

M&A Nuggets: Know Your Buyer

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Many times, a business seeking to sell is in discussions with the wrong buyer – a mismatch. Negotiating with a mismatched buyer can be a waste of time, money and resources and lead to either the demise of a potential transaction or a transaction taking longer with much greater effort, all of which could have been avoided. It is therefore very important that a seller conduct its own due diligence on potential purchasers. This due diligence should include the following:

1. Checking the background of the owners of the potential purchaser – in conducting this check, treat the owners as you would a job applicant;
2. The potential purchaser's experience in the M & A arena – has the potential purchaser acquired any businesses?
3. The potential purchaser's finances – requests should be made for the potential purchaser's financial statements and for evidence of the source of its purchase price funding;
4. References – ask the potential purchaser for the names and contact information of the owners of other companies that have been acquired and contact those references;
5. NDA – insist that any potential purchaser sign a non-disclosure agreement up front. Any reluctance to do so should be a warning sign;
6. The potential purchaser's objectives – obtain a clear understanding of the purchaser's objectives, which can vary greatly depending upon whether the purchaser is strategic or financial; and
7. Time Frame – ask the purchaser for a definite time frame in which it anticipates closing the transaction. A reluctance to state a time frame could indicate that you are dealing with a purchaser which is always exploring but never willing to commit.

By following the above suggestions, a seller can go a long way to assure that its purchaser is a match.

If you have any questions about this or any other M&A issue, please contact Glenn Solomon at gsolomon@offitkurman.com or 443-738-1522.