LAUNCHWORKS

The Buyer's Due Diligence Checklist

A practical checklist for verifying a business before you pay for it. Work through each section before you sign, and put every answer to the seller in writing.

1. Financial verification

- ☐ Obtain twelve months of bank statements directly from the bank, not a summary the seller has prepared.
- ☐ Reconcile bank deposits against recorded sales, month by month.
- ☐ Check declared turnover against the VAT201 returns and the annual financial statements.
- ☐ Check payroll cost against the EMP201 declarations and the actual bank payments.
- ☐ Review the debtors book as a full age analysis, not a single total.
- ☐ Check customer concentration: is a single customer a large share of revenue, and is that relationship tied to the business or to the owner?

2. Legal and compliance

- ☐ Confirm CIPC status: registered, in good standing, not in deregistration or business rescue.
- ☐ Confirm CIPC annual returns are up to date.
- ☐ Obtain a current SARS tax clearance certificate.
- ☐ Run litigation and judgment searches against the company and its directors.
- ☐ Confirm every operating licence, health certificate and permit the business relies on is current.
- ☐ Establish which licences and permits transfer to a new owner, and which must be reapplied for.
- ☐ Read the lease in full: remaining term, escalation, and whether the landlord may withhold consent to assignment.
- ☐ Check material customer and supplier contracts for change-of-control or assignment clauses.

3. Employees

- ☐ Obtain the full staff schedule: role, start date, current package and accrued leave for every employee.
- ☐ Calculate the accrued leave liability in Rand value.
- ☐ Disclose any pending disciplinary matters or CCMA referrals.
- ☐ Assess key-person dependence: does the business rely on the relationships or knowledge of one or two people?
- ☐ Establish whether key people intend to stay, and what, if anything, binds them to the business.

4. Operational and commercial

- ☐ Confirm supplier terms are in writing and check whether they are transferable.
- ☐ Assess single-supplier dependence.
- ☐ Test customer loyalty: to the business, or to the owner who is leaving?
- ☐ Establish how much of the customer book the owner personally manages.
- ☐ Check the physical condition of premises, equipment and vehicles against the asset values in the accounts.
- ☐ Review the maintenance history for deferred spending in the year before the sale.

5. The seller question list

- ☐ *Will you provide twelve months of bank statements directly from the bank, and confirm the accounts reconcile to declared turnover?*
- ☐ *Are all VAT201 and EMP201 returns filed and current, and will you provide a tax clearance certificate?*
- ☐ *Are there any disputes, claims or CCMA matters, pending or threatened, against the business or you as director?*
- ☐ *Which licences, permits and certificates does the business rely on, and which transfer to a new owner?*
- ☐ *Does the lease permit assignment, and has the landlord indicated whether consent will be given?*
- ☐ *Do any customer or supplier contracts contain change-of-control or assignment clauses?*
- ☐ *What proportion of revenue comes from your single largest customer, and is that relationship tied to you or to the business?*
- ☐ *Which staff are essential to the business continuing to trade, and what binds them to it?*

Keep every answer in writing. Each one becomes something the seller has warranted, and something you can hold them to in the purchase agreement. For the full walkthrough of due diligence and the agreement that carries these findings, see launchworks.co.za/buying-a-business/due-diligence.