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NEWSLETTER

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Are you doing enough due diligence to achieve a successful transaction?

Corporate finance transactions are all about knowing what you are about to get into … and finding no surprises when you get there.

Robust and comprehensive due diligence as undertaken by an independent reporting advisor is one of the main tools used by bank lenders and equity investors (the client sponsors) to mitigate exposure to transaction risk. Each client party will have received a target company's financial and commercial information, which may have formed the basis of an offer. The due diligence exercise needs to ascertain whether the target-co's historical performance, management plan and business forecast are accurate and reflect the target's real underlying performance and potential.

Due diligence should never solely rely on explanation of detail provided by the company's existing stakeholders as there is clearly a conflict of interest. To obtain an unbiased view of the target's level of maintainable revenues and earnings, detailed due diligence will be necessary to get underneath the reported results and projections in order to more roundly evidence and corroborate explanations.

Importantly, due diligence seeks to understand and convey to the new lender or investor the logic and rational of the present-day management team (and existing equity backers) when they have taken, or would propose to take, the business down a particular route to market. It provides the client with an independent, strategic assessment of the risks/benefits found in the target-co when that business's trading is aligned to specific markets and opportunities. Taking the target's financial and commercial KPIs into consideration alongside customer/supplier references and other information about market growth and competitors… are business objectives reasonably stated and presented in a vendor's information memoranda or business plan?

Due diligence delivers a pragmatic and balanced view of the target-co's overall strengths, weaknesses, and opportunities. It provides the client with the specific financial and commercial information they will need to have at their disposal if they are to reach a position of comfort that a deal with the company and its representatives can be struck.

The diligence may assess the degree to which a management team is in control of the company's destiny, whether the business model works and has the capacity to meet present or planned banking arrangements, and the likelihood of meeting the minimum requirements of a potential investor or buyer. The solutions to manage the identified risks may involve a price negotiation, deferred consideration or other mitigating actions or protections. If no solution is forthcoming, the ultimate recommendation may be to walk away.

Today's highly competitive business environment increases the pressure on companies and their management teams to perform, thereby increasing the risks associated with any financial transaction. So the question is … are you carrying out enough due diligence to maximise the chances of a successful deal?

If you would like to know more about how we may be able to support your assessment of business and market attractiveness, please contact: ***David McClelland, Director***