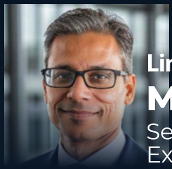
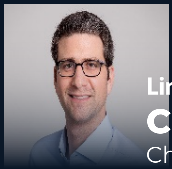
GETTING REVERSE DUE DILIGENCE RIGHT



Linkedin

MADHUR DUGGAR

Senior Advisor – M&A Advisory
Excendio Advisors



Linkedin

CHRIS VOLLMOND-CARSTENS

Chief M&A Officer Ntiva

Scan the QR code to the right
to access the full recording on Spotify.

Podcast:
Reverse Due Diligence

Scan the QR code on the right
to book an appointment to discuss
how we can help you with exit planning.

Book an Appointment

WHITEPAPER

Getting Reverse Due Diligence Right - Questions Sellers Should Be Asking Buyers

This is a summarized version of a podcast we did with Christopher Vollmond-Carstens, Chief M&A Officer at Ntiva. To listen to the full podcast and gather all of Chris's insights go to Spotify or YouTube or scan the QR code below. For example, in the podcast Chris goes into more details around Rollover equity and Earnouts, their pros and cons, and who they are best suited for.

Introduction

In the world of mergers and acquisitions (M&A), due diligence has traditionally focused on buyers scrutinizing sellers. Buyers analyze financials, operations, and potential risks before finalizing a deal. However, a crucial aspect often overlooked by sellers is "reverse due diligence" — the process by which sellers vet potential buyers. Just as buyers need to ensure they are acquiring a solid business; sellers must ensure they are partnering with the right buyer to achieve their goals.

Christopher Vollmond-Carstens, Chief M&A Officer at Ntiva, highlights the importance of this approach in a recent episode of the M&A Insights podcast. He explains, "You really want to try to find a partner, [or] find that buyer, that is going to [be the] best fit and hopefully exceed the needs and desires that you have through the transition of your business." This white paper, titled "Getting Reverse Due Diligence Right – Questions Sellers Should Be Asking Buyers," provides an actionable framework for sellers to navigate the M&A process with confidence. It underscores the importance of cultural fit, growth opportunities, post-sale career paths, and transaction structure to ensure a mutually beneficial deal.

01 CULTURAL FIT: Is This the Right Partner for You?

When selling a business, the right cultural fit can make or break the success of the acquisition. Sellers have spent years building their businesses and fostering relationships with employees and clients. Ensuring that the buyer aligns with the company's values is essential for maintaining harmony post-transaction.

Chris emphasizes that understanding the buyer's culture and operational style is a critical component of reverse due diligence. He states, " Trying to figure out things like the cultural fit of that organization is critical. Understanding, how they can seek to empower and grow the overall business that they've acquired, specifically [focusing on] the people, your team, [is critical]." Sellers should spend significant time with the buyer's team — not just the executives but also mid-level managers and technical leaders-to get a more accurate 'flavor' of the buyer. It is important to meet in person, walk the floors of the buyer's operations, and have candid conversations about potential challenges.

QUESTIONS TO ASK:

- How does the buyer's culture align with your company's values and operational style?
- Can the buyer provide examples of how they integrated other companies into their organization?
- How does the buyer view employee development and retention post -acquisition?

Assessing these areas allows sellers to ensure that their team is not only retained but has a chance to grow and succeed post-acquisition.

02 GROWTH AND DEVELOPMENT:
What is in it for Your Team?

Another critical area for sellers to explore is the buyer's approach to employee growth and development. In many cases, employees are as invested in the future of the company as the owner. Therefore, it is important for sellers to understand how the buyer plans to support employees' careers post-sale.

Chris notes that Ntiva offers flexible post-sale career paths, allowing sellers and key employees to choose between transitioning out or staying on for the long term. "We've been fortunate enough, over the 16 acquisitions that we've done, to provide a range of transition solutions for sellers of the business," Chris explains. This flexibility ensures smooth integration and helps maintain the seller's legacy.

Assessing these areas allows sellers to ensure that their team is not only retained but has a chance to grow and succeed post-acquisition.

