Process and Timeline

‘ small business acquisition experience led us to develop this document to help all parties understand the process and timeline. There are multiple stages to a successful acquisition closing and transition and it helps if everybody is ‘on the same page’.

1) Initial Diligence
    a. An NDA is signed by disclosing (Seller) and receiving (BUYER) parties to ensure that no details are shared outside of either organization and necessary 3rd parties. [Up to 1 week]
    b. Sellers submit initial finances (3 years P/L, B/S, and A/R + A/P for working capital understanding) to BUYER along with general information about the company (history, entity structure, management structure, etc.), and a few back and forths by email and phone to discuss. [1-3 weeks]
    c. Indication of Interest is sent – this is a formal but non-binding document or email with a rough valuation and structure ($x total value broken into upfront + interest + rollover equity, early expected transition timeline or consulting agreement, etc.). Details can vary significantly depending on conversations from (1. b.) [Up to 1 week]

*The total time from Stage 1 can last anywhere from 1 week to 5 weeks - usually it depends on the speed which document requests are provided, and responses are communicated back and forth. (If it takes a whole week to schedule a call; the entire process is delayed by that week)

2) 3rd parties and Due Diligence
    *Assuming both Seller and BUYER agree to the rough terms from an IoI (1. c.)
    a. Letter of Intent is sent – this is a formal and semi-binding document which, when signed by both parties, kicks off the process for an acquisition. It includes ‘final’ terms (changed only if results of due diligence bring up unknown issues such as inflated add-backs in financials, etc.) which allow 3rd parties to get involved. [Up to 2 weeks]
    b. BUYER brings on lawyer [1-2 weeks], lender for term sheet [up to 2 weeks] and commitment letter [additional 2 weeks at the end], CPA [3-5 weeks], insurance [up to 2 weeks], and necessary consultants [up to 1 week] to review entities, financials, etc. [Some of these are concurrent and total time is likely 4-6 weeks]
    c. Seller hires lawyer for review. Using someone with experience in M&A is essential. Ideally someone who has done lower-middle market M&A or sub $25m valuations. This might cost $15k - $150k depending on a few factors (size and complexity of the sale). Real Estate or family lawyers will usually say they can do this: they will be bad advisors. It will slow the deal significantly and potentially derail it (at great expense to both seller and buyer). They will work closely with BUYER lawyer towards the end and BUYER lawyer will struggle to help them and charge BUYER for it! [Time is concurrent and should take less than 2 weeks; we can make suggestions for potential hires]

*Total time in 2. Is likely 4-6 weeks if things go smoothly. This part of the process could last several months if problems arise such as re-negotiations, slow responses / data requests, poor scheduling (everybody involved always chooses a different week for their Christmas vacation = Dec / Jan are usually months where almost no progress is made), etc.

3) Closing
    a. Final legal work on Asset Purchase Agreement, any side-contracts, seller financing, etc. [1-3 weeks depending largely on responsiveness: this includes time spent by Lender legal department]
    b. Lender final legal and valuation review and committee approval [up to 2 weeks; committees usually meet once every week so if their meeting is Monday and the paperwork from the lawyers is filed on Tuesday –have to wait extra week]
    c. Signing day + Wire [1 day; if virtual a few hours, if in-person prepare to have a day of hand cramps from signatures!]

    *Total time in 3. Is likely 2-4 weeks. These are all relatively simple and unless new facts are discovered in the process which need to be negotiated it is typically a smooth process.

    Parts 1-3 total: seven weeks at best [35 business days - if everything goes perfect and everybody is timed concurrently exactly right; almost unheard of], 15 weeks with expected slowdowns [this is about 75 business days and is not uncommon], and can last many months beyond with unexpected delays!

4) Transition
    a. Depends largely on the desires of the Seller. Options include
        i. Staying on in current role
        ii. Reducing role to fewer days / week
        iii. Reducing role to be largely strategic – bi-weekly meetings initially leading into quarterly meetings long-term
        iv. Completely exiting the business – assuming a pre-agreed transition period to show the new Operator the ropes