

Why Does My Business Need an Information Memorandum?





INFORMATION MEMORANDUM DEFINED

An Information Memorandum (IM) is a package of documents created by business owners for prospective buyers. The primary mandate of an Information Memorandum is to motivate potential investment into your business. Although this package is designed to draw the interest of prospective buyers, it dually serves the purpose of transparency.

Owners should avoid exaggeration, and aspire to disclose any information that will materially affect the value of the company.

Information Memorandums tend to be very exhaustive as they should include items relating to the financial standing, assets and liabilities, business description, market position, clients, strategies and promotion methods, markets served, etc. of the company.

THE IMPORTANCE OF HAVING A WELL-ORGANIZED INFORMATION MEMORANDUM

An IM gives business owners the opportunity to clearly set out all relevant details pertaining to the company. It is imperative that the information is presented in an attractive, logical, and coherent way as it also reflects the companies' professionalism, quality of management, and dedication to the sale. A high-quality IM is critical to ensure a smooth transition for it promotes transparency and minimizes unnecessary correspondence.

Although the purpose of this document is to motivate investment, it should not be framed as a pitch book. Rather, it should simply be considered as an informational document on the company provided during the sale process.

There is no standard template for IMs - Business owners should tailor their package to present their business in the most objective but optimal light. Regardless of the presentation of the IM, it should convey the same information to all investors in order to promote transparency throughout the selling process. This is even more imperative when the business owner has multiple interested investors.





WHAT TO INCLUDE IN AN INFORMATION MEMORANDUM

An Information Memorandum is the most effective way of providing a large volume of information about a company to investors. In order to increase the effectiveness of the document, business owners should include as much information as possible to reduce future correspondence on the same topic. However, this can prove to be a daunting task as the list for possible headings can be exhaustive.

When preparing the IM, it is beneficial to assume the role of the buyer. This will help you reflect on how to structure your IM, what to include, and how to present it. Instead of passively going through all the headings and filling out the section with information about your business, it may be best to tailor your package in a unique way that will assist buyers in understanding the finer working details of your business. Assuming the role of buyer during the writing process allows for the package to maintain its objective integrity all the while fulfilling its function as a marketing document.



CONCLUSION

You don't get a second chance to make a great first impression. Although there is no standardized template for IMs, oftentimes form follows function. While the aesthetic presentation is important, gathering all the content first will assist in the natural organization and flow of the document. At its core, the IM provides a descriptive presentation of the business as a potential investment opportunity, however the document intrinsically serves further functions.

EXAMPLE CHECKLIST FOR INFORMATION MEMORANDUMS

Here's a template of what you'll need to include in order to ensure your IM brings you success during the sale of your business.

1. EXECUTIVE SUMMARY

- ☐ Company overview
- ☐ Key financials and company drivers
- ☐ Scope of Transaction
- ☐ Key investment considerations

2. COMPANY

- ☐ History and milestones
- ☐ Legal structure
- ☐ Business model
- ☐ Corporate vision and strategy

3. BUSINESS

- ☐ Business units and markets
- ☐ Products and services
- ☐ Customers, references, and networks

4. RESOURCES

- ☐ Organization
- ☐ Employees
- ☐ Infrastructure

5. OPERATIONS

- ☐ Suppliers and procurement
- ☐ Production and distribution
- ☐ Quality management
- ☐ Research and development
- ☐ Logistics
- ☐ Systems and processes
- ☐ Marketing and sales
- ☐ ABC analysis

6. CUSTOMERS

- ☐ Overview of key customers
- ☐ Analysis of customer concentration
- ☐ Summary of attrition trends and projections
- ☐ Detailed account of current market share

7. INDUSTRY

- ☐ Industry structure
- ☐ Competitors
- ☐ Competitive position
- ☐ Strategic position

8. FINANCIALS

- ☐ Overview
- ☐ Profit/Loss statement
- ☐ Current trading
- ☐ Balance sheet
- ☐ Cash flow statement

9. OUTLOOK

- ☐ Summarize existing state of affairs
- ☐ Highlight long and short term goals
- ☐ Summarize main strategies utilized in market trends
- ☐ Summarize main growth strategies

