

A high-angle, slightly blurred photograph of three business professionals in an office setting. A woman in a dark suit is leaning over a desk, writing on a document. Two men in light-colored shirts are looking on, one pointing at the document. The scene is brightly lit, creating a professional and collaborative atmosphere.

# Performing Due Diligence

Presented by Richard Parker, Diomo Corporation



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# Hosting



David Nilssen

Founder, Guidant Financial Group

- 2007 SBA Young Entrepreneur of the Year
- 2007 Top 40 Entrepreneurs Under 40, Biz Journals
- 2008 & 2009 Ernst and Young Entrepreneur of the Year, Finalist



# Presenting

Richard Parker

Founder



[www.Diomo.com](http://www.Diomo.com)

- Author
- Broker
- Entrepreneur
- 20 years of Industry Experience



# An Overview of Due Diligence



- What is it?
- What it's not
- When does it begin?
- A common buyer mistake – “Show me the money (only)”
- The Buyer's Due Diligence Agenda – validate not re-negotiate



# Quick Timeline



**Step One:** Search  
**Step Two:** Seller discussion  
**Step Three:** Business analysis  
**Step Four:** Valuation

**Step Five:** Negotiation  
**Step Six:** Agreement  
**Step Seven:** Closing

\*Where does Due Diligence fit in?



# Timing



- Generally a finite period defined in the PA
- Larger deals have DD through to closing



# Closing Fast



- This is the “last frontier”
- Do NOT be bullied
- It’s the time to get answers NOT to produce MORE questions
- Uncertainty causes deals to collapse
- Two strategies – extend or set expectations



# Docs are EVERYTHING



- Provide sellers with the docs required
- Clock doesn't start until you have what you need
- It's time for proof– not “smoke & mirrors”



# How much time to you need?



- 20 business days
- Extend if necessary
- No hard rules per se



# Language for Agreements



- Never allow the 5/10% rule
- For any reason whatsoever
- Protecting your deposit



# Investigating the...Financials

- Review the numbers yourself before bringing in professionals
- Numbers don't lie
- It's reconciliation NOT an audit
- Your accountant needs to validate the paper trail
- Look for inconsistencies
- Your accountant is not the one who will question irregularities



# Investigating the....Assets

- Useful life
- Replacement costs and when
- Adjusting any Depreciation Add-Back
- Inventory – good and resalable and how to determine
- Inventory IS negotiable



# Investigating the....Systems



- State of the art or antiquated?
- Sufficient?
- Cost to replace and can you do it?



# Investigating the...Customers

- Who are they?
- Why they buy?
- Can they easily move elsewhere? Will they?
- Any concentration issues?
- Seller > Customer relationship – should you be concerned?



# Investigating the....Suppliers



- Reliance on any key vendors
- Nature of relationship
- Who holds the leverage...really?
- Contracts are usually meaningless



# Investigating the...Industry



- What is really happening?
- Associations have great research
- Call ad reps for industry publications



# Investigating the...Competition



- What does the seller really know about them – great litmus test to see seller’s pulse on the business
- “I don’t worry about the competition” is no compliment!
- Who are they?
- Why customers buy from them?
- Checking them out – **AGGRESSIVE BUT DISCREET!**



# Investigating the....Employees



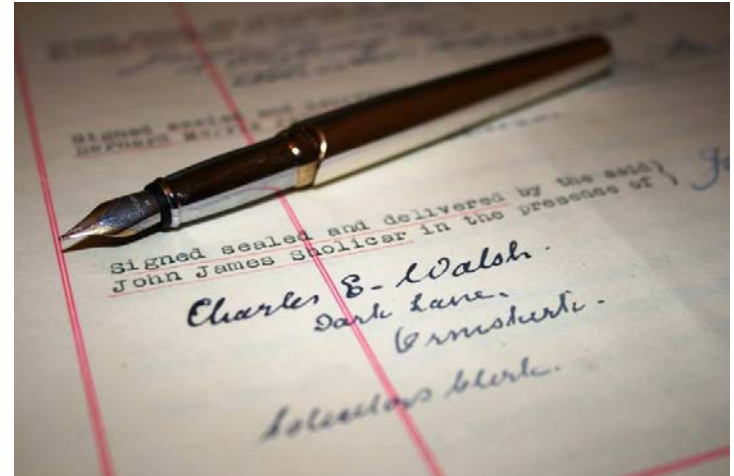
- Need to meet the key ones – if any
- Sandwich makers versus bread winners
- Understand the seller's concerns – may have to be the final contingency
- Ask the seller but formulate your own opinion



# Investigating the Legal



- Lease – the language you need and recent trends
- Licenses – may be more than standard business licenses
- Transfers – What? How? If?



# Sales/Marketing

- One title – two disciplines
- Sales: Who makes the rain?
- Marketing: Who/How customers come through the door
- The value/importance of the Seller's relationships/know-how



# Dealing With Issues

- Incidents versus catastrophes
- Build your case over time
- Renegotiating the deal may be necessary
- Extensions may be required
- Leap of faith is suicide – must be a calculated decision based upon proven data



# Final Considerations

- Why 50% fall apart
- Preparation is the key!
- This is not a hand-off to your professionals



# Thank you for Attending



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