Selling Your Company? Get Ready for Due Diligence

If you are serious about selling your company, you must prepare for due diligence. This process, which a potential buyer's team conducts, is intended to help the buyer make an informed decision about the purchase.

During the due diligence process, the buyer's representatives, often accountants, lawyers, strategic advisors, investment bankers, or business brokers, will dig into your company's financial position, assets and liabilities, structure, operations, and customer and supplier relationships. The goal is to evaluate the deal, verify your company's quality of earnings, and determine whether the company's earnings are sustainable.

Areas of Interest

Every business is different, so the assessment of each company varies. But in general, the due diligence process covers several standard categories of interest to buyers, including:

Corporate structure: The buyers will want to see your incorporation documents, bylaws, meeting minutes, stockholder agreements, an organizational chart, warranties, and so on.

Financial documents: The company's financial information—income statements, balance sheets, cash flow, audit reports, projections, budgets, and forecasts—are high on the list of documents of interest to buyers. Bank statements and loan agreements are also important.

Taxes: Buyers will request to see your tax returns, government audits, IRS correspondence, or settlement documents, as well as documents relating to qualified retirement plans.

Intellectual property: Your patents, copyrights, trademarks, licenses, and trade secrets are all valuable assets that the potential buyer will want to assess.

Inventory and other material assets: For manufacturers and distributors, inventory, equipment, technology, and real estate are key to the deal. Depending on your company, research and development initiatives can also be valuable.

Contracts: The buyer's team will be interested in customer and supplier contracts to determine the health of your business. They'll also want to look at your accounts payable and receivable, leases, joint ventures, and other agreements.

Employees and management: Buyers are generally very interested in the makeup and quality of your labor force and executive team. Are they highly skilled and reliable? Are they under employment contracts or non-competes?

Litigation: Undisclosed liabilities can be deal killers. Buyers want the whole picture of the company, including any pending litigation.

Compliance: Compliance issues of interest to buyers include OSHA, environmental, permitting, benefits administration, truck licensing, and regulatory issues. If your company is not in compliance, the buyer may be wary.

Fit: How will this acquisition benefit the buyer? While documents alone won't answer this question, buyers will certainly explore how your business fits with theirs relative to product mix, markets served, and corporate culture. Be prepared to show them the synergy between the two companies.

Keep Info Flowing

During the due diligence process, it may seem like a never-ending request for documents. To facilitate this, the buyer's representatives will often set up an online portal where you can upload requested information.

An onsite visit may also be required, so you'll want to get your facilities in shape for that type of inspection.

Due diligence can be nerve racking, but it's an essential part of the deal. Your preparation and cooperation will ease the way for a smooth sale.

Our firm can help you prepare for due diligence. Contact us to discuss next steps.

Closing the Skills Gap

Manufacturers of all sizes are struggling with workforce issues. In fact, according to the most recent *Industry Pulse Manufacturing Workforce Report*, workforce concerns are one of manufacturers' top three challenges.

For example, 99 percent of manufacturers polled say their top challenge is finding new hires, followed by 92 percent who are concerned about "upskilling" their incumbent workforce, and 84 percent who struggle with onboarding new employees.

With too many open jobs and not enough skilled workers to fill them, what options do manufacturers have?

Get Serious About Training

With the rapid pace of manufacturing change, it's hard for workers —and their employers—to keep up with what's required. High performers tend to move quickly to the next opportunity. Indeed, 43 percent of manufacturers report an average of 20 percent or higher turnover. This means a loss of talent and knowledge that's hard to recover.

Investing in training is the right answer for many companies. Whether it's an internal, personalized training initiative for specific types of employees or an outsourced program that provides cycles of training for the whole shop throughout the year, a well-defined training program makes a difference. A certain amount of on-the-job training is a must so the learning is practical and not theoretical.

For some companies, hiring a full- or part-time training coordinator is the way to go. When it is someone's job to ensure a well-trained workforce, training becomes part of the company culture.

Consider an Apprentice Program

Apprentice programs are back. Not only do they provide up-to-date training opportunities for young workers, they also provide a ready labor force for local businesses.

An apprentice program takes time to launch and requires coordination with local schools, teachers, and other community referrals. It also requires setting up your shop for learning, which may involve changes to physical spaces, shifts, and even job descriptions.

Build Career Paths

A lack of long-term growth opportunities is problematic and often leads to decreased loyalty and dissatisfaction, particularly among seasoned workers who are at highly productive levels of performance.

Conversely, employees who regularly develop new skills are much more likely to stay engaged. If a vocational growth path is clearly defined, discussed, and promoted, workers know they have opportunities for new challenges and interests.

If you let your workers' skills lag or become obsolete, it not only threatens their livelihood, it also threatens yours.

Commit to Change

As with all successful initiatives, closing the skills gap starts at the top. Managing and training your workforce must be a priority. Yet, with so many initiatives competing for funds and time, workforce issues sometimes take a back seat.

How can you justify the time and effort required to improve your workers' skills? Take a look at your costs related to turnover and temporary help. Try to put a dollar figure to the loss of "embedded knowledge" that seasoned workers take with them. Consider the loss of productivity or safety issues caused by inexperienced or undertrained workers.

You may find that investing in training, apprenticeship, and career pathing will pay off in higher performance, better productivity, and a better competitive position.

Concerned about workforce issues? We can help you brainstorm ideas to close the skills gap at your company.

True Costs

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energy on this type of cost reduction as for direct costs.

Value. Imagine how attractive your company would be to a buyer if you could show how you're aggressively managing product costs and profitability. This type of data and insight are signs of a finely tuned company and outstanding management, which often translate to increased value.

Next Steps

Start by gathering your team and resources. Having a conversation with your financial advisors, including your CPA, can get you started with the right questions. Your CPA can also help your internal financial team interpret your findings and create a cost-reduction path.

Contact us today to get started on your cost analysis.

SALT: How Goes It with Wayfair?

It's been more than a year since the U.S. Supreme Court rendered its decision in South Dakota v. Wayfair, removing the physical presence required for state sales tax nexus. Since then, most states have adopted the concept of an "economic presence" for nexus.

For many manufacturers selling out of state, this ruling has prompted a deep dive into the question of nexus in each state where they ship or deliver. Others, however, have taken a more reactive approach, waiting to address the situation until a state notifies them of a tax liability.

It's no surprise that tax professionals advise against this "wait and see" attitude for several reasons. Foremost, if your company does nothing, you may be at risk for potential exposure. Unless you face the state and local tax (SALT) situation, you don't have the opportunity to plan for your tax liabilities. In addition to the tax you owe, you may rack up interest and penalties, which can be significant.

Based on your sales footprint, your company should be registered in all the states where it is required to do so based on sales volume, transaction thresholds, or both. Your company will likely be required to either charge sales tax in those states or get resale certificates in those locations. This can be a complex process.

You'll also need to determine precisely what is taxed, such as shipping and handling. Every state is different, and some have unusual taxes like an excise or commercial activity tax on specific products.

In addition, your staff needs to be able to answer customer questions about which taxes and rates they will be charged.

If your company is exempt from sales tax in a state, be sure to collect and track all exemption certificates. If not, consult with your tax advisor to get input on your SALT situation.