

April 2019

Carlton Strategy Advisors – Tenth Anniversary by David McClelland

Very pleased to be celebrating 10 years (2009 – 2019) as an independent corporate finance Commercial Due Diligence adviser, trading as Carlton Strategy Advisors.

“Ten years ago, after coming out of ‘big practice’, my first piece of CDD as an independent reporting consultant was in connection with a nanotechnology instrumentation and thin-film materials deposition business. My latest transaction involved a business active in the energy utilities ‘smart-meter’ sector. In the years in between, there has been a steady flow of private equity and bank debt mandates from clients evaluating deal exposures in almost every business sector imaginable.

Nanotech, environmental testing, electromagnetic assemblies, ERP software, coiled tube drilling, healthcare diagnostics

The personal attraction to me of serving clients engaged in transactions within the SME and lower mid-cap market is in having the opportunity to meet hugely interesting target-company owners and business managers in the process of taking on an ‘event’ such as an MBO, trade deal or cash out and being able to conduct open and frank conversations about their motives, objectives and plans. Equally interesting, are those conversations with the sponsors of those deals who each have their own distinct zone of comfort and appetite for risk.

Spent nuclear fuel, workplace coffee, SaaS media proofing, sailing clothing, aesthetic skin treatment, recruitment services

Having advised on some 100 career transactions, trading as Carlton Strategy Advisors and in prior practice, my approach to due diligence is now process driven and entirely sector agnostic – if only because businesses are never the same and seeking to understand what each one does, and why, is what feeds my interest, both professionally and personally.

Retail hardware support, workforce software, cakes, metal turning, media management software, formula-1 components

I like to articulate the process of CDD, as defined by the outcomes of all of my completed transactions, in terms of four overlapping project work flows:

Ophthalmic equipment, CCTV distribution, police investigation software, eyewear, ground support equipment, anti-microbial biotech

- Sitting down with target-co management for one-on-one interview
- Reviewing the separate sources of business revenue and gross margin
- Understanding the drivers of market growth and competition
- Referencing customers, suppliers and market middlemen

Management like the work and be happy to warrant factual accuracy – or will the reported trading numbers and other observations be contested in any way?

Self-storage, tank cleaning, valve machining, plasma cutting, control panels, car parts, fluoropolymers, utilities ‘smart’ meters

An important aspect of the due diligence process, and one that creates extra adrenalin, is having the draft reporting document reviewed by target-co management. Will

The final part of the process, and the one to which I will always give greatest consideration, is to prepare the report’s executive summary. I always say this is my ‘paint on the canvass’; my opinion about the business under review, based on a number of strategic evaluation models. For example:

- SWOT analysis
- Competitive strength vs market attractiveness mapping
- Business risk vs likelihood of occurrence mapping
- Five-forces competitive evaluation

Can the business be reasonably expected to hit its forecast numbers? Is the customer pipeline real or a dream too far? Where is the market? Who holds the 'whip hand' in a competitive supply chain? What combination of business, market and economic factors will 'make' or 'break' the deal? Where will this information come from?

Ten years as an independent CDD adviser, 50 completed client transactions, and several hundred customer interviews and countless thousands of business questions asked... not a bad anniversary to be celebrating!"

***David McClelland** is Director of Carlton Strategy Advisors. For information about how CSA can help you to assess business and market attractiveness please contact: carlton-advisors.co.uk*