

CHECKLIST – BUYING A BUSINESS

The following will provide a guide when looking at buying a business (franchise or non-franchise businesses):

1. Summary of your Outcomes;
2. Detailed Process Review.

1. Summary of your outcomes

	✓
Brief description of the business activities and reason for sale	
Analysis of critical success factors and KPIs of the business	
Assessment of markets including business and industry risks	
Management style, strengths and weaknesses. Industrial relations and employment issues generally	
Comment on property, plant and equipment and assessment of capital expenditure requirements	
Assessment of reasonableness of projected earnings and payback period, and other assumptions in the feasibility study	
Confirmation (or otherwise) of the validity of the assumptions used in the feasibility study	
Summary of historical trading results with detailed plan (with assumptions) to reconcile to forecast trading results. Detail worst case / most likely / best case scenarios	
Areas requiring attention and action to be taken in connection with the transaction and those to be addressed post acquisition	
Quality and reliability of existing management information and integration with the reviewer's information systems	
Commentary on the appropriateness of the proposed structure	
Summary of the current tax position	
Summary of any major legal issues eg. in relation to ownership and/or contractual rights and obligations	
Summary of significant risk management issues eg. industrial relations environmental, OH&S, workers compensation, technology change, political risks, contingencies, industrial relations	

2. Detailed Process Review

a. Business and Markets

a.i History and business overview	✓
Key milestones in company's recent history. Changes of ownership since inception. Reason for sale	
General nature of current operations and recent changes or significant transactions	
Brief description of group structure; capital structure; note of major shareholders, options, dividends	
Brief description of existing debt structure; borrowing covenants	
Ownership and use of property (including intellectual property) such as trade marks, know-how and current R&D activity	
Any significant transactions with related businesses	
Understanding the businesses and senior managements standing in the industry and community and any breaches of ethical standards	
Government, or other, regulatory requirements for the industry	
Identify key strategies and critical success factors	
Identify the companies principle advisers and recent correspondences	
a.ii Markets and competitors	✓
Principal products, markets, customers and competitors	
Comment on the validity and quality of data on which the assertions in the feasibility study are based	
Highlight factors that may impact on these assertions and the likelihood/probability of them occurring	
Highlight any pertinent new information gathered in the due diligence process which has not been referred to in the feasibility study	
Understanding key sales contracts and dependencies	
Trade reputation in the marketplace	
Understand trends in market / industry and impact on level of business	
Consider recent press relating to the company / industry / competitors / suppliers	
Identify potential issues with ACCC (or equivalent)	

a.iii Sales and marketing	✓
A brief overall picture of the selling organisation, including channels for distribution (including related cost)	
Use of selling agents, including terms of appointment and remuneration	
Customer service history and KPIs	
Broad analysis of sales and margin by product, by major customers and by geographical market and recent trends	
Particulars and risks of any major supply arrangements/contracts	
Factors impacting selling prices eg. volatility of sales price discounting and price controls (history)	
Whether sales are susceptible to changes in fashion or the possible introduction of new technology or legislation	
Impact of any seasonal or cyclical features	
Review customer service levels / complaints / returns	
Use and commitment to advertising and sales promotion methods to procure business, including any unusual terms of sale (spend / impact)	
Requirement / dependency on product development and rationalisation. Result / cost of past initiatives	
Discount and rebate structures	
Royalty / licence agreements	

a.iv Logistics and distribution	✓
Total distribution, transport and warehouse arrangements and costs	
What contractual arrangements exist, formal or otherwise?	
Are these contractual arrangements performance based or somehow related to results produced?	
Is there a set of KPIs which can be mutually agreed, accurately produced, and form the basis of the performance based contract?	
Are costs clearly stated, either via a rate schedule or by a set of commercial KPIs which demonstrate target costs levels and progress against those targets?	
What software systems are in place and ACTIVE, not proposed, are these systems adequate, what are the plans for the future?	
Is the logistics provider capable of providing the service, cost reductions, technology, have the resources, and is it financially viable for the future needs of the business?	
What is its track record, references from other clients, success stories?	