QUESTIONS TO ASK:

- What opportunities exist for my employees to grow within the buyer's organization?
- Does the buyer have a track record of promoting from within or developing new leaders?
- Will there be changes in compensation, benefits, or job roles for current employees?

03 TRANSACTION STRUCTURE:
What Will Your Future Look Like?

A crucial aspect of reverse due diligence is understanding the financial and operational structure of the transaction. Sellers should thoroughly explore whether the deal involves all-cash, rollover equity, earn-outs, or other mechanisms. The structure of the transaction can have significant implications for the seller's future involvement with the business and their financial outcomes.

For younger sellers or those with a desire to continue growing the business, rollover equity can provide an opportunity to share in future upside while still having some input and influence over the business. Conversely, sellers looking for a clean exit may prefer an all-cash deal or shorter-term involvement. Chris explains, "You want to find out, what is the structure of the transaction, and what will be the composition of the value and the dollars that you'll be getting? Will it be all in cash? Will it be a form of rollover equity? Is there an earn-out?"

QUESTIONS TO ASK:

- What is the proposed transaction structure (cash, rollover equity, earn-out)?
- If rollover equity is offered, how is the business expected to grow under the buyer's ownership?
- What are the financial and operational expectations for sellers post-acquisition?

Understanding these key terms allows sellers to align their financial goals with the buyer's offer and determine whether the partnership is a long-term fit.

04 BUYER'S LONG-TERM VISION:
What's Their Plan?

When selling to a private equity-backed or strategic buyer, it is crucial to understand their long-term objectives for your business. Private equity buyers may have different goals depending on whether they plan to hold and grow the business for several years or sell it off within a shorter time frame.

Chris highlights the importance of asking buyers about their overall thesis for growth. He advises sellers to determine if "the company that you're partnering up with [is] someone that you feel can really take the business to that next level." Sellers should understand whether the buyer's plans align with their own vision for the business, especially if they plan to stay involved post-sale.

QUESTIONS TO ASK:

- What is the buyer's long-term vision for the company?
- What is their typical time horizon for holding an acquisition before selling?
- How will the buyer's resources and capabilities help the business grow?

By understanding the buyer's strategy, sellers can determine if the partnership will provide the growth and security they seek for their business, their future involvement, and their rollover equity investment.

05 SEEKING REFERENCES:
What Have Others Experienced?

Finally, sellers should try to speak with other business owners who have sold to the buyer. These conversations can provide invaluable insights into how the buyer operates post-acquisition. Learning from the experiences of others can help sellers avoid common pitfalls and set realistic expectations for the transition process.

Chris emphasizes the importance of this step: "Talk to other companies that they've acquired. If you can get some references and speak to some of the other owners that have gone through a similar process, [that can be very helpful]."

QUESTIONS TO ASK:

- Can the buyer provide references from other companies they have acquired?
- How do other sellers describe their experience with the buyer post-sale, particularly when business performance is falling short of expectations (or budget)?
- Were there any surprises during or after the transaction process?

These references can help sellers get a clearer picture of what life will be like post-sale and whether the buyer will be a trustworthy and supportive partner.

CONCLUSION

In any M&A transaction, sellers have as much at stake as buyers, if not more. By conducting thorough reverse due diligence, sellers can ensure they are partnering with a buyer who aligns with their vision, values their team, and has a long-term plan for growth. Asking the right questions about cultural fit, employee development, transaction structure, and the buyer's long-term vision can help sellers navigate the complexities of the sale process with confidence, ensuring a successful and fulfilling transition.

As Chris wisely advises, "You really want to try to find that individual or that company that can help you achieve and hopefully even exceed your goals." By taking these proactive steps, sellers can feel confident in their decision to sell — not just to any buyer, but to the right buyer.

