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A Business Law Update

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Before You Sell Your Business: The Due Diligence Audit

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You're a business owner heading into a meeting to pitch a potential client or customer for what would be a huge contract for your company. You've spent days or weeks preparing to put your best foot forward, answer questions, address any concerns, and are armed with all the information the prospect may need to get them to sign on the dotted line. Because of all that spadework, because you made your company look as good as could be, you closed the sale.

And if the opportunity on the table is the sale of your company, all those same principles apply. That is the essence of a seller's due diligence audit.

What Is a Seller's Due Diligence Audit?

For the seller of a business, a due diligence audit is a complete and immersive review of your company's financial, legal, and operational landscape. It involves close scrutiny of every aspect of the company, from profits and losses to contracts and leases to inventory and sales to accounts receivable to customer relationships, and more. Given the multifaceted scope of a due diligence audit, most sellers get help from professionals who can conduct their evaluations with an expert and objective eye. A good team will include an experienced business attorney, business broker or investment banker, and CPA, among others.

Why a Due Diligence Audit Is a Critical Part of Selling Your Business

A due diligence audit is essential to maximize your company's sale price and attract qualified buyers. The audit will help you understand your business's strengths and weaknesses, so you can emphasize the former and address the latter prior to sale. The information you acquire will help you remove any potential red flags and justify your desired selling price. Your ability to readily provide that information to potential buyers will reduce their perceived risk and take care of the work they would otherwise pursue to become confident and comfortable enough with your company's fundamentals to move forward with the transaction.

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That is why business owners looking to sell their company cannot overlook the due diligence audit. From thoroughly analyzing your financials to closely examining your operations, you and the professionals you work with can enhance your company's marketability, increase credibility with prospective buyers, and help decrease the sale timeline.

Aspects of a Due Diligence Audit

A seller's due diligence audit actually consists of many separate due diligence audits, each looking closely at one aspect of your company. These audits include gathering information and documentation about your:

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- Financials.
- Property, plant, and equipment.
- Competition and market share.
- Customer and supplier contracts.
- Organizational and ownership structure.
- Operations.
- Management and employees.
- Accounting/reporting.
- Products and inventory.
- Intellectual property.
- Marketing plans.
- Current and potential legal claims and liabilities.
- Insurance.
- Environmental issues.
- Compliance and licensing.

Given the copious amount of work involved in a due diligence audit, as well as the likelihood of needing to make improvements to enhance your company's pre-sale value, the best time to start an audit is the minute you seriously consider selling your business.

Contact your Bodman attorney, or Robert Cambridge or Kenneth Powell of **Bodman's Business Practice Group**, for more information. Bodman may not be able to respond to your questions or receive information from you without first clearing potential conflicts with other clients. Thank you for your patience and understanding.

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