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Selling a Business: How Proper Due Diligence Can Help Close the Deal, Ga. Association of Business Brokers Panel

Selling a business is much easier when business owners have accurate and organized records, say two Georgia financial experts. They will discuss how due diligence can help or hinder a business sale during the Nov. 30 meeting of the Georgia Association of Business Brokers.

GABB affiliate members Greg DeFoor, a CPA in Powder Springs, Ga., and Roswell management consultant Joe Dresnok will discuss ways business owners can ease the sale of their business through proper due diligence. GABB Secretary Dave Chambless will moderate the discussion, which will occur during the 10:30 a.m. Nov. 30 meeting of the GABB, Georgia's only professional organization and Multiple Listing Service dedicated to buying and selling businesses and franchises, is free and open to the public. The meeting is preceded by a complimentary networking breakfast at 9:45 a.m., and will be held at the South Terraces Conference Center, 115 Perimeter Center Place, Atlanta, GA 30346.

“Due diligence is about getting to the truth, the whole truth, and nothing but the truth,” says Dresnok, founder and president of Management Horizons, Inc., in Roswell, Ga. “This information is critical for the buyer to evaluate the value of the transaction as well as the buyer's suitability to successfully own and operate the business,”

A due diligence review collects and verifies all relevant information regarding past performance, trends, and positioning for the future for the subject business. Incomplete or inaccurate information revealed during the due diligence phase can doom a sale, says DeFoor, a forensic accountant and Certified Fraud Examiner.

The pitfalls, and how to avoid them, include:

Poor, incomplete or disorganized records, making the seller unable to readily ascertain the true income, costs of sales, and expenses of the business. Before putting a business up for sale, owners must put their books and records in order, keeping detailed records and detailed notes of any discretionary or unusual expenditures. Organized financial documents will also streamline the ownership transition process after closing.

Fudging the Bottom Line – Some sellers try to make the bottom line what the owner wants it to be instead of what it actually is through deferring expenses as prepaid items and recognizing unearned revenue.

“When discovery of a material fact is found during due diligence instead of disclosed up front, it not only jeopardizes the deal and leads to the buyer wanting to re-negotiate the price and terms or back out completely, it also decreases the level of trust the buyer has in the seller,” says DeFoor. “When that trust is compromised by non-disclosure on the part of any party to the transaction, that lowers the chances that the deal will close.”

Commingling personal and business items: This can make it difficult to clearly identify and separate the personal items. Business and personal expenses should always be kept separate.

Recent negative trends: Any business changes that have negatively impacted the future bottom line and cash flow of the business can hurt a sale. “Bad news or negative trends can often be overcome if the information is detailed, documented, and accurate,” says DeFoor.

Due diligence can also benefit sellers, says Dresnok, and make the offering package more accurate and informative.

“We have had occasions where information that is favorable to the buyer was not disclosed, yet is part of the transaction,” says Dresnok. “One example included a stack of undeposited checks that were included in the sale, but had not been disclosed to the buyer.”

“The most important thing a seller can do is to provide full communication and disclosure of everything the buyer needs to know about the business as part of the buyer's decision process,” says DeFoor.

Also critical is communicating with the business broker representing either the buyer or seller, who can help resolve issues that might thwart a sale.

“A close liaison and communication with the broker that introduced us into the transaction affords the broker the ability to manage the issues to resolution among the other deal participants,” says Dresnok. “We also find that the lenders have increased confidence in financing the buyer when the buyer has taken the step to engage a due diligence review.”

An experienced GABB business broker can help a buyer find businesses for sale, evaluate the business, negotiate a fair price and obtain financing. A broker can help an owner evaluate and price a business, market and advertise to prospective buyers, negotiate and close a deal. The GABB Web site lists hundreds of businesses for sale throughout Georgia, as well as around the country.