MADHUR DUGGAR

Senior Advisor - M&A Advisory Excendio Advisors

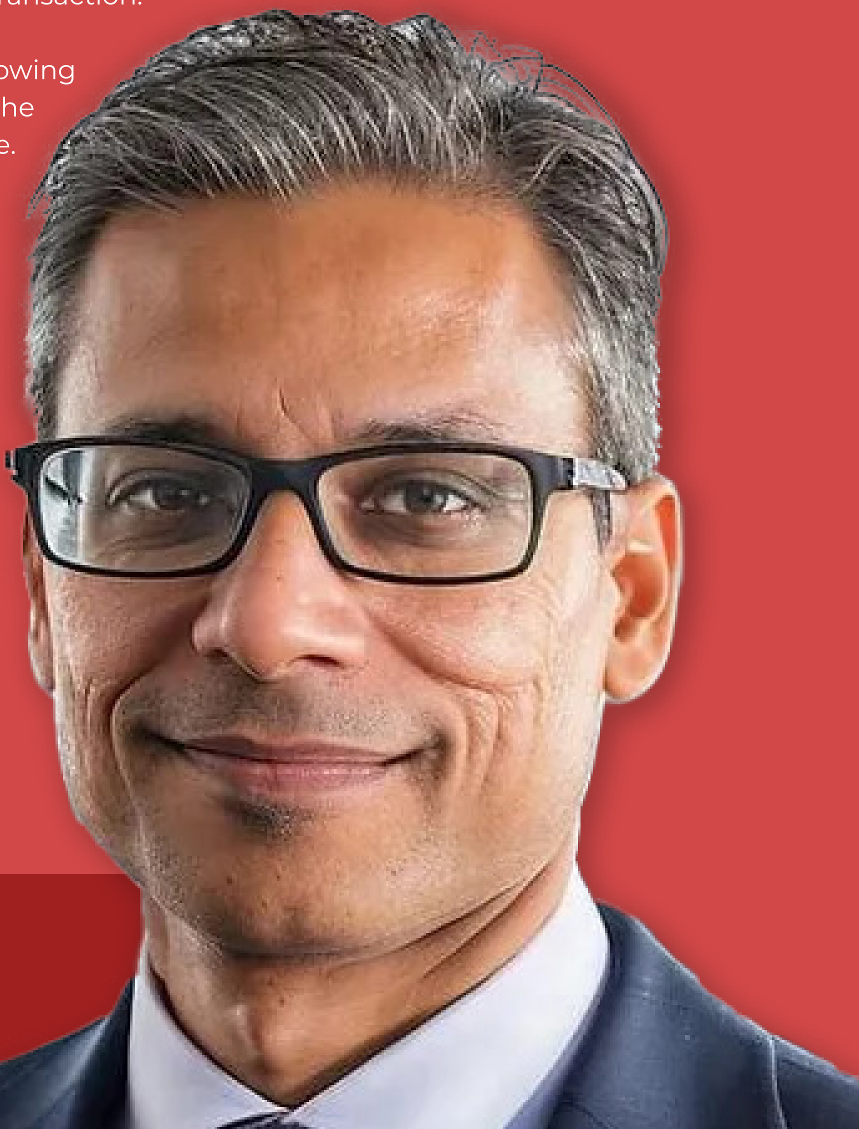
Madhur Duggar brings over 20 years of experience in middle market related M&A, direct lending, financial valuation and networks with job experiences at Lehman Brothers, Citigroup, Barclays, New York Life, KPMG and KBRA.

Middle market businesses are personal and can often be someone's passion and life's work. As such, Madhur focuses not just on the specifics of the transaction, but also on how it fits into the life goals of the owner and the importance of career transition for them.

Madhur guides founders through a proven consultative process designed to attract the highest valuations by finding the right partners who can best leverage their unique strengths—including employees, clients, and IT. His communication style is personal, proactive, transparent and respectful as he believes that every successful M&A advisor must start as a student at the beginning of every transaction.

With his support, founders can confidently exit knowing they've maximized their business's value, gaining the clarity, confidence, and peace of mind they deserve.

Madhur has a PhD in Financial Economics from UC Berkeley, Haas School of Business. He lives with his wife and son in New Jersey.



You can connect with him over Linkedin or by writing him at:
madhur@excendio.com