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# BUSINESS CONSULTING

## UK

Carlton Strategy Advisors was established in 2009 by its founder and director, David McClelland, following a career spent in corporate finance transaction services with two top-ten UK accounting firms and in corporate commercial management.

As an independent commercial due diligence and strategy consulting firm, CSA positions its services to address the needs of clients in the fields of corporate bank lending, private equity investment and trade company acquisition. CSA's sole object, as reporting consultants, is to bring transparency and perspective to client transaction decisions. Our business and market analyses of trading companies as prospective bank customers or investee portfolio businesses (the target-co) provides information that will augment the client's own, internal assessment of target-co relationship exposure, including settlement and investment risk.

### Business Consultancy in Practice

Commercial due diligence (CDD) involves the reporting consultant being parachuted into the target-co and effectively holding a mirror up to it in order to judge strengths, weakness, opportunities and threats. CDD is therefore an assessment made by the consultant of the mix of financial, commercial and market information the investor, lender or future business owner/manager needs to become comfortable that a deal can be struck and at a valuation based on the target-co's competitive positioning and prospects.

CDD analysis seeks to understand the levels of management thinking, rationality and logic resting within the target-co that lie behind the business's chosen direction, strategy and routes to market. It provides the client with an independent assessment of the risks/benefits found in the target-co when trading is aligned with key customers/suppliers and positioned against alternative market providers as competitors.

As a process, CDD will review formal documents such as the target-co's business plan and management accounts in order to identify the main sources of revenue and margin. A fundamental aspect of this analysis will be to segment sales by customer, product and/or geographical region to identify trends in the pattern of their relative growth or decline along a historical/forecast timeline most relevant to the business environment in which the company trades.

In this respect, one may rebuild the target-co's sales forecast after 'sensitising' the customer pipeline. This will involve taking the market/customer/competitor information and applying an objective 'probability' that a particular sales target can be achieved within a given period of time. Analysis of this nature also takes into consideration the question of whether a majority of earnings may be considered 'recurring', ie underpinned by customer contracts, based on sustained customer loyalty, or the result of weak competition. It also takes into consideration the tacit knowledge, patents and other intellectual property which combine to create barriers to market entry for rivals and serve also to create customer dependency.

In cases where CSA's client is an equity investor in particular, our scope may require the CDD additionally to identify opportunities within the target-co for performance improvement and accelerated market extension plus advice on prospects for an eventual investment exit, ie trade sale or secondary MBO.

### Investment Situation:

A typical CSA consulting assignment will

support a client investment of growth capital in an SME type business: a target-co with a relatively developed core proposition and significant uplift potential.

In one example, CSA successfully supported WestBridge Capital and HSBC by providing full scope CDD in connection with the recent £8.5m management buyout of Aero Stanrew Ltd, a specialist manufacturing business, active in the aviation and defence sectors.

CSA examined the Aero Stanrew business plan prepared by company management in support of the buyout. A key feature of the plan was the business's ability to further develop its position as an integrated supply chain partner to tier-I customers across the fields of electromagnetic components and electronic assemblies design, assembly, and document control. The focus of the diligence was therefore on the willingness of the industry to adopt a supply chain partnership model, particularly in the areas of technical and commercial collaboration – and the resulting benefit to the business from improved market visibility and predictable demand. The CDD, which included extensive market/competitor analysis and customer referencing, provided an overview of the main sources of industry competition and assessed Aero Stanrew as a business which, according to CSA's interpretation, could develop its partnership model and successfully grow sales over the next five years.