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Sell-Side Due Diligence: Maximizing Value in the Sale Process

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The divestment of a business to a strategic or private equity acquirer, either in its entirety or through a “carve-out” of existing assets, is a common path for business owners looking to transition ownership.

The sale process, however, can be complicated and tedious for a seller and its employees. Maximizing value from the sale while also enduring minimal operational disruption can be challenging for a seller.

For a smooth and successful sale process, sellers should consider working with a qualified third-party due diligence provider. The transaction experience and expertise provided by such professionals can better prepare sellers navigating the complexities of the sale process.

What Is Sell-Side Due Diligence?

Sell-side due diligence typically includes a report prepared by a third-party due diligence provider on behalf of the seller. This report provides information and analysis often performed by potential acquirers and can mitigate the additional work buyers will require, limit any surprises the seller may encounter, reduce unnecessary delays in the sale process, and help maximize valuation. The report

includes analysis of financial and operating results in advance of the sale process, with the overall goal of making sure the seller is aware of significant issues and has sufficient leverage to negotiate successfully with potential acquirers throughout all phases of the sale process.

As part of the sell-side due diligence process, the due diligence provider performs the same procedures as potential acquirers. This trial run prepares the seller for what to expect during the buyer’s due diligence process. The process includes financial and operational data that potential buyers may request, questions management can expect from potential buyers, and other critical information a buyer would want to know about the business. The sell-side due diligence process helps sellers identify any potential issues a buyer may find, including financial or accounting irregularities, financial reporting concerns, and any industry-specific impacts to the business’ financial results.

Some specific areas in which sell-side due diligence might prove beneficial to manufacturing and distribution businesses include:

- Understanding of the performance or procurement practices of international operations and entities
- Help in understanding the profitability of products, customers, or locations
- Assistance in establishing a normalized level of working capital required to operate the business
- Analysis of the financial impact of complex or unique manufacturing processes
- Understanding of the pro forma impact of facility, employee, or other structural changes that have occurred in the business
- Investigation of inventory best practices, slow-moving parts, accounting methods, or other industry-specific concerns

Uncovering and further understanding these areas during sell-side due diligence gives the seller negotiating leverage and time to address any issues before engaging in the sale process.

In addition to a third-party report, a due diligence provider also may provide other services throughout the sale process, as required by the seller. These services can include preparation of data-room documents, responding to buyer requests and inquiries, coordinating with other advisers of the seller, and providing insights related to the sale and purchase agreement between buyer and seller.

Benefits of Sell-Side Due Diligence

The sell-side due diligence process can provide confidence to potential business acquirers about a seller. This confidence originates with the financial and operational results the buyer receives from the seller, which are vetted and analyzed by an objective third-party professional. Numerous benefits exist for the seller, too.

Because financial and operational results already have been analyzed by the third-party due diligence provider and provided to potential buyers, buyers may request less information and ask fewer questions of management during the sale process. Essentially, sell-side due diligence does a large part of the work for the seller, and that is why it is so valuable to today's businesses, which often are operating on limited resources and may have neither the time nor the staff to adequately prepare for a sale process.

In addition, a third-party due diligence provider can offer strategic assistance to a seller by communicating trends and profitability changes in the business to potential acquirers and by identifying potential pro forma add-backs (expenses added back to the business' profits). The sell-side due diligence process can preempt problems by revealing any red flags that potential acquirers may identify, which allows the seller's management team to provide thorough explanations that alleviate buyer concerns.

The Sell-Side Due Diligence Process

The sell-side due diligence process includes three main phases:

1. Preparatory phase. During the preparatory phase, the third-party due diligence provider follows similar steps a buyer would be expected to take during its due diligence, including requests for data and questions about significant financial topics that likely would be uncovered during the acquisition process. The due diligence provider also prepares the formal due diligence report at this point in the process.
2. Go-to-market phase. In the go-to-market phase, the due diligence provider may give input into the seller's offering memorandum, working with the seller's financial advisers. The due diligence report prepared during the preparatory phase may be provided and discussed with potential acquirers. Additionally, the due diligence provider can assist with preparing various data-room documents to be provided to buyers.
3. Acquirer assistance phase. When buyers begin to express interest in acquiring the business during the acquirer assistance phase, the third-party due diligence provider can help the seller respond to buyer questions and requests for data or give advice on how the seller should respond. In addition, the third party can assist with review of the sales contract and purchase agreement leading up to the transaction close.

Consider a Third-Party Due Diligence Provider

Sale to a third party can be a lucrative transition strategy for business owners. Preparing for a sales process, however, can be complicated and time-consuming for sellers. To maximize value from the sale while increasing the certainty of closing, sellers should consider the services of a third-party due diligence provider that can assist from the beginning of the process all the way to the closing date.

Learn More

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