b. Operations

b.i Production	✓
General description of the manufacturing processes highlighting the important factors (eg know-how, skilled labour, capital investment, etc)	
Production scheduling issues such as lead time for production, total cycle times, quality control and stock holding policy and history	
Estimated capacity of the factory; scope for utilisation of spare capacity or increasing capacity; quality of plant and equipment; efficiency of equipment	
Comparison of technology to existing technology in the industry	
The relationship between fixed and variable costs in the total unit cost of manufacture	
Nature and amount of work subcontracted to outside firms	
History of major risk incidents eg. fire, explosion, insurance claims	
Understand production yields / variances	

b.ii Supplies	✓
Raw materials used; principal suppliers and their origin, stability of prices and security of supply	
Any significant forward purchase commitments and length of lead times	
Rate of applicable import duty and any special settlement terms	

b.iii Premises	✓
Description of main premises; freehold or leasehold; particulars of leases (including dilapidation clauses, options to renew, rent reviews); general condition and deferred repairs; fire / burglary protection systems	
Location of factories, administrative, computing centres and selling offices or depots	
Validation of feasibility study assertions regarding the potential for cost savings through rationalisation of space and/or energy savings and/or expansion	
Validate any professional independent valuations (including date, name and qualifications of valuer and basis of valuation)	
Highlight impact of any planning restrictions or approvals required for operating the present sites eg government regulations/licences not considered in the feasibility study	

b.iv Plant and other equipment	✓
Description of the main categories of plant and equipment	
Age and apparent condition of the plant	
Certification to any ISO Quality or environmental standards	
Highlight any obsolete plant including costs of disposal	
Details of any recent revaluations	
Review costing for major plant on order; where from, expected delivery dates and related import duties	
Ensure any future capital or upgrade requirements are identified	
Ensure adequate provisions are made for project management cost variations and up-front expatriate costs in the feasibility study	
Details of maintenance programs / agreements	
Details of lease and / or hire purchase agreements	
Ensure future capital requirements are identified	

b.v Occupational Health and Safety	
Consider health screening at acquisition date.	
Status of workers' compensation claims?	
What has been the work's compensation history of the company?	
What is the rate of absenteeism?	
What is the frequency of lost time accidents?	

b.vi Environment	
Review company's environmental policy, compliance programme and environmental management system	
Review internal and external (third party) environmental audit reports covering the last five years and any environmental impact studies	
Evaluate the company's disaster and emergency response procedures	
Detail any past and/or present significant contamination of sites, and associated liability or potential liability of remediation (including, but not limited to, pollutant spills, waste deposits and fire incidents)	
Is the property or any adjoining property recorded on any Government register of contaminated land or its equivalent?	
Provide details including existing report on any underground storage tanks, asbestos, unexploded ordinance, polychlorinated biphenyls (PCBs) and persistent pesticides on site	
Do the existing operations on the property comply with current regulatory permits and licensing?	
Details any existing or impending environmental litigation and related potential financial penalties. Provide details of penalties, orders or settlements in the past three years	

Details all effluent treatment, waste disposal and production sterilisation processes used by the company	
Provide details on any significant costs associated with correcting environmental non-compliances or potential non-compliance (such as, but not limited to, the installation of effluent treatment or odour control facilities)	
Are any dangerous or hazardous goods stores on site and, if so, provide a description of these and details on their storage, (particularly segregation, separation, containment and any special arrangements such as a flammable liquids store)	

c. People

c.i Management	✓
Describe the organisational structure and desired changes	
Detail qualification and experience of key personnel including unique / critical skills	
Comment on existing management structures, style / culture and need for management resources post acquisition. Consider past ethical standards	
Confirm the feasibility study assertions regarding present salaries and other forms of remuneration and compare to market	
Details of any service agreements / contracts (written or implied) including notice periods / exit cost	
Degree of involvement in the business of directors and associated risks	
Review appropriateness of intended appointees to the business and other succession plans	
Summary of transactions with directors, including disclosure and legality	
Consider related party transactions and staff loans	
c.ii Employees and staff	✓
Details of key staff and employees	
Number of employees at each main factory and office analysed by departments. Consider under / over manning	
Present salaries / rates of pay, incentive structures and enterprise agreements relative to market	
Comparison of the above to the assertions adopted in the feasibility study. Impact of reorganisation	
Labour relations, strike experience, absenteeism and other disturbances. Any outstanding grievances / demands	
Recruitment policy and general availability of labour; staff turnover	
Scope for rationalisation of staffing levels and associated costs	
Details of productivity, morale and commitment including overtime / shift patterns and utilisation	
Safety record: workers' compensation claims history and currently open claims. LTI trends	
Consider employee mix – skills / gender / minorities / unionised / EEO	

d. Trading Results and Projected Cash Flows

The following is a summary of the principal information generally required which would usually cover a three to five year period.

