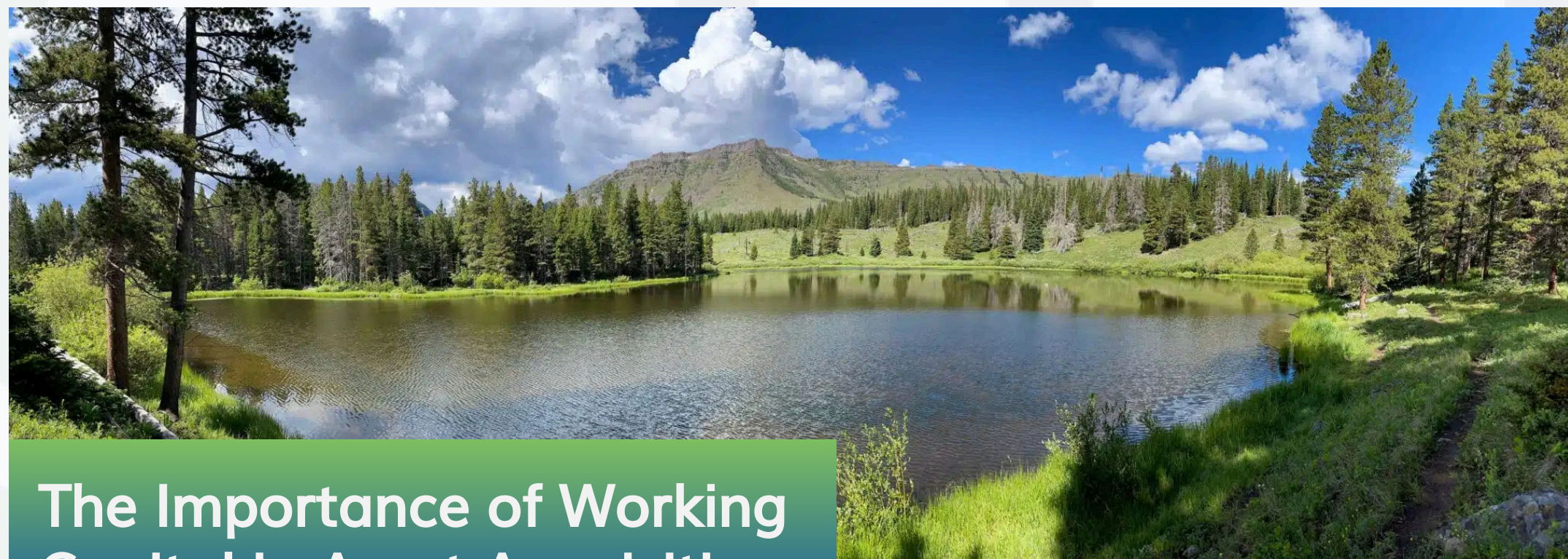


Working Capital Overview



The Importance of Working Capital in Asset Acquisition

Working capital, defined as the difference between current assets and current liabilities, plays a vital role in ensuring financial stability during and after an asset acquisition. It acts as a financial buffer, enabling the business to meet short-term obligations, sustain operations, and support future growth. Here's a deeper dive into how working capital impacts the acquisition process and why it's critical for both buyers and sellers to prioritize its management.

Key Components of Strategic Working Capital Plan:

- **Establishing a Target:**
 - Use a 12-24 month rolling average to define a realistic working capital target.
 - This approach accounts for seasonal fluctuations and operational volatility, ensuring a balanced benchmark.
- **90-Day Post-Acquisition Review:**
 - A review period allows stakeholders to compare actual working capital with the target.
 - Early identification of discrepancies helps adjust the purchase price, ensuring fairness for both parties.
- **Adjustments to Purchase Price:**
 - Higher-than-expected working capital: May indicate strong liquidity and operational efficiency, in this case seller may be entitled to additional funds.
 - Lower-than-expected working capital: Could signal financial challenges, in this case buyer may be entitled to additional funds.
 - Often times a range is established around the working capital target prior to any additional transfer of funds.
- **Operational Continuity and Stability:**
 - Adequate working capital ensures the smooth running of daily operations post-transactions.
 - It minimizes risks of disruptions, safeguarding the newly acquired business's ability to perform.
- **Protecting Stakeholder Interests:**
 - A well-defined working capital strategy prevents either party from being unduly harmed.
 - It fosters trust and collaboration, creating a smoother transition process.

Benefits of a Strong Working Capital Focus:

- **Mitigates Risks:** Helps address unforeseen cash flow issues that may arise during the transition.
- **Ensures Liquidity:** Provides sufficient resources to manage short-term obligations, ensuring operational continuity.
- **Facilitates Growth:** Supports investments in business improvements and expansion opportunities.
- **Promotes Transparency:** Clearly defined targets and review periods encourage open communication between buyers and sellers.
- **Enhances Valuation Accuracy:** Aligns the purchase price with the financial health and operational efficiency of the business.

Conclusion

A strategic focus on working capital is essential for a successful asset acquisition. By establishing clear targets, conducting thorough reviews, and making timely adjustments, buyers and sellers can protect their interests, maintain operational stability, and lay the groundwork for long-term growth. Prioritizing working capital not only safeguards the investment but also enables the newly acquired business to thrive in its post-acquisition phase.

Provided by

TCQ Solutions, led by Dan Ellsworth, specializes in facilitating business transactions for owners in the animal health and agriculture industries. With expertise in livestock, equine, and companion animal markets, TCQ provides strategic guidance to maximize business value at exit, ensure seamless transitions, and align buyers with the vision of preserving legacies and fostering long-term growth for employees and companies.