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GUIDE 9: THE DUE DILIGENCE PROCESS

There is nothing to fear in a robust due diligence process. The following notes should help explain some of the key aspects of this important process of a business acquisition:

- Due diligence is the process of buyer and seller substantiating the claims made by either party throughout negotiations. Essentially, it's the process of finding evidence (or not), to support all the discussions that have taken place, so that both buyer and seller can move forward to complete the deal, safe in the knowledge that their decisions are backed up by data.
- The primary process of due diligence is undertaken by the purchaser to determine both the assets and liabilities of the business and the various claims made throughout the negotiating phase. The seller can and should do the opposite to satisfy themselves about the buyer.
- Due diligence is about what can be proved, and this means obtaining evidence to support what's been claimed.
- There are a number of key areas to focus on and the most common in a financial advice firm deal are financial, regulatory, employment and commercial.
- The process should ideally take a few weeks, with the purchasers' representatives visiting on site, asking questions and requesting further documentary evidence.
- The buyer's advisers and whoever's involved from inside the buyer's business will produce reports detailing their findings and provide guidance for the buyer. We encourage buyers to share these reports with the seller, in the spirit of openness.
- The due diligence process can result in a change to the price and/or terms, when the seller's claims about their business cannot be substantiated. In some cases this process can stop a deal completely.
- While not always possible, some risks identified throughout the due diligence process can be managed within the legal documentation, instead of changing the price or terms of the deal.

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"Transact" is operated by Integrated Financial Arrangements Ltd, 29 Clement's Lane, London EC4N 7AE.
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