d.i Overall financial control	✓
Outline of budget preparation and any longer term financial planning	
Management reporting of financial results (eg. management accounts) compared to reporting systems	
Review KPIs against best practice – Benchmarks	
Consider opportunities for improvement / synergy	
Consider integration to chart of accounts	
Review operation of key controls	
Procedures for monitoring actual performance against budgets and plans and responsibility for variances and revisions to forecasts	
Procedures for reporting, controlling and forecasting working capital levels and cash flows	
Evidence of any “facilitation” or other illegal payments by the business	
Detail the role of internal audit including the level and quality of staff used	
Review recent internal and external audit reports	

d.ii Underlying accounting policies and bases	✓
Review accounting policies and practices, especially intangibles, leases, LT contracts, deferred expenditure, their appropriateness and any changes during the period	

		✓
	d.iii Past trading results	
Sales	trends, order book, long term contracts, discount / rebates	
Other income	details of royalties, management and technical fees, service fees, rents, income from trade and other investments, interest receivable	
Cost of sales	analysis of material, labour and production overhead costs. Review of standard or other costing procedures, accuracy of management accounts	
Gross profits	percentage margin on sales, explanations for variances in margins, method of spreading profit on long term contracts; sensitivity analysis of gross profit to selling price changes (including currency effects), and to price changes of major material and other input costs	
Overheads	analyses by main categories, trends including royalties, administration, consulting, one offs	
Break-even point	subdivided by major product or division	
Dep'n and amort'n	basis, rates, effect of any revaluations	
Interest	analyse interest; effect of interest rate management techniques	
Taxation	effective rate of tax and reconciliation to standard rate; reasons for high / low rates of charge; analysis between current and deferred taxation; tax losses	
Extraordinary items	details of past items, review appropriateness of treatment	
Appropriations	dividends on all classes of capital, cover for dividends, any other appropriations during the period; any restrictions on distributions	
Inter-company	treatment of profits and charges	
Related party transactions	extent and effect on results of transactions with any businesses connected with shareholders or management	

	d.iv Cash management and cash flows	✓
	Description of the business's cash management process; working capital policy; cash budgets; detailed forecasts	
	Assess accuracy of previous cash budgets and forecasts	
	Analyse inflows and outflows under headings of operating activities, investing activities and financing activities	

	d.v Segmental analysis of trading results and cash flows	✓
	Allocation of central overheads; extent of management charges between parent and subsidiaries; geographical analysis of profits	
	Segmental, divisional and/or product group analyses of cash inflows and outflows; geographical analysis of cashflows	

d.vi Projected cash flows	✓
Detail by way of specific initiative how past record will translate to projected result	
Comment on credibility of the assumptions and bases used	
Sensitivity analysis of key assumptions used	
The extent to which the forecasts are in line with the business's strategic planning	
Review of order book; comment on prospects and on any recent changes to them	
Significant business risks and opportunities which might affect the forecasts or projections; identification of synergistic benefits arising from the proposed transaction	
Existence of group central services which may need to be replaced	
Outline any contingencies included in the forecasts or projections	
Adequacy of working capital in the light of projected activity levels and effectiveness of current working capital management procedures	
Adequacy of capital expenditure in the light of projected activity levels	
Identification of non-recurring material items affecting projected cash flows	
Remittability of profits retained overseas	
Review of debtor days, stock turnover and other key ratios	
Seasonality of cash flows and identification of peak requirements	
Where valuation models are prepared on the basis of projected cash flows ensure consistency in the valuation of these cash flows eg. where projected cash flows are prepared on a "real" rather than "nominal" basis ensure a "real" discount rate rather than a "nominal" discount rate is applied	

e. Assets and Liabilities

This section would normally review of the net assets at the latest month balance date or as described in the purchase agreement. Care should be taken of any balance sheet fixing around the review date.

