



30 Second M&A Newsletter 8 Top Reasons Buyers Walk

If you are anticipating selling your business, it is paramount to work with an experienced M&A team, including an attorney who will protect your interests, is a proven deal maker, and not a deal breaker.

This is also why you want the buyer to outline as many deal terms as possible in the letter of intent (LOI). At the LOI stage, you still have other buyers at the table, giving you more leverage and options.

Avoid these top 8 reasons a buyer walks:

The company is not what it seemed: During due diligence, the buyer may discover that the target company is not what they expected. This could be due to operational issues, poor recordkeeping, inadequate systems, or other concerns. If the buyer believes these problems will make the deal too risky, they may walk away.

Financial concerns: When evaluating an opportunity, buyers are looking at a company's financial health and future earnings potential. If, during due diligence, they find significant issues, such as declining revenue, over-aggressive addbacks, or inaccurate financial statements, the buyer may stop the deal.

Cultural red flags: An acquisition involves the integration of people and organizational cultures. Buyers and sellers should have had culture discussions before the letter of intent stage. But sometimes new information reveals itself as the parties work together. If the buyer perceives significant culture differences, they may walk away to avoid potential integration challenges.

Liability concerns: In due diligence, buyers look at a range of risk factors. They don't want to face an unexpected lawsuit or deal with the aftermath of improper corporate conduct, including ethical and legal issues, regulatory requirements, contracts, and tax liabilities.

Environmental issues: Many transactions will include an environmental site analysis. Even if you aren't selling the real estate with the business, the buyers may want assurances that the business hasn't been the source of any unknown leaks or contamination.

Strategic shifts: Sometimes changes in the buyer's business strategy can prompt them to reconsider an acquisition. Even something as simple as the buyer losing a key executive who championed the deal can sideline an otherwise healthy transaction.

Unresolved negotiation issues: Negotiating an M&A deal requires reaching consensus on a wide range of deal terms including price, payment terms, contractual obligations, warranties, working capital, and other deal-specific issues. If the buyer and seller cannot resolve key negotiation points, it can lead to deal termination. Resolving these issues can be a critical point of failure for many deals.

External factors: Finally, some deals get foiled by external factors outside the buyer's or seller's control. For example, COVID-19 killed or delayed many deals. The housing bust, 9-11, political shifts, supply shortages, and rising interest rates are just some of the many events that have stopped deals.



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