

# DIS-Qualifying Companies = Better Acquisitions

When you actually get involved in pursuing a company purchase, you quickly realize that your success rate of finding your “ideal” company to purchase is a direct result of your ability to effectively locate viable potential acquisition candidates and cost effectively DIS-qualify them via your own, “well honed” business purchase criteria checklist.

One of the first things you want to do in the development of your business purchase process is establish a list of “initial” DIS qualification questions for use with business owners.

We use the term disqualification because you clearly throw away a lot of hay to get to the needle in the stack! This list of questions will add a tremendous amount of efficiency to your business purchase methodology and make the job of your merger and acquisition intermediary of choice much easier.

For simplicity of use, we have listed our most practical questions categorically. You are encouraged to edit, add or delete any of our listed questions. Our list of questions cover many fundamental business attributes, but not many of the subjective benchmarks to be considered in any business purchase disqualification process. Again, you can add whatever number of questions that correlate to your own personal purchase criteria or preferences, business experiences, knowledge and risk/ reward tolerance levels.

## **Suggested Initial Acquisition Qualification Questions:**

### INITIAL / BASIC QUESTIONS:

- Why is the business for sale?
- How long has it been for sale?
- Has there been other formal purchase offers made to date?
- Will the business sale include any transfer of real estate?
- What is the ownership structure of the company?
- How is the company legally organized?
- Who with the business will be involved in the negotiation of the sale?
- What are the owners desired transition plans?
- Is senior management willing to stay and invest in the new company?
- Does a new company leader candidate exist in the company now?
- Who knows the business is for sale? How confidential is this subject?
- Is there any known outstanding litigation or environmental concerns?

### BUSINESS PROFILE QUESTIONS:

- Are all products manufactured “in house”?
- What % of products or services are “custom” or “made-to- order”?

- Is there proprietary technology?
- Any protected technology or patents, existing or pending?
- How many full time employees?
- Locations of all office/ manufacturing sites?
- Is the labor force organized in any form?
- What are the financial/ technical barriers to entry of this business?
- Are there purchase contracts? If so, are they assignable?

#### FINANCIALS:

- What financial information is available?
- Income statements and balance sheets for last 3 years?
- Are the company's financials audited, reviewed or internally compiled?
- Are the inventory and accounts receivable in a healthy status?
- What is a replacement cost estimate for the fixed assets?
- Are there forecasted financial performance documents?

#### MARKETING AND SALES:

- Assuming investment, how can the business be doubled?
- How are products sold? Direct? Agents? Distributors?
- What % of revenues are domestic?
- What % of total revenues are from the top 5 customers?
- What is the company's estimated market share?
- Who are the primary competitors?
- Are there noteworthy new products being developed/ introduced?

#### TERMS:

- What is the current business valuation? How is it defined?
- Will the owner(s) carry a note?
- Will the owner(s) also accept an "earn-out" portion?
- Is the owner willing to re-invest in the new company?

It is important to define early on in your business purchase process what your most critical business purchase criteria are and what attributes of a company are "deal makers" or "deal breakers". Companies with noteworthy attributes that did not make your critical attribute filter list will have to be evaluated on their own merits.

You will find that once you are actively involved in finding your “ideal” company to buy that every purchase candidate is different and each purchase opportunity you initially disqualify with this list will generate another disqualification question you did not think of before. Disqualifying acquisition candidates is truly an iterative process. There are no standardized procedures or required evaluation sequences in this initial step.

Take the time and effort to develop and write your own business disqualification questions. The return on your time invested in development of a tool of this nature will allow you to look at more potential deals in less time.

Finding business purchase candidates is also very critical to meeting your acquisition objectives. Locating companies that meet your EXACT purchase criteria is a major challenge. Also investing the time and effort to generate quality acquisition candidates cannot be over emphasized. Creativity, discipline and tenacity will yield you the best results.