Due diligence in growth strategy

A process of critical analysis is essential for successful acquisitions or partnerships.

In an ever growing competitive landscape, smaller and mid-sized companies are now seeking the smartest route forward in their growth strategies. For many, that means a renewed interest in merger and acquisition (M&A) activity. To thrive amidst competitive conditions, timely and accurate intelligence isn’t just an option, it’s a necessity – and that means a professionally executed due diligence process.

A process of critical analysis is essential for successful acquisitions or partnerships. It equips buyers as well as investment partners and lenders with a clear understanding of the story behind the numbers, different than conventional reporting or audits can reveal. With ongoing changes to Accounting Standards for Private Enterprise (ASPE), that understanding may be more difficult than ever to secure. Understanding the financial, accounting and business processes provides clarity that can help protect a company’s investment, its investors and – ultimately – its reputation.
A process of critical analysis is essential for successful acquisitions or partnerships

What is due diligence?

Professional financial due diligence analyzes a target company’s books, records and other internal reports and documents for financial and business trends. The diligence exercise probes deeply into the quality and sustainability of earnings by examining underlying risks and exploring previous financial performance to determine whether it can reasonably be expected to continue, and to understand how changing circumstances and trends may impact the future of the business.

Think this just applies to mega-deals between large firms? Not so. Often small and mid-sized targets have less sophisticated financial reporting, which can increase the risk in a transaction. A professionally prepared due diligence report can also be a significant asset (and often is a prerequisite) when an organization is trying to secure sources of funding for a transaction.

Due diligence provides additional clarity that may not come to light in a typical negotiation

Going beyond the numbers, due diligence professionals meet with the target company’s financial and non-financial management to understand the larger context of the business, identifying potential problems or areas that may impact the investment thesis. They look at the financial implications of findings, analyze projections, and help structure a deal that optimizes both risk and tax implications. Working with a financial due diligence team that can also draw on complementary expertise in operational due diligence, income and indirect taxes, IT consulting and more also means a smooth transition to a more fulsome diligence.
Due diligence process

While the length of time necessary for effective due diligence varies with every project, it is prudent to build it into every transaction. Our typical steps include:

1. Understand the essence of the potential transaction, including the investment thesis and key value drivers for the potential investor.

2. Understand the specific risk areas that require focus, and tailor procedures to be performed.

3. Manage all requests for information, and work with management to establish an appropriate work-plan.

4. Perform detailed procedures including financial analysis, detailed discussions with management and site visits, when applicable.

5. Provide real-time updates and present draft findings and reports to ensure that the purchaser is aware of all issues, and to be confident that the final report will meet stakeholder needs.

Companies that undertake the due diligence process with insufficient vigor, or that view it as a perfunctory exercise to be checked off quickly, do so at their peril. Now more than ever, an effective and comprehensive due diligence process can help mitigate organizational, reputational and financial risks. Savvy leaders, no matter what the size of their organization or the transaction, know that experienced due diligence professionals can be their partners in executing smooth transactions for successful growth.

Getting started

Let’s explore what due diligence can mean for your company.

Contact us
privatecompanyinfo@ca.ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

For more information about our organization, please visit ey.com.

© 2014 Ernst & Young LLP. All Rights Reserved.
A member firm of Ernst & Young Global Limited.

1169538
ED00

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact Ernst & Young or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.

ey.com