

Ask the panel of experts



▲ Mark O'Leary, Corporate finance partner, BDO Stoy Hayward

What question or questions is financial due diligence trying to answer?

The due diligence process enables prospective investors to ensure they make an informed investment decision. As such, there is no 'one size fits all' - in fact it is critical that the approach and focus of financial due diligence is tailored to each situation.

With this in mind, there are certain key questions that do (or should) arise in all FDD reviews:

- Are there any black holes?
- Are assets and liabilities fairly stated?

- Can the reported level of profitability be maintained?
- What working capital does the business need?
- Do management's financial projections appear reasonable?
- Where is the cash?

Our transaction services team typically focus on the above questions but we invest substantial 'upfront' time with our clients to understand their specific requirements and ensure we meet them. It is easy to gain answers to a myriad of questions on any business but interpretation and robust opinions are what really count. The skill and added value arises in helping our clients understand the critical issues and negotiate the best possible deal by focusing on those questions that really matter.

▶ Anindya Mukherjee, Project Manager, Roland Berger London office

What facts should you be looking for in the due diligence process in order to make the post-merger integration as smooth as possible?

To optimise the integration path, you must develop detailed plans ahead of time and have a clear understanding about how to cope with any cultural issues between the organisations.

Due diligence investigations must focus on uncovering facts that enable you to plan concrete actions. For example, if the market for the target's services is growing in Russia, how should you organise and incentivise your new salesforce to maximise the opportunity? If gross margins are low and you want to improve procurement - in which areas, how, and how much?

Similarly you must uncover cultural mismatches and plan to harmonise them. For example, how are managers incentivised - individually or as a team? If you need to change this, what actions will you take and how will you communicate them?

One result of due diligence should be a detailed action plan that can be



easily turned into an implementation blueprint for rapid integration of the two companies without destroying value

▶ Chris Kammer, Director of the Institute of Mergers, Acquisitions & Alliances

What are the most important questions in the due diligence process?

Of course you will usually follow the traditional procedure and check points from financial to legal aspects. They all are very relevant, but basically this is a no-brainer. The true art is shown when all details are put together like a puzzle to give you the whole picture. Because what really matters is to answer the key questions like those on strategic fit and the likelihood of post acquisition or merger success. Therefore it is important to staff team members with in-depth industry expertise, but who also know the acquiring company as well. The due diligence process must be truly output- and success-oriented.

▶ Matthew Farnsworth, Atkins Global

For which acquisitions should environmental due diligence be considered essential? Why?



Today's regulatory regime rarely presents a business opportunity that is completely free from environmental risk. While seasoned acquirers acknowledge that manufacturing will carry a degree of environmental business risk; deciding when to perform environmental due diligence (EDD) can be swayed by false perception of the environmental issues and the need to close the deal.

The decision of what is important is always best left to your environmental advisors, since legislation affects businesses and countries at



different times. Can the inquisitive buyer be sure that the necessary upgrades have been accounted for, so as not to affect operational functionality?

Operational delays will cast doubt on how well prepared the management team is in identifying their current and future liabilities and investors are unlikely to be understanding should the business soon require material upgrades because someone failed to consider environmental due diligence. The precautionary principle will always serve you well.

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