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**Buyer Due Diligence
– A Lesson for
Sellers**



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Opportunities**



BRE #01160661

Buyer Due Diligence – A Lesson for Sellers



**by Don Baum
BTI Group**

As business brokers at BTI Group, we see all kinds of transactions get sidetracked for a variety of reasons. Most deals fail at the due diligence or financial confirmation stage of the transaction. In today's world of electronic record keeping, only an ill-prepared Seller fails to track the actual level of business sales, profit, cash flow and equity their business produces. Once transaction-specific economics are hammered out in a negotiated purchase agreement, often the advertised performance of the business is not confirmed to the buyer's satisfaction from the business' financials. Too many surprises are found in the due diligence process.

Professionally, this is both frustrating and surprising. Sellers typically produce all kinds of accounting and tax records as part of their offering preparation. However, CPA-approved tax filings are often materially different from the operation-level book entries of that business' daily accounting practices. Bridging that gap—transparently—is essential to enhancing any business' value. An inability to confirm income dooms all transactions! Sellers looking to enhance their business value must be prepared to demonstrate, with accurate financial records, their advertised income and most importantly, their actual profits.

Most established businesses today have some form of computer-generated cash management and bookkeeping records for day-to-day operations. A prepared Seller shares up-to-date financial information so a qualified Buyer can track each deduction and add-back on the financial Recast, tracing income and expenses from initial journal entries to the Seller's Federal tax documents. Nothing erodes a Buyer's confidence like a Seller who is unable to coherently document their earnings.

In addition, an unprepared Seller has really missed an opportunity to manage the presentation of their business financial performance to the marketplace. As the saying goes, you only get one chance to make a great first impression. Once a prospect is identified and receives offering materials, impression management is critical to converting the prospect into your business buyer. The ability to easily verify financial performance for the business is paramount to creating a smooth transaction. A Seller and Broker, working together, can run a variety of reports over various time periods, with trailing or projected financials, to determine how best to present the economics of the business opportunity to the marketplace. This is the Seller's opportunity to highlight financial strengths and mitigate any perceived weaknesses. In our experience, how business financials are presented greatly impacts all sales efforts. Be sure not to confuse the ability to generate and present various financial models based on the actual financials with any type of data manipulation, an absolute no-no!

The prepared Seller, working with his Broker, makes verifying advertised financial performance a "check-the-box" diligence item for the Buyer, once the deal is under contract. By preparing in advance for the kind of inquiries and "drill-down" investigation a genuine Buyer will undertake, a Seller can greatly enhance the value of their business enterprise, as well as increase the likelihood of executing their exit strategy for maximum value.

Bonus: QuickBooks - Top Nine Reports

QuickBooks is likely the most popular entry level accounting software in use for many businesses. In addition to three years of filed, Federal Tax Returns, at BTI Group, we

also like to acquire the following QuickBooks “Top 9” files:

1. Balance Sheet Summary: A “snapshot” of the business financial position at one point in time. This report helps analyze the following accounts:
 - a. Receivables: Are they increasing in proportion to Sales?
 - b. Payables: Are they increasing or decreasing? Are there cash flow risks on operations?
2. Profit & Loss Summaries: They contain the most basic information on the financial health of the company. It compares Cost of Goods Sold and Expenses and Overhead calculations, when comparing one to another over time.
3. Accounts Receivable and Accounts Payable Aging Summaries: The longer the collection cycle, the less perceived durability in the income stream and a lower valuation multiple.
4. Sales by Customer Summary: You can redact portions of the customer list. This report provides great insight into how you get your money.
5. Expenses by Vendor Summary: Again it can be redacted and similarly provides great insight into how you spend your money.
6. Open Sales Orders and Open Purchase Orders: Timing of Customer Delivery and pending Inventory information is vital to understanding business and operating cycles.
7. Pending Sales and Open Sales Orders by Customer: Great to help understand who and what are in the business pipeline.
8. Outstanding Checks Report. Any big ticket payments outstanding?
9. Sales by Representative: This report gives a great perspective on the key sales personnel driving the business, assuming an equitable plan is in place for identifying the real business drivers.

At BTI Group, we work hard to help Sellers prepare their financial records well in advance of a real, qualified Buyer interest. Part of our job as mergers and acquisitions intermediaries is helping our clients make a good market impression, thus accentuating value. We partner with our clients to ensure the ability to transparently document the advertised financial performance, including Seller’s Discretionary Income. A Seller’s ability to confirm their earnings to worthy Buyer prospects and potential finance sources enhances the Seller’s chances for securing a successful and profitable business divestiture.

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Professional Affiliations:

State Bar of California, California Real Estate Broker, CABB, IBBA, The Elks, Olympic Club, Tiburon Peninsula Club, Charlevoix Rod & Gun Club

Background/Experience:

Don brings a wealth of negotiation and closing experience to help clients in the merger, sale or acquisition of businesses throughout California. A licensed broker, attorney and Certified Business Broker with expertise in accentuating value of ongoing operations, Don has helped negotiate and close over \$1B in successful transactions over his career. Don remains an active investor himself, providing invaluable insight and acumen essential to his ability to assist clients in their business and investment endeavors. What can Don and his team do for you?

