

Due Diligence: What Buyers Will Scrutinize in Your Business

Due diligence is the comprehensive investigation buyers conduct before finalizing an acquisition. Understanding what buyers examine helps you prepare documentation, address weaknesses, and move through the process efficiently. This article provides a primer on the due diligence process for commercial HVAC company owners contemplating an exit in the next two to three years.

Financial Records

Financial records top every buyer's list. Expect requests for three to five years of tax returns, financial statements, accounts receivable aging reports, and accounts payable records. Buyers will verify that revenue is accurately reported, expenses are appropriate, and working capital is sufficient. They'll also analyze profit margins by service line and identify trends in your financial performance.

Customer Relationships

Customer relationships receive intense scrutiny. Buyers want to understand customer concentration, contract terms, retention rates, and revenue stability. A business in which the top three customers account for 60% of revenue poses more risk than one with more diversified customer relationships. Be prepared to provide customer lists, contract documentation, and historical retention data.

Business Operations

Operational aspects matter significantly in HVAC services businesses. Buyers will examine your equipment inventory, vehicle fleet condition, maintenance records, and technology systems. They'll assess your service agreements, warranty obligations, and recurring revenue percentages. Your employee roster, compensation structures, certifications, and retention rates will be reviewed carefully, as skilled technicians are critical assets.

Disclosure Requirements

Legal and regulatory compliance can make or break a deal. Buyers will investigate pending litigation, insurance claims history, environmental compliance, licensing requirements, and employee-related issues. Any undisclosed problems in these areas can delay or derail transactions.

Real estate and lease agreements require documentation, whether you own your facility or lease space. Buyers need to understand occupancy costs, lease terms, and renewal options.

Planning Ahead

To prepare for due diligence, start organizing these materials months before engaging with buyers. Create a virtual data room with clearly labeled folders and documents. Address any red flags proactively, such as customer concentration issues, outdated contracts, or compliance gaps.

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