

# M&A Process

## Steps to be Taken and Closing Activities (including pre and post closing)

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- **STEP 1:** Identify the information needed to be obtained, timeframe, purpose of acquisition, resources available to complete the process
- **STEP 2:** Obtain initial information from seller (or buyer if company is involved in sale process) to determine level of interest. Ask questions such as:
  - Does it meet strategic initiatives of division or company?
  - Does it provide opportunities for economies of scale by utilizing existing infrastructure?
  - Does it meet necessary financial targets?
- **STEP 3:** Prepare list of initial due diligence checklist items
  - Obtain input from various functional groups within organization (line of business, HR, IT, Finance and accounting, legal)
  - Augment initial list with items from functional groups
- **STEP 4:** Prioritize initial list to create a list 10 requested items to accelerate other parties response
- **STEP 5:** Gather financials and documents received. Compare to checklist and review documents to make sure complete information is provided.

- **STEP 6:** Set up virtual data room with information as it is received
  - Use consistent categorization to populate data room in order to be able to compare a given acquisition to others that have been done in the past
  - Identify and gather additional information as needed
- **STEP 7:** Review information and compile questions and areas to focus on during site visit
  - Identify open issues needed to be resolved
  - Document these issues and how resolved
  - Review budget of target with management & obtain sign off on budget and projections
- **STEP 8:** Work with accounting and finance department to identify risks, issues needed to be addressed during integration process and financial statement adjustments.
  - Work with existing finance team to agree on financial statement adjustments & accruals
  - Interview key personnel to identify top ten risks
- **STEP 9:** Coordinate with other groups within the Company and act as the central point of contact for follow up and additional questions.

- **STEP 10:** Work with HR department to assist in evaluation of personnel (if applicable)
- **STEP 11:** Put together due diligence report that includes areas reviewed, top ten risks and pre and post closing open items that need to be resolved
- **STEP 12:** Support accounting/finance needs at closing (see attached checklist)
  - Purchase price allocation
  - Working capital adjustment
  - Closing balance sheet
- **STEP 13:** Support needs of legal and HR at closing (see attached checklist)
- **STEP 14:** Put together 100 day plan for post closing integration
  - Coordinate with applicable business unit
- **STEP 15:** Debrief on lessons learned for next project

- Pre closing checklist:
  - form acquisition entity for legal protection (governmental authorities, employees, creditors, claimants of existing company)
  - Identify internal actions required by board to authorize transaction
  - Finance and Accounting
    - apply for Federal tax ID
    - set up new bank accounts
    - allocation of purchase price
    - Obtain list of fixed assets and inventory
    - Obtain sales pipeline report and top 20 customer list
    - Obtain budget info from target company
  - Legal/Compliance
    - Obtain contract consents / assignments
    - Negotiate purchase agreement
    - Environmental phase I study and compliance review
    - Review insurance information
    - Review pending or existing litigation

- HR
  - payroll
  - insurance coverage
  - Identify key employees to include in purchase agreement
  - Review organization chart
  - Bonus plan
- IT
  - Review mainframe and centralized computing utilized
  - Review centralized storage system utilized
  - Network diagram
  - Obtain listing of current software
- Safety
  - OSHA 300 log
  - Determine quality of safety training and procedures utilized

- At Closing
  - Create closing checklist and integration timeline
  - Determine signing authority for transaction and any applicable supplier agreements
  - Finance and Accounting
    - Determine funding mechanism of transaction including working capital needs
    - Obtain payoff and release letter from bank
    - Set closing date
  - Legal and Compliance
    - Identify assignable contracts
    - Identify R/E leases and owned property
    - Identify equipment and vehicle leases
    - Transfer utilities
    - Amend government licenses and permits
    - Change title registration and transfer for vehicles
    - Transfer insurance coverage

- Human Resources
  - Identify all corporate cards and gas cards and change to new entity
  - Provide employment agreements to key employees
  - Migrate payroll to new system (if applicable)
  - Identify necessary changes to employee benefits/HR
- IT
  - Determine necessary steps to integrate systems
  - Migrate internal phones, mobile phones, laptops to new system (if applicable)
- Create due diligence report summarizing all areas reviewed by business including
  - Finance and Accounting
    - Create list of top ten risks
    - Identify necessary accruals
  - Human Resources
  - IT
  - Business/Operations
    - Summarize key economies of scale or other efficiencies to be realized



- Create integration plan and review with key team members
  - Finance and accounting
    - Purchase price allocation
    - Working capital adjustments
    - Closing income statement and balance sheet
    - Create information needed by outside auditors:
      - detail listing of inventory (agrees to ledger)
      - A/R aging (agrees to ledger)
      - A/P aging (agrees to ledger)
      - bank statement and reconciliation (as of close date)
      - detail of any other significant balances
      - last 10 inventory transactions before acquisition
      - first 10 inventory transactions after acquisition
      - first and last 10 sales transactions
      - first and last 10 A/R transactions
      - first and last 10 A/P transactions

- Create integration plan and review with key team members
  - Human Resources
    - Identify revised organizational structure and communicate
  - Operations
    - Identify redundant procedures and create process for eliminating them over time
  - IT
    - Create plan to combine mainframe systems
    - Create revised network diagram
    - Determine advantages of creating one centralized storage system that includes new entity

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