Recently Sold

Industry	Sale Price	Industry	Sale Price
Tree Service	\$340K	Commercial Lot	\$38K
Pet Ranch	\$120K	Liquor Store	\$75K
Relocation Service	\$50K	Home Improvement	\$213K
Collection Agency	\$2.2M	Physical Therapy	\$590K
Manufacturing	\$3.5M	Property Management	\$462K
Body Shop	\$75K	Restaurant	\$270K
Tire and Auto Service	\$245K	Vitamin & Nutrition Shop	\$405K
Hearing Center	\$225K	Electronic Manufacturing	\$1.3M
Music School	\$315K	Thrift Store (Clothing)	\$99K
Auto Service	\$500K	Drug Testing Lab	\$450K
Sports Bar	\$173K	Online Music Retail	\$340K
Laundromat	\$35K	Bakery	\$85K
Flower Shop	\$27K	Mortgage Loans	\$275K
Bar/Life Music	\$89K	Pizza Restaurant	\$55K
Creamery	\$50K	Cafe	\$99K
Dog Boarding	\$325K	Blind Installation	\$35K
Direct Mail Advertising	\$475K	Catering	\$2.3M
Hydraulic Servcie	\$90K	Home Care	\$150K
Limousine Service	\$575k	Environmental Testing	\$440K
Mexican Restaurant	\$130K	Deli Franchise	\$175K
Sports Bar	\$2.1M	Coffee Shop	\$210K
Farm Produce	\$1.8M	Steel Fabricators	\$500K
Gas Station	\$795K	Cafe & Deli	\$55K

Jazz and Blues Club	\$65K	Pastry Cafe	\$120K
Fast Food and Restaurant	\$110K	E-Waste Recycling	\$1.5M
Chinese Restaurant	\$335K	Designer Clothing Retail	\$170K
Motorcycle Dealership	\$311K	Breakfast/Lunch Restaurant	\$119K
Mexican Restaurant	\$190K	Motorcycle Dealership	\$311K
Engineering & Consulting Service	\$900K	Neighborhood Bar	\$195K
Fast Food Franchise	\$85K	Grocery Store	\$1.8M
Paint Store	\$140K	Landscape Material Manufacturer	\$895K
Bakery & Cafe	\$490K	Wholesaler of Promotional Product	\$523K
Grocery Wholesaler	\$1.3M	Power Tool Service	\$68K
Nail Salon	\$41K	Screen Printing	\$800K

[For more selected opportunities, click here](#)

Selected Available Opportunities

Currently over 190 businesses available



Building Services Company

Listing #:8502
 Category:Business (or Biz to Biz)
 Location:South Bay

Gross Sales:
\$1,912,994

Adjusted Earnings:
\$757,424

Asking Price:
\$2,399,000

[Details](#)



Best-of-Breed Fleet/Commercial Truck Body & Paint

Listing #:SF1028
 Category:Body Shops
 Location:Northern California

Gross Sales:
\$4,206,576

Adjusted Earnings:
\$705,632

Asking Price:
\$2,500,000

[Details](#)



48 States Full Service Transportation Company

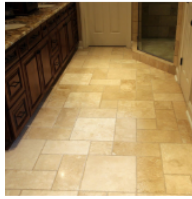
Listing #:LA4012
 Category:Miscellaneous
 Location:Los Angeles County

Gross Sales:
\$6,539,265

Adjusted Earnings:
\$668,875

Asking Price:
\$2,800,000

[Details](#)



**MARBLE & TILE
WHOLESALE / RETAIL**

Listing #:8481
Category:Wholesale & Distribution
Location:Central Coast

Gross Sales:
\$2,654,591

Adjusted
Earnings:
\$623,821

Asking Price:
\$1,800,000

 [Details](#)



**Very Profitable Non-
Union Piping
Contractor**

Listing #:8396
Category:Building and Construction
Location:South Bay

Gross Sales:
\$3,265,921

Adjusted
Earnings:
\$550,658

Asking Price:
\$1,800,000

 [Details](#)



**Stocking Distributor
Niche Products
Electronics**

Listing #:8490
Category:Wholesale & Distribution
Location:South Bay

Gross Sales:
\$7,628,303

Adjusted
Earnings:
\$1,917,013

Asking Price:
N/A

 [Details](#)



**MEAT WHOLESALE -
SALES 25MM+**

Listing #:8338
Category:Wholesale & Distribution
Location:Northern California

Gross Sales:
\$25,336,631

Adjusted
Earnings:
\$1,623,947

Asking Price:
N/A

 [Details](#)



**On-Site Dental
Services Provider
\$1.4M SDE**

Listing #:SF1058
Category:Personal
Location:East Bay

Gross Sales:
\$3,607,623

Adjusted
Earnings:
\$1,456,336

Asking Price:
N/A

 [Details](#)



**Ceramic Parts Mfg. -
Nets \$1.2million**

Listing #:SA3949
Category:Manufacturing
Location:Northern California

Gross Sales:
\$3,972,695

Adjusted
Earnings:
\$1,198,046

Asking Price:
N/A

 [Details](#)

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