e.i Segmental analysis of net assets	✓
Net assets should be analysed by class of business and geographic location, on a basis compatible with the analyses of sales, gross profit and cash flows	
e.ii Tangible assets	✓
Reconcile Fixed Asset register to general ledger	
Summary of cost and depreciation of main categories and basis adopted for providing for depreciation / amortisation	
Particulars of any recent professional independent valuations and comparison of depreciated historical cost amounts and revalued amounts including insured values and terms of cover. Determine treatment of reduction increment / decrement	
Review of appropriateness of depreciation rates used and methods	
Evidence of ownership / title of tangible assets, including land and buildings, etc	
Comparison of net book values and tax written down values of assets eligible for capital allowances	
Any contingent liabilities for repayment of grants on change in ownership of the business and any large capital commitments	
Details of any physical verification exercise performed by or for the reviewer and apparent state of maintenance	
Site all significant assets	
Any equipment specifically designed for its present use; any specialised land and buildings which are of a size, design, arrangement or geographical location which would make alternative use, sale or valuation difficult	
Details of land surveys and certificates of compliance	
Identify leased assets and liability	

e.iii Intangible assets	✓
Particulars of important brands, patents, trade marks, copyright, designs, secret processes and details of registration and life	
Review carrying value and recent valuations	
Details of any research and development costs capitalised and amortisation period	
Details of goodwill; how acquired	
Details of technology licences; exclusivity arrangements; restraint of trade covenants. Review legal title	

e.iv Trade investments (in associated businesses / subsidiaries)	✓
Date purchased; cost and particulars of holding; percentage of equity held	
General review of underlying assets and attributable profits obtained from latest accounts and verify as appropriate.	
Present market values; recent directors' valuation; future prospects	

e.v Stocks and work in progress	✓
Details of basis adopted for valuing stocks, especially the inclusion of overheads (consider variances to standard)	
Review of any long term work in progress and basis for taking profit	
Methods used in arriving at stock quantities; adequacy of cut-off procedures	
Describe methods of stock control and ascertain when the last physical inventory was undertaken	
Are cycle counting procedures in place?	
Review history of stock adjustments	
Methods adopted for providing for slow-moving and obsolete stocks; adequacy and consistency of provisions	
Rate of turnover of constituent categories (no. of weeks on hand)	

e.vi Debtors	✓
Approximate number of accounts and exposure to major balances	
Analyses between domestic and export debtors	
Usual terms of credit given; details of discount policy; average debtor days	
Credit control methods; credit insurance and debt factoring arrangements	
Age analysis of debtors; details of the bad debt provision and bad debt experience; review and analyse any disputes	
Review debt profile for changes in recent months	
Review of other main debtors and prepayments	

e.vii Investments, deposits and cash	✓
Particulars of holdings and book and market values, including surrender values of insurance policies held and commitments (calls) / charges related to investment	
Details of income and interest received	
Summary of main bank accounts	
Details of set-off arrangements and any other restrictions / covenants	
Detail any outstanding loans (including related parties) and related interest rate	

e.viii Creditors and borrowings	✓
Approximate number of trade accounts; details of larger balances and usual period of credit allowed / taken	
Analysis of other major creditors and accruals; deferred income	
Details of bank facilities, including borrowing limits, rate of interest charged and security given	
Lease and hire purchase agreements, guarantees, contingent liabilities, discounted bills	
Amount of longer term unsecured and secured borrowings or debentures, dates of repayment, currencies, interest rates, security, borrowing covenants and details of any conversion options; details of any cross default clauses or negative pledges	
Analysis of any deferred consideration on previous acquisitions	

e.ix Provisions for liabilities and charges	✓
Basis of providing deferred taxation, analysis of amounts provided and full potential liability	
Details of unfunded pension commitments; bases of providing and of funding	
Analysis and basis of provisions for future costs, eg warranties and guarantee costs; past experience of warranty and guarantee costs	
Details of any other provisions and extent to which balances will be utilised	

e.x Taxation	✓
Particulars of liabilities; stages reached in negotiation with domestic and foreign taxation authorities; details and scope of last audit/investigation by taxation authority	
Particulars of important matters in dispute; tax audits; potential problems for periods not yet agreed	
Comments on adequacy of overall provision; estimated deficiency or surplus	
Details of losses and allowances available to carry forward and of any available reliefs not yet taken; effect on potential deferred tax liability	
Extent to which tax planning schemes, anti-avoidance or other unusual arrangements have been used in the past and assessment of any resulting potential exposure	
Review of status of sales tax and other indirect taxes (including details of last audit by taxation authority)	
Other tax issues: foreign subsidiaries, transfer pricing	

e.xi Share capital and reserves	✓
Summary of current authorised and issued share capital including an analysis of shareholders	
Rights of each class as to dividends, votes, conversion, liquidation and redemption	
Employee share option and ownership schemes	
Particulars of share premium accounts, capital, revaluation and other reserves; restrictions on distribution of reserves	
Review transactions taken direct to resources rather than through profit and loss	

