

# Due Diligence in Acquisition of Schools



You found a good school (preschool or K-12 school) to acquire, did a valuation of the school, presented an offer to the Seller, and the Seller accept it. Then, what? Well, the next step is to confirm assumptions of your valuation and identify risks in acquiring the school. That is the purpose of the due diligence.

While your advisor(s) does the due diligence, your attorney will be working in the purchase agreement. Thus, the due diligence is a critical step in the acquisition process of a school.

The due diligence begins from the moment the buyer starts to gather information about the target school. From the onset of the process, the buyer should systematize the gathering of the information, findings, identification of risks, and inventory of protections against any potential liability to seek in the purchase agreement.

Confidentiality is very important in this process. Buyer, seller and advisors should take all precautions necessary to keep the process confidential. Nobody wants parents, faculty, staff and the community to know about a process like this, nor see negative impacts on admissions, faculty retention, and so on. These stakeholders will know about it in due time, if the acquisition comes to a closing. Thus, a non-disclosure agreement is necessary in a process like this.

The objective of the due diligence (“DD”) in a school acquisition is to identify risks (deal breakers, and critical/non-critical risks). Thus, the work should be around analyzing closely the value drivers of the school and the areas of concern the buyer has identified. These two will dictate areas of the DD focus.

It involves identifying assess its impact and probability of occurrence. It should establish an action plan to mitigate those risks in the purchase contracts (through warranties and indemnifications), as well as during the integration period (post-closing).

The DD should cover at least the following areas: financial and tax aspects, operational, facilities and environmental and academic.

- The **financial DD** should cover several areas including analysis of financial statements, quality of earnings, enrollment, tuition, student register, billing, financing, personal property, and others.
- The extent of the **legal DD**, will depend on whether the buyer is acquiring only assets or any entity (corporation or LLC, i.e. acquiring its shares or interests). A legal due diligence should cover at least material contracts, corporate records, real estate, intellectual property, current and possible litigation, licenses, and so on.

## About Mergium Advisors

Mergium Advisors specializes in selling and buying schools and other educational institutions. We also do capital raising, and related advisory services (including acquisition due diligence and business valuations) in the education sector.

## Education Focus

- K-12
- Preschools
- Childcare centers
- Special Education
- Autism services (ABA in school, centers, and homes)
- Colleges & Universities
- Continuing Education & Training
- Education Technology
- Language Training and Tutoring
- Publishing & Instructional Materials

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- The **tax DD** should focus on all relevant aspects of federal, state, and local taxes.
- If the deal includes the acquisition of real estate, the **real estate DD** should include analysis of the asset including, surveys, environmental report, inspection of the facilities, insurance, zoning compliance, approvals for use, code and other violations, tax assessments, special assessments, among others.
- The **operational DD** refers to the operational aspects of the school including analysis of capacity and enrollment, operation reports and policies, faculty and staff (compensation, training, records, job descriptions, employment agreements, misclassification of employees, complaints of unlawful activity, government audits and investigations), systems and controls, emergency/disaster plans, parent handbooks, etc.

Thus, a complete due diligence requires the participation of specialists in different areas. It will be the guide for the buyer to adjust purchase price, if necessary, and seek the warranties, representations, escrows, and other protections that are appropriate to minimize risks. Also, the DD results are a guide for the buyer to assure a successful integration or take over of the school.

Mergium offers the service of due diligence in the acquisition of schools. Mergium's executive have more than 25 years of experience in mergers and acquisitions, buying and selling of business. We will be glad to discuss with you our approach to due diligence and how we can assist in the process.

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