

Business Acquisition Checklist

Written by: Women's Enterprise Centre

1. UNDERSTANDING THE DEAL

| # | Consideration | Done | Comments |
|---|---|------|----------|
| 1 | Obtain a complete description of the business. | | |
| 2 | What are you buying? Is this an asset or a share deal? | | |
| | a) If a share deal, obtain a description of the shares being acquired. | | |
| | b) If an asset deal, obtain a list of assets to be purchased. | | |
| 3 | If this is not a complete business what is required before you can open for business? | | |
| 4 | Who is the vendor, and what is the reason for selling? | | |
| 5 | What is the purchaser's strategy for the business? | | |
| 6 | Have you and the vendor struck a deal and, if so, what are the terms (i.e. letter of intent)? | | |
| 7 | Have you sought professional advice? Who are the advisors? | | |

2. INFORMATION REQUIRED

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | Three most recent years' annual financial statements. | | |
| 2 | Interim financial statements for the period since the last year end. | | |
| 3 | Most recent income tax returns (corporate if an incorporated business, personal if not). | | |
| 4 | Major contracts and agreements. | | |
| 5 | Organization chart or list of employees. | | |
| 6 | Description of assets (age, serial # and estimated value). | | |
| 7 | Vendor's financial projections and budgets. | | |
| 8 | Aged receivables and payables. | | |

3. EARNINGS ANALYSIS

| # | Consideration | Done | Comments |
|---|---|------|----------|
| 1 | Review the historical earnings of the business and adjust, on a prospective basis, for the following normalizing items: | | |
| | a) Remuneration of the owner/manager. | | |
| | b) Non-arm's length transactions (rent, use of equipment, personal expenses). | | |
| | c) One-time charges that will not recur. | | |
| | d) Interest expense. | | |
| | e) Normal bad debt expense. | | |
| | f) New/lost major customers. | | |

4. NET ASSET VALUE ANALYSIS

| # | Consideration | Done | Comments |
|---|---|------|----------|
| 1 | Calculate the adjusted net asset value of business being acquired, starting with shareholders' equity or net book value, and taking into account: | | |
| | a) Differences between net book value and fair market value for equipment, furniture and fixtures (and other assets, as applicable). | | |
| | b) Assets/liabilities included, but not being acquired. | | |
| | c) Assets/liabilities not included. | | |
| | d) Expected changes to financing (e.g. additional loans). | | |
| | e) Intangible assets. | | |

5. REVENUE ANALYSIS

| # | Consideration | Done | Comments |
|---|---|------|----------|
| 1 | 80/20 rule – who are the major customers? | | |
| 2 | Obtain measures of sales volume (e.g. meals served, litres pumped, labour hours charged). | | |
| 3 | Determine the number and dollar size of sales transactions per day/week/month. | | |
| 4 | Review monthly sales data for cyclical nature – what are the implications for cash flow? | | |
| 5 | Determine if there are any significant new/lost customers during past year. | | |

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| 6 | Obtain summary sales (and possibly gross profit) data by product line or service. | | |
| 7 | Determine where the key customer relationships reside – what do they do to bring their business here? | | |

6. OTHER CONSIDERATIONS

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | What are the terms for the occupation of the current place of business? | | |
| 2 | Who are the key employees? What needs to be done to retain them? | | |
| 3 | Who are the critical suppliers? What needs to be done to continue receiving supply of goods/services? | | |
| 4 | Who are the competitors, and what are their strengths and weaknesses? | | |
| 5 | Are there expansion/growth opportunities? How will the purchaser capitalize on them and what will it take? | | |
| 6 | Can any synergies be identified and quantified, thereby rationalizing the price being paid? | | |

7. PROJECTIONS

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | What does the first year look like? | | |
| 2 | Are there any cash flow crunches when additional financing may be required? | | |
| 3 | How much new investment will be required and when? | | |
| 4 | Can the purchaser afford to live (i.e. is the purchaser able to leave sufficient earnings/cash in the business)? | | |
| 5 | What is the downside scenario? Is it "scary"? | | |
| 6 | How sensitive is the projection to major risk factors? What are the contingency plans? | | |

8. FINANCING

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | Can the business service the planned debt and other obligations? | | |
| 2 | Is the level of debt appropriate for the business? | | |
| 3 | Is there elbow room in case of the downside? | | |
| 4 | Have arrangements been made with existing financiers for post-acquisition? | | |

9. VALUATION AND PRICING

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | Determine how you will value the business. | | |
| 2 | Perform a goodwill assessment. | | |
| 3 | Do the calculations. | | |
| 4 | Use yardsticks/rules of thumb. | | |
| 5 | Does the price pass the “smell” test? | | |

10. TERMS OF THE DEAL

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | If cash is required, can the deal be structured for some deferred payment? | | |
| 2 | Will the vendor take-back financing as part of the deal? | | |
| 3 | Has an earn-out been considered? | | |
| 4 | Are non-competition agreements necessary? | | |
| 5 | What unique representations and warranties are necessary? | | |
| 6 | How will the vendor support/facilitate the transition? | | |
| 7 | If there are partners/shareholders, are agreements in place? | | |

11. DUE DILIGENCE

| # | Consideration | Done | Comments |
|---|--|------|----------|
| 1 | Consider the quality of the financial statement/other information: | | |
| | a) Is it out of date or recent? | | |
| | b) Has it been prepared by a qualified accountant or internally? | | |
| | c) Is there a risk of mis-statement (cash sales, excessive costs)? | | |
| | d) Is it detailed information or a summary? | | |
| | e) Do you suspect "different sets of Books" (for tax, for selling the business)? | | |
| 2 | Consider PPSA and other corporate searches. | | |
| 3 | Ask around about the vendor's business reputation. | | |
| 4 | Do some personal research (e.g. observe traffic flows). | | |
| 5 | Talk to customers and suppliers. | | |

STILL HAVE QUESTIONS? CONNECT WITH US!

Women's Enterprise Centre is a non-profit organization devoted to helping BC women start, lead and grow their own business. If you own a business, or are thinking of starting one, connect with us for business loans up to \$150K, skills training, personalized business advice, mentoring, practical resources and a supportive community to help you realize your business potential.