

SELLERS NEED TO REALIZE WHAT SERIOUS BUYERS WANT

Serious buyers will always want to look at your financials but there are other key areas that they are sure to want to examine. Here are the six key areas where buyers will look when evaluating a business.

1. **The Industry:** Buyers typically examine the industry as a whole including customers, suppliers, the competition, and the future outlook of the industry when they are considering buying a business. That means they'll want to uncover the strengths and weaknesses of your business as well as potential threats from competition and opportunities for growth.
2. **Cash Flow:** You can expect serious buyers to take a very hard look at your cash flow statements. The simple fact is that buyers will want to be quite certain that the business will continue to generate positive cash flow after the acquisition.
3. **Wages and Salaries:** Cost saving devices, of course, make the bottom line look good, but a high level of employee turnover can be a real concern as it creates expenses down the road. Keep in mind that if the target company is to be absorbed by another, then compensation issues could play an enormous role.
4. **Discretionary Costs:** Discretionary costs such as research and development, advertising and public relations will likely receive attention for buyers as well. Many sellers will attempt to reduce these costs in an attempt to create a higher bottom line; however, such cuts will serve to hurt the future bottom line.
5. **Capital Expenditures:** A serious buyer will also factor in machinery and equipment to ensure that they are up to date and equal to or even superior to that of the competition. Replacing outdated equipment may help boost the offering price.
6. **Obsolete Inventory:** No doubt, obsolete inventory can negatively impact the purchase price. If possible, address obsolete inventory before selling.



Over and Above the Numbers

Whenever a merger or acquisition is in order, a close review of financial statements is a must. Yet, there are other assets to consider. Let's review ten of the most important, and sometimes overlooked assets:

- Repeat customers or clients
- Broad customer or client base that is diverse and growing
- Long-term contracts
- Profitable alliances

- Recognizable brand name or product name
- Patented products, government approval and profitable copyrights
- Proprietary products
- Experienced management team & trained workforce
- Contracts/non-competes with valuable employees

The Letter of Intent

After a buyer has made an offer, the next step is for that buyer to present a Letter of Intent. In the Letter of Intent, the buyer outlines the terms of the possible transaction.

The seller should also provide his or her thoughts as to what should be covered. Here are six key points that should be addressed in any Letter of Intent:

- Price and terms
- The assets & liabilities to be included
- Employee contracts & severances
- Lease or sale of property
- Assumption of contracts & warranties
- Time schedules of due diligence and closing

Alamo Corporate Group and its advisors have specialized in ownership transfers of closely held companies since the late 1980's. We offer a range of intermediary services including mergers, acquisitions, divestitures, buyer identification, management buyouts, debt restructuring and in very limited instances, acquisition searches for high net worth individuals and private equity groups.

Alamo's primary purpose is to provide an extremely confidential national service that brings buyers and sellers together through our extensive contacts in the financial and intermediary communities.

Our process is very structured, as experience has shown us that while each buyer and seller is somewhat unique, there are enough similarities that specific steps must be followed in order for transactions to close. Confidentiality is guarded throughout each step of the process.

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