

Preliminary legal and financial due diligence advice for schools

For schools considering a charitable collaboration or acquisition, a key decision will be whether to enter into a formal memorandum of understanding ('MOU') or heads of terms and begin working through a transaction timetable.

This process will include starting a full legal and financial due diligence exercise which is a significant commitment, both in terms of time and money spent.

Our preliminary due diligence process focuses on essential sections of the target's business, assets and financial model. The Board is then able to make an informed decision early on without spending excessive time or money on a transaction which is subsequently not deemed viable.

Preliminary legal due diligence exercise

A non-exhaustive list of typical areas covered in relation to the target include:

- **Property:** The title number(s) of the target's property to identify ownership, the extent of the property, and if there are any restrictions, covenants or third-party rights attached
- **Assets:** A basic understanding of the target's assets is important as you will need to understand what is actually owned and their value because some key assets may be leased or held by a third party
- **Business:** It is important to know whether the target's business is being operated correctly and if there are any commercial or regulatory issues. If pupil numbers are down, there may be issues outside of the known factors currently impacting the independent school sector
- **Other issues:** Your board must understand whether there are any potential points of embarrassment if they were to proceed with the transaction. For example, this could include gaining a brief understanding of any ongoing or potential litigious issues, safeguarding or child protection issues or other matters that could have a serious detrimental impact on the target's reputation and/or future viability.

There may be additional enquiries that need to be raised as part of the preliminary investigation process. The time it takes to report will depend on the quality of replies and/or documents received from the target, which may be limited by a lack of resources.

Preliminary financial due diligence exercise

Typical areas covered in relation to the target include:

- **Financial model:** Establishing the strengths and weaknesses of the financial model using the statutory accounts
- **Financial viability:** Assessing the current financial position and financial viability using the current management accounts and year end forecast
- **Financial sustainability:** Assessing financial sustainability using five-year projections
- **Financial recovery:** Assessing the turnaround required using the recovery budget.

As part of the preliminary due diligence exercise, we provide an 'interim' due diligence report which highlights any key issues, red flags or other areas of concern for the Board to consider and assist them in their decision-making. If the decision is made to progress the transaction, a full due diligence must be completed, building on the legal and financial work which has already been undertaken.

Estimated costs

The cost of the preliminary due diligence is largely dependent on how much due diligence is conducted, including bespoke questions outside of the core questionnaire. Please get in touch for more details.

Key contacts



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