QUALERIS

FREE GUIDE FOR OWNERS

The Owner's Guide to Preparing for Due Diligence

A practical checklist across Legal, Financial and Commercial readiness — we suggest you create three folders so you know exactly what a buyer will ask, long before they ask it.

> *"A good business should not have to be sold again simply because its owner's fund has reached the end of its life."*

A Permanent Holding Company for MedTech products and services

FOLDER 1 OF 3

Legal

Corporate structure, contracts, employment, IP, regulatory and compliance, property, and litigation - everything a buyer's lawyers will ask for first.

CORPORATE STRUCTURE

- ☐ **1.** What is the full legal name, company number, and registered address of the entity being sold?
- ☐ **2.** What is the corporate structure - is this a share sale or an asset sale, and are there subsidiaries or holding companies involved?
- ☐ **3.** Are the constitutional documents (Articles of Association, Memorandum) up to date and consistent with current ownership and governance?
- ☐ **4.** Are there any shareholder agreements in place, and do they contain any restrictions on transfer, rights of first refusal, or drag/tag provisions?
- ☐ **5.** What does the current cap table look like - who owns what, and are all shares fully paid?
- ☐ **6.** Are there any options, warrants, convertible instruments, or other rights over shares currently outstanding?

CONTRACTS AND COMMITMENTS

- ☐ **1.** What are the top 10 customer contracts by value - do they contain change of control clauses that could trigger termination or renegotiation on a sale?
- ☐ **2.** What are the key supplier and third-party contracts - same change of control question applies.
- ☐ **3.** Are there any exclusivity arrangements, most-favoured-nation clauses, or unusual contractual obligations that would transfer to a buyer?
- ☐ **4.** Are there any contracts that are verbal, undocumented, or informally renewed - and if so, with whom and on what terms?
- ☐ **5.** Are there any material contracts currently in dispute, at risk of non-renewal, or subject to price renegotiation?

EMPLOYMENT AND PEOPLE

- ☐ **1.** Do all employees have signed, current contracts of employment - and are the contracts consistent with actual working arrangements?
- ☐ **2.** Are there any non-compete, non-solicitation, or IP assignment clauses in key employee contracts?
- ☐ **3.** Are there any outstanding claims, grievances, tribunal proceedings, or redundancy situations - current or threatened?
- ☐ **4.** Are there any contractors or consultants whose status could be challenged as deemed employment (IR35 or equivalent)?
- ☐ **5.** What are the terms of any bonus, commission, or incentive schemes - and are there any change of control acceleration provisions?

INTELLECTUAL PROPERTY

- ☐ **1.** Who legally owns the core IP - the company or individuals? Is ownership clearly documented?
- ☐ **2.** Are there any third-party licences embedded in the product or service that are material, non-transferable, or at risk on a change of control?
- ☐ **3.** Are all trade marks registered in the relevant jurisdictions? Are there any known infringement risks or disputes?
- ☐ **4.** Is the company's name, trading name, and domain ownership consistent and cleanly held?

FOLDER 2 OF 3

Financial

Historic performance, EBITDA normalisation, working capital, debt, tax and forecasts - the numbers a buyer will stress-test hardest.

HISTORIC PERFORMANCE

- ☐ **1.** What are the audited statutory accounts for the last three years - P&L, balance sheet, and cash flow?
- ☐ **2.** If accounts are not audited, what is the basis of preparation and who prepared them?
- ☐ **3.** What are the monthly management accounts for the last 24 months, and are they prepared consistently?
- ☐ **4.** What is the revenue split by product/service line, customer segment, and geography for each of the last three years?
- ☐ **5.** What is the gross margin by product/service line - and has it moved materially over the period?

EBITDA AND NORMALISATION

- ☐ **1.** What is the reported EBITDA for each of the last three years?
- ☐ **2.** What adjustments are proposed to arrive at a normalised or "run rate" EBITDA - and what is the basis and evidence for each adjustment?
- ☐ **3.** Are there any one-off costs or revenues in the historic period that distort the underlying trading performance?
- ☐ **4.** Are there any owner-related costs running through the P&L (personal expenses, above-market salaries, related-party transactions) that a buyer should normalise?
- ☐ **5.** What is the split between recurring and non-recurring revenue in each year?