e.xii Contingent liabilities	✓
Unusual items in memorandum or articles of association including borrowing powers, pre-emptive rights and change of control / ownership rights	
Details of other borrowing limits and of any possible events of default	
Bank / other guarantees and indemnities, performance bonds, letters of credit, discounted bills of exchange, etc	
Review contingencies for any off balance sheet or financial engineering schemes	
Consider any contingent liabilities which may exist/may have been assumed in relation to past takeovers made by the target business	
Extent of deferred or contingent consideration for previous acquisitions	
Potential workers compensation liabilities	
Environmental protection: compliance with legal requirements, investigations carried out, possible site pollution, local complaints, production processes and products, geotechnical surveys	
Product warranties	
Product/health risks to employees, users and handlers	

f. Specialist Issue

f.i Information systems and management information	✓
Nature of information systems; general reliability and efficiency; scope for computerisation and how information systems function can be integrated into acquiring company	
Summary of reporting guidelines; usefulness of management information, budgets, management accounts, etc	
General outline of any costing system in use, integration with financial accounts, adequacy and reliability and consistency with acquiring company costing methods	
Identify short and long term software and hardware plans; ascertain how much is spent on information systems currently and future expectations	
Ascertain adequacy of internal controls including backups / disaster recovery	
Computer contingency and business continuity planning undertaken	
Determine right to source code and licensing of software	
f.ii Tax considerations of the proposed transaction	✓
Tax position of parties involved	
Review payment history	
Tax considerations investigated: <ul style="list-style-type: none"> • purchase of assets rather than shares • availability and likely useability of tax losses • mitigation of stamp duty • group considerations • availability of franking credits 	
Consider any direct tax obligations/exposures	
Consider recent audit history	
Intended changes prior to acquisition: eg dividend stripping, share capital reorganisation or reconstruction, assets/liabilities to be transferred	
Indemnities recommended from vendors, including sensitive taxation matters	
Contingent liabilities re: capital gains tax	
Steps necessary to maintain continuity of trade for relief of tax losses	

f.iii Treasury	✓
Organisation of treasury function	
Summarise borrowings / loan / rates / payment schedules / lines or credit / other facilities	
Review of treasury management function and procedures, management of foreign exchange and interest rate risks, use of futures markets and investment policy	
Foreign currency: general policy on hedging transactions, translation differences, details of current positions (whether open or hedged) including instruments used and items hedged	
Interest rates: general policy on hedging / fixing interest rates; details of current positions on assets and borrowings	
Use of futures / forward markets; financial instruments; financial engineering schemes	
Investment policy	
Intended changes prior to acquisition: restructuring of borrowings; impact of dividend payment / capital reorganisation	
Consider issues which may impact on debt / equity funding decision (eg ability to remit dividends/interest to head office, withholding tax issues, etc)	
Consider any off balance sheet financing arrangements	
Determine any guarantees / covenants	

f.iv Legal	✓
Details of both written and unwritten contractual obligations eg. supplier, customer and technology agreements	
Extent and implications of any limitations on the transferability of such contractual obligations under a change of ownership	
Terms of any Sale and Purchase Agreement including warranties and indemnities and their appropriateness	
Review of document register for original contracts, original title documents eg shares, debentures etc	
Determine obligations under finance and operating leases	
Review licences / patents / tradenames / contracts / guarantees / encumbrances	
Correspondence with solicitors regarding past outstanding, pending or threatened litigation	
Ascertain internal and external legal costs during the past several years and reasons for major fluctuations	
Consider adequacy of statutory registers	
Identify power of attorneys	
Confirmation, by reference to public record, that all requisite documents appear to have been filed	
Review of compliance with any legal requirements on maintenance of accounting records	
Material contracts in the past two years other than in the normal course of business	
Government / regulatory body requirements (eg manufacturing / import licences)	

Review of company's statutory books and minutes of general meetings and directors' meetings for any significant matters not discussed elsewhere	
Details of any commitments of the company which have been contracted and authorised by the Board	
Determine status or regulatory approvals	

f.v Insurance	✓
List all current insurance policies and the policy terms including any ceilings that exist for earthquake damage or other damage. Consider adequacy	
Detail any major claims that have arisen over the past three years	
Detail annual cost of insurance for past three years	
Identify major risk exposure of this business eg: <ul style="list-style-type: none"> • supply • manufacturing • marketing etc 	