



Mastering Due Diligence

A practical guide for buyers and sellers, from the team at
Kakapo Business Sales





What is Due Diligence?

Due diligence is the process of verifying everything you've been told about a business before a sale is finalised. Think of it as doing your homework. Properly.

For buyers, it's your opportunity to confirm that what's on paper matches reality. For sellers, it's the moment your preparation either pays off or catches you out.

Done well, due diligence protects both parties and gives everyone the confidence to move forward. Done poorly, or skipped altogether, it's where deals fall apart and where buyers can end up with something very different from what they bargained for.

Why It Matters

Buying or selling a business is one of the biggest financial decisions most people will ever make. Due diligence is what makes sure that decision is based on facts, not assumptions.

For buyers, the risks of rushing or skipping due diligence are significant. Hidden liabilities, inflated revenue figures, undisclosed disputes, or a lease that can't be transferred are the kinds of issues that can turn a great opportunity into a costly mistake.

For sellers, being unprepared can be just as damaging. Buyers who encounter disorganised records or unanswered questions quickly lose confidence, and a deal that was almost done can unravel fast.

The good news is that with the right preparation and the right team around you, due diligence doesn't have to be stressful for either side.

What Gets Examined?

Due diligence covers a lot of ground. Here's what buyers will typically want to look at, and what sellers should be ready to provide.

Financials

Three years of financial statements, tax returns, GST returns, management accounts, and cashflow records. Buyers will be looking to verify revenue, understand margins, and identify any irregularities between what's been reported and what's been declared to the IRD.

Legal

The sale and purchase agreement, any existing contracts with suppliers or customers, intellectual property ownership, pending disputes or litigation, and any compliance obligations specific to the industry.

The Lease

This one catches a lot of people off guard. If the business operates from a leased premises, buyers need to know the lease can be transferred, how much time is left on it, what the terms look like, and whether the landlord is likely to cooperate. A business with a great location and a problematic lease is a risky buy.

Operations & Systems

How does the business actually run day to day? Are the key processes documented, or does everything live in the owner's head? Buyers want to know they can step in and keep things running smoothly.

Staff

Who are the key people, what are their employment agreements, and are they likely to stay after the sale? A business that depends heavily on one person, especially the owner, carries more risk than one with a capable, stable team.

Customers & Contracts

Is revenue spread across a healthy number of customers, or is the business heavily dependent on one or two? Existing contracts, recurring revenue, and customer concentration all factor into how a buyer assesses risk.

How Long Does It Take?

Every business is different, and so is every due diligence process. As a general guide, most business sales in New Zealand involve a due diligence period of between 10 and 20 working days.

Simpler businesses with clean financials and straightforward operations tend to move through the process quickly. Larger or more complex businesses, those with significant assets, multiple staff, or intricate contracts, can take considerably longer.

The biggest factor in how smoothly due diligence runs? How prepared the seller is when it starts.

Common Red Flags

For buyers to watch out for:

Financials that don't match the tax returns. A story that's hard to verify. Key person dependency, where the business would struggle significantly if the owner left. Lease terms that aren't transferable. Vague answers to specific questions.

For sellers to be aware of:

If you can't clearly explain your numbers, buyers will assume the worst. If your processes aren't documented, buyers will worry about continuity. If your lease isn't in order, it can stall or kill the deal entirely. Preparation is everything.

A Note on Getting the Right Advisors

One of the most common mistakes buyers make is using advisors who don't specialise in business sales. A lawyer who mainly handles conveyancing, an accountant who does your annual returns, or a mortgage broker who sorted your home loan are all great at what they do, but business transactions are a completely different world.

You need a lawyer who regularly works on business sale and purchase agreements, an accountant who understands how to properly assess business financials, and a mortgage broker who specialises specifically in business acquisition lending. The way banks assess lending for a business purchase is completely different from a home loan, and a broker who knows that landscape will give you a far better chance of securing the right funding on the right terms.

Engaging the right specialists makes a significant difference to how smoothly due diligence runs and how confidently you can move forward.



How Sellers Can Prepare

The best time to start preparing for due diligence is well before you go to market. Here's what we recommend.

Get your financials in order

Three years of clean, reconciled accounts that align with your tax returns will give buyers confidence from the start.

Document your processes

Write down how the key parts of your business operate so that a new owner can hit the ground running.

Review your lease

Know what the terms say, when it expires, and what the transfer provisions look like. If there are issues, better to know now.

Understand your staff situation

Be clear on employment agreements, key person dependencies, and how your team is likely to respond to a change in ownership.

The sellers who sail through due diligence are the ones who treated preparation as part of the selling process, not an afterthought.



How Kakapo Can Help

At Kakapo, we've guided hundreds of buyers and sellers through the due diligence process. We know what buyers look for, what sellers get caught out on, and how to keep things moving when they get complicated.

Whether you're buying your first business or selling one you've spent years building, our team is here to make sure you're prepared, protected, and supported every step of the way.

Give us a call or get in touch. We'd love to help.

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