their underlying

goal is to give the buyer as much ammunition as possible to negotiate a discount to whatever your LOI says. Either way, you have lots of work ahead of you. Here are some tips for getting it right:

1. **Make sure you have someone on your side** who understands the process and can quarterback your responses on a daily basis. If you have a good CFO, that's the person. If you've gotten by without one in the past, bring someone on board for the duration of the process, i.e., until the deal is signed. *(Not surprisingly, we provide this service.)*
2. **Don't take it personally.** This is mostly for your financial department and your

accounting team in particular. The reviewers will question every accounting policy, ask for documentation to support hundreds or thousands of transactions that you felt 100% certain about, and generally disrupt your routine for days and weeks, if not longer. Your job is to make them comfortable that your reports are fundamentally accurate. Period.

3. **Know when to question the purpose of the request.** You can gently push back if the effort required to respond appears excessive, or it seems irrelevant to the deal, as long as you're not trying to hide something that would affect the deal. You don't want to be in that position. And that brings up my final suggestion.
4. **Prepare in advance, before you put the company on the market.** Consider a dry run due diligence review by a qualified expert so you know and can fix the pitfalls before they become factors in the negotiation. *And of course we provide this service as well.*

"People who don't take risks generally make about two big mistakes a year. People who do take risks generally make about two big mistakes a year."
—PETER F. DRUCKER

Want to know more? Call me - 888.788.6534.

Preparing to Exit Your Company

A CONTROLLER'S PERSPECTIVE BY J. MARK OLSON, CPA

While the controller reports to the Chief Financial Officer or the CEO, much trust is placed with the controller to serve some very critical accounting and finance functions, especially when the time comes for the owner(s) to plan their exit. Most importantly, the controller must ensure that accurate financial statements are prepared on a timely basis. If you are preparing for

an exit, you must be able to show a history of financial results, usually for the past 3 years and possibly for up to 5 years. *Internal controls* should be in place to ensure the accuracy of the financial statements to reduce the risk of errors and irregularities, fraud or misappropriation of assets. A good controller will be very careful about the selection and implementation of *the right accounting software*, one that is

suitable for the industry the company is in. For example, if you are in the manufacturing industry you should have software designed for manufacturing cost accounting. The controller should make sure that all routine accounting tasks such as bank reconciliations, account analysis and other reconciliations are done on a regular basis *and reviewed for accuracy.*

(continued on next page)

Preparing to Exit

(continued from previous page)

With management's involvement, the controller should prepare *annual budgets* to be compared to actual on a regular, i.e., monthly basis. All major variances should be followed up and reviewed. A 3-year and 5-year forecast is a useful tool for management and might be especially important during any exit negotiations.

The controller should make sure that qualified staff has been hired to perform the accounting and finance functions. Proper education and training should be carefully considered prior to hiring for any position. On-going training and mentoring of staff

should be a part of the controller's daily function. With a well trained and motivated staff, the critical functions of customer invoicing, credit and collections, accounts payable and payroll are usually much more accurate, resulting in less time spent on finding and correcting errors.

If you have *annual audits or reviews*, the controller should connect early on with the auditors to ensure the books are ready for audit. Without proper preparation, the audit will get time-consuming and expensive, and could seriously delay or even derail an exit transaction.

If you're planning your exit, whether through sale, ESOP, or perhaps even a generational transfer, sound financial records

are essential to establishing credibility with the buyers. With a well managed accounting department, the company has a big advantage when preparing for an exit. In these situations, that's the kind of advantage that could put many more dollars in your pocket. Your controller plays a critical role in the process. If you'd like to meet one of ours, call 888-788-6534 or go to www.CFOforRent.com.

ABOUT THE AUTHOR:

Mark has been a practicing CPA since 1984 in addition to being a seasoned CFO/controller and one of our valued associates. He has helped many businesses prosper and financially manage the challenges of growth and ultimately the intricacies of a successful exit.



Gene Siciliano
WESTERN MANAGEMENT ASSOCIATES

P | 888 788 6534
O | 310 645 1091
E | info@CFOforRent.com

www.CFOForRent.com