Mergers and Acquisitions

Mergers and Acquisitions part 3

Narrator:

Inevitably the seller will always do their utmost to increase the value of any deal. In Part 3 of this interview Ian Wilson outlines two ways in which the buyer will try to protect themselves. First Due Diligence.

Ian Wilson:

Due diligence is very much about defining the value associated with the deal. And it's really for the purchasers to conduct due diligence on the products and the markets in which this business is operating to try to understand how the value will develop in the future.

Another aspect of due diligence is that the purchaser will want to check that none of the main customers are about to move to a competitor.

So the purchaser might ask to visit some of the customers to ask about the relationship and seek some assurance that they will continue to trade when the business changes hands.

Now clearly that's a very sensitive point to explore. And quite often a seller will resist giving any purchasers access to the principle customers because it can be very unsettling.

Narrator:

Second,Warranties.

Ian Wilson:

If that isn't available or the purchaser might ask for a warranty which is effectively a guarantee from the seller that could, for example, be that as far as the seller is aware none of the top ten customers intend to cease trading with the seller.

From the purchaser's point of view they try to get as many warranties as they can. And others would include that, for example, the assets that come with the business are sufficient to produce the products that are sold.

And the seller will then make disclosure against those warranties. So just to take that example again, a warranty says that the assets are sufficient to manufacture the products being sold but the seller might purchase some of those products from a third party. And a disclosure against that warranty would be that products A and B are obtained from company X and Y.