WORKING CAPITAL AND CASH

- ☐ **1.** What does the working capital cycle look like - average debtor days, creditor days, and stock days?
- ☐ **2.** What is the cash conversion rate - how much of EBITDA converts to operating cash flow?
- ☐ **3.** Are there any seasonal patterns in revenue, cost, or cash that a buyer needs to understand?
- ☐ **4.** What is the current cash position, and what level of cash is considered operational (i.e. not surplus)?
- ☐ **5.** Are there any overdue debtors, bad debt provisions, or concentrations of credit risk in the debtor book?

DEBT AND LIABILITIES

- ☐ **1.** What debt facilities does the business currently have - amounts, lenders, interest rates, covenants, and maturity dates?
- ☐ **2.** Are there any personally guaranteed facilities, director loans, or related-party debt that would need to be addressed on a sale?
- ☐ **3.** What are the deferred income and accruals balances - and are they consistent with trading patterns?
- ☐ **4.** Are there any off-balance sheet obligations - operating leases (pre-IFRS 16), contingent liabilities, earn-outs from prior acquisitions?
- ☐ **5.** Are there any pension obligations - defined benefit or defined contribution - and what is the current funding position?

TAX

- ☐ **1.** What is the corporation tax position - are returns filed and payments up to date?
- ☐ **2.** Are there any tax losses carried forward, and are they expected to be available to a buyer post-acquisition?
- ☐ **3.** What is the VAT registration status and are returns and payments current?

FOLDER 3 OF 3

Commercial

Customers, market position, products, operations, people and growth strategy - the story behind the numbers.

CUSTOMERS AND REVENUE

- ☐ **1.** Who are the top 10 customers by revenue - what percentage of total revenue do they represent?
- ☐ **2.** What is the revenue split between contracted/recurring and transactional income?
- ☐ **3.** What are the average contract lengths, notice periods, and renewal rates across the customer base?
- ☐ **4.** Have any significant customers been lost in the last two years - and what was the reason?
- ☐ **5.** Are there any customers who have signalled an intention not to renew, or who are at known risk?
- ☐ **6.** What does the sales pipeline look like - qualified opportunities, expected close dates, and probability weighting?

MARKET AND COMPETITIVE POSITION

- ☐ **1.** What market does the business operate in - size, growth rate, and key trends?
- ☐ **2.** Who are the principal competitors, and how does the business differentiate - on price, quality, service, or relationships?
- ☐ **3.** What is the business's market share, and is it growing, stable, or declining?
- ☐ **4.** Are there any structural threats to the market - regulatory change, technology disruption, new entrants - and how is the business positioned against them?
- ☐ **5.** Why do customers choose this business over alternatives - and is that reason defensible over a five-year horizon?

PRODUCTS AND SERVICES

- ☐ **1.** What is the full product/service offering, and which lines are growing, stable, or declining?
- ☐ **2.** What is the pricing model - and when were prices last increased?
- ☐ **3.** Is there a product roadmap or service development pipeline - and what investment is required to deliver it?
- ☐ **4.** Are there any products or services that are dependent on a single supplier, licence, or technology?

OPERATIONS AND DELIVERY

- ☐ **1.** How is the business operationally structured - what are the key functions and how are they resourced?
- ☐ **2.** What are the principal operational risks - and what mitigations are in place?
- ☐ **3.** Are there any single points of failure in operations - a key person, a single site, a critical system?
- ☐ **4.** What technology and systems underpin the business - are they owned, licensed, or outsourced?
- ☐ **5.** Is the operational model scalable - what would it cost to double revenue?

PEOPLE AND MANAGEMENT

- ☐ **1.** Who is the senior management team, and what are their roles, tenure, and succession risk?
- ☐ **2.** What is the plan for the founder or current owner post-sale - and have they agreed to a transition period?
- ☐ **3.** Are there retention arrangements in place for key people through a sale process?
- ☐ **4.** What is the total headcount, split by function - and what is the staff turnover rate?
- ☐ **5.** Is the business dependent on any individual whose departure would be materially damaging?

ABOUT QUALERIS

A succession decision that protects more than value

You have probably spent years building your company's reputation, developing its people and earning the trust of customers. A sale should not place those achievements at unnecessary risk.

BEGIN A CONVERSATION

Building the acquirer I wish had existed.

We are comfortable beginning conversations years before a transaction. Confidentiality, honesty and mutual fit matter more than speed.

contact@qualeris.co.uk