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.

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 megadeals 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 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 is confident that the final report will meet stakeholder needs.

What information can be learned from due diligence?

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.

We can help

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.

Explore what due diligence can mean for your company. Visit us at ey.com/private.