

What to Expect During Due Diligence At Volaris Group



ABOUT THE DUE DILIGENCE PROCESS

The Due Diligence process is where both the buyer and seller look to validate assumptions about their relationship moving forward. This process typically lasts between 4 to 8 weeks, but varies greatly depending on the complexity of the business being acquired and resource allocation from both sides.

A Due Diligence checklist is often provided by the buyer in order to prioritize the documents required for review. A virtual data room is then set up so the Vendors can upload those documents. Although this process can be done remotely, both parties need to prepare for a few days of onsite Diligence. Onsite Diligence gives the buyer the opportunity to meet with the seller's key employees and customers.



KEY PLAYERS AND THEIR ROLE IN DUE DILIGENCE: THE BUYER



1 BUSINESS CHAMPION

The business champion is the driving force behind the acquisition as they ultimately bear the P&L risk and reward. This champion will review analysis compiled by all buy-side team members to make "go or no-go" decisions. Typically, the business champion is the CEO or divisional presidents inside the business.



2 MERGERS & ACQUISITIONS OR CORPORATE DEVELOPMENT TEAM

The M&A team will manage interactions between parties and oversee the flow of information between buyer and seller. The seller can expect the M&A team to perform strategic market-based and operational-based analysis in order to satisfy the proposed financial models. These analyses will also shape the LOI. Towards the close of the sale, the M&A team will negotiate commercial terms in the final purchase agreement.



3 LEGAL COUNSEL

The buyer will have legal counsel to review all IP, legal, corporate and shareholder information to assess legal risk. Legal counsel will also manage the final purchase agreement with the seller's counsel.

KEY PLAYERS AND THEIR ROLE IN DUE DILIGENCE: THE BUYER



4 TAX SPECIALIST

Tax specialists will conduct a detailed review of all tax information and assess any potential tax liability. This analysis allows them to create the most efficient taxation structure to support the transaction.



5 HR SPECIALIST

The buyer will use an HR specialist to review organizational risk, employee talent, and existing compensation packages.



6 IT TEAM

Lastly, the buyer's M&A team will also likely bring in an IT team to review all IT infrastructure information. This review is used to assess risk and plan onboarding within the existing infrastructure.

KEY PLAYERS AND THEIR ROLE IN DUE DILIGENCE: THE SELLER



1 INTERNAL M&A RESOURCE

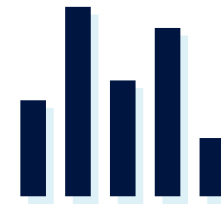
During the selling process, the potential acquirer will need to collect and analyze data about your company. Finding the right people from your organization to help collate this information can be difficult as it will require a chunk of their time and they will be privy to confidential data.

The most common situation that we encounter at Volaris is one where the founder or largest shareholder is the driving force behind the sale. However, in some situations the Founder or Professional Manager assigns a member of their team to drive the M&A process. It is critical to assign this role to a senior and trusted member of the organization, such as the CFO or COO.

2 LEGAL COUNSEL

When looking for legal counsel to help you think through the M&A process, it is critical to work with a lawyer or law firm that is experienced in dealing with selling businesses in your specific industry. The lawyer should possess in-depth industry knowledge, as executing an M&A transaction in the world of manufacturing is very different from a software M&A transaction.

KEY PLAYERS AND THEIR ROLE IN DUE DILIGENCE: THE SELLER



3 ACCOUNTANT AND TAX SPECIALIST

One of the most important people on your team will be your accountant. The accountant will play a crucial role during the Diligence process, particularly in situations where you have chosen not to engage a business broker. Your accountant will act as a trusted advisor and will help you navigate the financial aspects of Due Diligence.

Moreover, the tax implications of selling a business are often overlooked. Engaging an accountant to structure the transaction in the most tax efficient manner can create additional value for the seller.

4 BUSINESS BROKER

Whether you should involve a broker to act on your behalf is entirely dependent on your preference and expectations. Their role is to help manage the flow of information which allows you and your team to continue managing the day-to-day operations of your business.

The advantage of using a broker is that they are able to broaden the number of potential buyers, or work closely with a purchaser that you have identified. The disadvantage, of course, is that they will take a commission for the transaction and therefore, may not have your best interest in mind.

BEST PRACTICES TO APPLY DURING DUE DILIGENCE



STAY ORGANIZED

Review and categorize all documents for accuracy before sharing them with the prospective buyer.



ASSIGN A DEDICATED RESOURCE

Assign a dedicated resource from your team to control all of the information shared between you and the prospective acquirer.



EXERCISE TRANSPARENCY

During the Due Diligence process, it is extremely important for both parties to be fully transparent and disclose any known material issues.



APPLY A TIMELINE

Due Diligence can be a lengthy process - set benchmarks for you and your M&A team by scheduling timetables to complete the delivery of all documents.



DOCUMENT ALL Q&AS

Keep a live document of all Q&As. This will help ensure the same questions are not repeated multiple times over the course of Diligence.

SAMPLE DUE DILIGENCE CHECKLIST

As mentioned above, the buyer will typically present the seller with a Due Diligence checklist. Here are some examples of what the seller can expect to find on that checklist:

1. FINANCIAL STATEMENTS

- ☐ Audited historic financial statements
- ☐ Year to date financial statements
- ☐ Forecast financial statements (if applicable)
- ☐ Select schedules and working papers supporting the above statements

2. MARKET INFORMATION

- ☐ Market analysis/reports
- ☐ Competitor landscape & market share
- ☐ SWOT analysis
- ☐ Etc.

3. COMMERCIAL DATA

- ☐ Pricing and revenue model
- ☐ Product analysis
- ☐ Sales strategy
- ☐ Customer level data and analysis
- ☐ Sales funnel and backlog

4. LEGAL MATTERS

- ☐ Identify any historic, current, or potential claims, disputes, litigation, or investigation
- ☐ Supplier agreements
- ☐ Customer agreements
- ☐ Rental agreements
- ☐ Etc.

5. CORPORATE AND SHAREHOLDER

- ☐ Shareholders register, bylaws, and other relevant documents
- ☐ Etc.

6. INTELLECTUAL PROPERTY

- ☐ Patents, pending patents, including relevant legal correspondence and opinions
- ☐ Registered and pending trademarks including relevant legal correspondence and opinions
- ☐ Non-disclosure agreements and non-competition agreements, and copies of internal policies and procedures regarding confidential information
- ☐ Research and development or cooperation agreements
- ☐ List of open source software embedded in each software module and agreement
- ☐ Etc.

