



MOORE STEPHENS

Comprehensive and
timely feedback for
potential acquirers

Corporate finance

PRECISE. PROVEN. PERFORMANCE.

Comprehensive and timely feedback for potential acquirers

The Moore Stephens Transaction Services team prepares financial due diligence reports on acquisitions, disposals and capital market transactions. Our reports inform decision-makers, support price negotiations and improve your return on investment.

Financial due diligence is a detailed investigation into a target business providing information to assist pricing decisions, transaction structure and post-deal implementation. The results are presented in a report to help potential acquirers evaluate, and act on, the risks inherent in any transaction. These reports are used on a range of transactions including acquisitions, disposals, flotations and bank re-financing.

Financial due diligence is an integral part of the investment appraisal process, and can also support the valuation and business plan analysis.

As an example, financial due diligence reviews can include:

- analysis of historical trading, net assets and operating cash flows;
- review of recent trading, last twelve month (LTM) analysis and comparison to previous years;
- assessment of forecast performance including business model drivers, cash flow dynamics and working capital requirements;
- identification of completion issues such as quantification of earnings and net debt analysis;
- covenant reviews and headroom against facilities; and
- management reporting systems, IT capabilities and internal controls.



Client benefits

Financial due diligence is a critical aspect of transaction planning as it can affect the purchase price for a business or even the decision whether to proceed with a transaction. As an example, due diligence often identifies areas of risk, errors or misstatements which allow a purchaser to renegotiate the terms of a transaction. In addition, as these issues are rarely disclosed by vendors at the start of a transaction, due diligence provides leverage during negotiations by identifying issues for inclusion in the legal documentation prior to completion.

The due diligence process requires financial analysis and fieldwork which is time consuming for management teams to complete. The outsourcing of this process to experienced professionals allows clients to focus on management actions and benefit from advisers' expertise in this area. In particular, gaining a full understanding of underlying earnings, normalised working capital and completion issues requires specialist expertise prior to completion.



Our approach to due diligence

Our approach to due diligence provides comprehensive and timely feedback for potential acquirers and financiers. The provision of reliable information throughout a transaction is critical to its success so we keep clients informed with regular updates, interim presentations and final reports issued to agreed timescales. In addition, we provide valuations, financial modelling and advice on sale and purchase agreements to improve client's returns after completion.

Tailored reporting

Moore Stephens provides a number of reporting formats tailored to the circumstances of a transaction. For example, our work can range from an executive summary style report to a detailed long form report used on a flotation as described below:

Executive summary report: a high level summary of the material issues arising from our work such as price negotiation points, sustainable earnings (i.e. underlying EBIT and EBITDA) and potential issues in the sale and purchase agreement.

Detailed reports: a comprehensive investigation into the financial performance of a business including analysis of material account balances, explanations for variances, commentary on business trends and key performance indicators.

Vendor due diligence reports: a report commissioned by the vendor of a business rather than the purchaser. A vendor due diligence report is typically prepared during an auction process and made available to a number of potential acquirers rather than a single potential buyer.

Data packs: a summary and numerical financial analysis without supporting commentary.

Potential transaction issues

A number of recurring issues often arise during due diligence including:

Underlying earnings: the identification of one-off items, exceptional profits or losses or changes to accounting policies can distort the profitability reported in the accounts. The due diligence report can present the trading results of a business excluding these items in order to assess the underlying trend in profitability.

Accounting policies: the material accounting policies should be reviewed to identify the use of judgement in their calculation and the scope for manipulation of results. The accounting issues that often arise in transactions include revenue recognition, stock valuation, capitalisation policies, long-term liabilities and provision releases.

Net assets at completion: the due diligence report may include a recent net asset position of the target business for completion accounts purposes or to assess the value of the assets being acquired. This work may also require consideration of the carrying value of assets and the completeness of liabilities.

Cross border locations: the presence of cross-border or multi-site locations in a target business can increase the complexity of the transaction process and increase the risks involved. For example, it may be necessary to visit accounting functions at different locations, while cross-border operations create additional foreign exchange exposure risks. However, multi-site operations also create the opportunity for improved returns through economies of scale and the use of offshore supply chains.