Before You Commit, Put Experience on Your Side

Finding the buyer—or the business you want to acquire—is only the beginning. The next decisions determine how much value you keep, how much risk you assume and whether the transaction serves your goals.

By Joseph (JD) Durnford

“I already found the buyer. My CFO knows the numbers, my CPA handles the accounting, and my attorney can document the agreement. What am I paying a transaction advisor to do?”

If you built a substantial business, that is a fair question.

You made payroll when collections were late. Put your name behind obligations when the outcome was uncertain. Negotiated with customers, lenders and partners when getting it wrong threatened more than a quarterly result.

If you took a family company to another level, you carried an additional responsibility: changing the business without losing what made it worth inheriting.

You did not reach this point by outsourcing difficult decisions. You should not be expected to start now.

But bringing transaction experience to the table is not surrendering your judgment. It is giving that judgment a better view of what lies ahead.

An advisor should be able to explain precisely how that experience can improve your outcome. “Transactions are complicated” is not enough.

A Price Is Not Yet an Economic Agreement

An attractive offer can create the impression that the essential negotiation is complete.

It is not complete until the parties understand what the number includes, what reduces it, when it will be paid and what remains at risk.

For a seller, that means distinguishing enterprise value from the proceeds available after debt, working-capital adjustments, expenses and other obligations. It means understanding the difference between cash at closing and payments dependent on future performance.

For a buyer, it means establishing how much capital the business requires beyond the purchase price—and whether the earnings being acquired will survive the ownership transition.

These are not details for someone else to resolve after the handshake. They are the economics of the handshake.

Diligence Should Follow the Risk, Not the Checklist

A lengthy diligence request can create considerable activity without establishing whether the transaction makes sense.

The first questions should test what could invalidate the deal.

If the acquisition depends on a major customer remaining, examine that relationship and its contractual terms early. If the business requires a particular license, executive or facility, determine whether it will remain available after closing. If financing depends on a certain level of earnings, test those earnings before building the rest of the transaction around them.

Then investigate the issues that could materially change price, capital requirements or contractual protections.

That sequence matters. Discovering a fundamental problem after months of work does more than waste money. It can leave both parties negotiating under the pressure of sunk costs, disrupted operations and expectations already shared with employees or family.

For sellers, preparation should anticipate the same questions. The objective is not to hide weaknesses. It is to understand them, establish their economic significance and avoid letting the buyer become the first person to define them.

Working Capital Determines Who Funds the Business

A seller may hear “cash-free, debt-free” and assume the buyer will supply the cash needed to operate after closing.

The purchase agreement may require something different: delivery of an agreed level of working capital, with an adjustment if the amount at closing falls above or below that target.

The target deserves more than a quick average of historical balances.

Is the business seasonal? Has growth increased inventory requirements? Are receivables collectible? Are inventory reserves adequate? Have suppliers been paid on normal terms? Do customer deposits create obligations the buyer must fulfill?

A seller can leave more value behind than intended by accepting an overstated target. A buyer can inherit an immediate funding requirement by accepting an understated one.

The definitions are equally important. Which accounts count? What accounting policies apply? How will reserves be calculated? What happens when the parties disagree?

An unresolved working-capital mechanism is not a minor documentation gap. It is an unfinished price negotiation.

The Same Issue Can Appear in Several Adjustments

Transaction economics require a consistent treatment of each obligation.

Take an overdue supplier balance. It may belong in ordinary working capital. An unusual balance may instead become a disputed debt-like item. It may also raise questions about whether the business has supported cash flow by delaying payments.

Those questions need to be reconciled. Otherwise, the same economic burden can influence multiple deductions.

Accrued compensation, customer credits and unpaid equipment purchases can create similar problems. An obligation’s position in the accounts does not, by itself, settle how it should be treated in the transaction.

Nor does the absence of an accounting entry settle whether an obligation exists. Customer commitments, warranty exposure, employee arrangements and disputed charges may require investigation beyond the balance sheet.

The task is to establish what the obligation represents, who should bear it and where it belongs in the agreement—without charging either party twice.

Reported Earnings Do Not Tell You Everything About Future Cash Flow

A business can produce attractive EBITDA while postponing expenditures needed to sustain its operations.

Equipment may be approaching replacement. Maintenance may have been deferred. Essential systems may require investment.

For a buyer, those requirements affect the cash available after closing, even when they do not reduce reported EBITDA.

For a seller, the analysis needs equal discipline. A buyer's preferred modernization program is not automatically the seller's deferred obligation. Replacing equipment necessary to maintain current output is different from adding capabilities the buyer wants for its own strategy.

Lease obligations deserve the same attention. Assignment provisions, change-of-control consent, renewal rights, guarantees and restoration requirements can affect value and closing certainty.

Where a buyer proposes treating lease liabilities as debt-like deductions, that treatment also needs to be consistent with the earnings measure and valuation approach. Mixing assumptions can distort the economics.

These distinctions are not accounting trivia. They are negotiating positions with real consequences.

Timing Changes the Weight of a Diligence Finding

Not every problem justifies a price reduction.

Some require a targeted contractual protection. Others can be remedied before closing. Some belong in a working-capital adjustment. Others may already be reflected in the valuation.

But a finding's negotiating power can increase as the transaction progresses.

After granting exclusivity, a seller may have spent heavily, disclosed sensitive information and begun preparing for life after closing. A buyer may have committed management time, financing resources and strategic expectations.

Walking away remains possible. It becomes harder.

That does not make every late request improper. It makes early preparation valuable. The parties need a basis for distinguishing new evidence from an attempt to reopen settled economics—and a clear understanding of the alternatives if they cannot agree.

Financial Expertise and Transaction Experience Are Not Interchangeable

Your CFO may understand the company better than anyone outside it. Your CPA may be essential to reliable financial reporting and sound tax analysis. Your attorney is responsible for documenting rights, obligations and protections.

Those capabilities belong at the table.

The question is who has experience connecting them to the commercial negotiation.

Who will reconcile an earnings adjustment with the working-capital mechanism? Challenge an overlapping debt-like deduction? Assess whether a diligence finding warrants a price change, a remedy or neither? Carry those decisions through to actual proceeds and post-closing exposure?

Some CFOs and CPAs have extensive transaction experience. Others have spent their careers doing equally demanding but different work. The relevant qualification is demonstrated experience, not the title.

A transaction advisor should complement that team—not duplicate it—and remain accountable for keeping the overall economics in view. We lead the financial and business negotiation, working closely with counsel on the legal terms that give those decisions effect.

Protect the Opportunity Before Momentum Takes Over

You may already know the buyer. You may have identified exactly the business you want to acquire. Those relationships are valuable.

But knowing the other party does not tell you which earnings will survive scrutiny, which obligations will become yours or which terms could change the economics after you have committed.

This is where I believe the conversation should begin: What are you trying to accomplish? What has actually been agreed? Where is value still exposed? And what work would materially improve your position?

You should expect a defined assignment, clear fees and an advisor willing to recommend renegotiating, deferring or walking away. Finding an opportunity does not obligate you to complete it.

If you are considering an offer or pursuing an acquisition, contact JD Ford & Company and bring our decades of experience into the conversation before you commit to the terms.

You built the business by taking responsibility—and recognizing when the right people could make it stronger. Apply the same judgment to the transaction.

Keep control of the decision. Put experience on your side before the next signature limits your choices.

About the Author

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