The Art of M&A℠ Due Diligence

Comprehensive Program Overview

Summary

The Art of M&A℠ Due Diligence is one of the M&A Leadership Council’s (“Council”) original – and still most popular workshops! Hundreds of executives, corporate development, due diligence, and functional leaders have attended this workshop with feedback like these actual participant comments below:

- “The Art of M&A Due Diligence is a wonderful resource for M&A professionals, whether early in their career or as a refresher on current best practices. The program was delivered in a friendly, encouraging and efficient manner. It was well worth the time and effort to attend.”

- “As an experienced acquirer, this workshop was very helpful affirmation on the aspects of due diligence our organization is really good at, but it also highlighted several areas as a wake-up call where we need to improve.”

- “Extremely valuable program covering all facets of due diligence. This workshop allowed me to incorporate several specific due diligence best practices that are highly pertinent to my job and company.”

Comprised of highly interactive instruction and immediately applicable content, this deep-dive workshop is truly best-in-class. The 2.5-day program will help you and your organization conduct a comprehensive, thorough and well-managed due diligence process every time and with any deal-type.

Day 1 - Program Highlights - Tuesday

- Introductions and Welcome.
  - Workshop sizes typically range from 15-30 corporate M&A practitioners just like you – focused on getting better at M&A due diligence both personally and organizationally. Based on pre-workshop communications and preparation provided by the Council, participants start the peer-to-peer networking from the beginning by introducing themselves, their role, their learning objectives and organizational due diligence challenges to work on during the week.

- Setting the Context for this Due Diligence Workshop.
  - This energetic and fast-paced kickoff session highlights current M&A trends and forecast data. It establishes foundational concepts such as the end-to-end M&A lifecycle that
defines the “business process” of growth through acquisition from start to finish. This framework illustrates the key issues, questions, and milestones that must be accomplished at each phase of the M&A lifecycle and highlights the essential strategic, transaction and due diligence focus issues for this workshop. Also, group interaction and front of room war stories will identify most common due diligence failure factors and essentials for success.

- **Acquisition Rationale for Diligence Planning.**
  - What are the initial strategic and corporate development inputs needed for the Diligence Lead to plan and launch the due diligence effort? This model will look at the most common “deal-thesis” objectives that form the acquisition rationale and identify typical “deal-type DNA” – or key characteristics of the deal, target company and form of transaction that will influence and shape each specific due diligence effort.

- **Due Diligence Role and Purpose.**
  - Participants will identify the full components required to validate the investment thesis and potential risks of any given target company. Starting with experience-based, real-world lessons learned and alerts, the due diligence process will be dissected in terms of governance roles, authorities, stages of the process and key objectives for each step of due diligence. This will include the type and level of due diligence to be done before the letter of intent is signed; before the signing of the definitive agreement and before closing the transaction. Key elements of the data request list will be discussed; and, U.S domestic transactions will be compared to global transactions to identify unique challenges when acquiring globally.

- **Financial Diligence: Quality of Earnings (QoE).**
  - The foundation of effective financial due diligence is a sufficient understanding of the target company’s income statements, balance sheets and cash flow statements to enable the buyer to discern answers to key questions including: what is the sustainable run rate of EBITDA?; What are the working capital requirements of the target company? And, what is the underlying quality of the assets generating cash flow? This session will cover: the potential valuation impact of adjustments to earnings; how a QoE is different than an audit; discerning the validity of management adjustments to earnings; what the QoE includes and does not include; practical insights for the buyer’s due diligence team regarding key watch-outs and red flags with common management adjustments to earnings; and the impact of US GAAP and accounting related matters on QoE. A valuable discussion during this module will include what to do about errors and out of period adjustments; prospective or pro forma adjustments not yet made and other common gray areas impacting EBITDA. Several case examples and exercises will be used throughout this module to drive home practical applications.

- **Tax Due Diligence: Role and Focus**
  - From a strategic standpoint, tax diligence is required to identify potential deal-breakers as early as possible, evaluate tax impact on price and deal structure, and determine expected tax value to be delivered from the transaction. In addition, effective tax due diligence must challenge target company assertions and confirm if taxes have been paid and returns filed on time; if critical tax risks have been adequately identified; and to
determine potential opportunities to reduce future taxes. This module will also identify tax exposures that often cause distress in a deal; important tax goals for both the buyer and seller; and tax matters to be addressed in every transaction. Discussion points will include when to engage tax advisors in the deal process; dealing with the entire array of tax types and cross-border complications and essential tax due diligence best practices for any prospective acquirer.

- **Financial Diligence: Working Capital.**
  - A useful working capital analysis is the next part of a successful financial due diligence effort. Buyers must determine if the target company will have enough cash to run the business after the deal and what is that amount. This module starts with a comprehensive identification of the components of working capital; identification of how sellers often try to reduce working capital from the business without impacting earnings or valuation; and what the buyer should do in the transaction to ensure the appropriate level of working capital is delivered at closing. The presenter will demonstrate typical formats of working capital calculations and trend charts to enable effective analysis.

- **Financial Diligence: Income Statement and Balance Sheet.**
  - Now it’s time to deep dive into the income statement to discern critical observations and insights about the target company business based on the presented financial data. Eight different elements of sales analysis will be identified along with standard sales data charts to highlight essential trends, seasonality, relationships and concentration issues. Next, the presenter will help participants learn to analyze gross margin, including what specific elements drive gross margin and their respective impact on product pricing and cost structure. Finally, watch-outs including one-time and nonrecurring income or expense items will be explored. Turning to the balance sheet, this module will identify each major balance sheet account and what it represents, how it is valued and the importance of each item to effective financial due diligence. For example, the discussion on accounts receivable will help you identify risks in asset values and quantify their potential impact on both working capital and EBITDA. Similarly, the section on inventory analysis will address the importance of inventory valuation, obsolescence, inventory management, consignment and other typical inventory diligence concerns. Other asset and liability categories will be identified, discussed and analyzed regarding key implications for deal go/no-go; deal pricing and structure; and post-close treatment.

- **Group Exercise: Behind and Beyond the Numbers**
  - This vital group discussion exercise will enable workshop participants to review representative profit and loss statements and balance sheets. They will practice identifying key insights, observations, risks and opportunities that underlie the data. Through an interactive discussion, participants and the instructor will debate, explore and test for meaningful observations extracted from the financial statements such as customer concentration risk; the fully burdened cost of goods sold; customer profitability daily sales; inventory turns; potential deferred maintenance concerns; supplier concentration risk; and, other tangible and intangible considerations.
• **Operations Due Diligence.**
  
  o No due diligence effort is complete without comprehensive operations due diligence. Presenting an operating model framework of key categories of due diligence, this module will help participants drill down to significant areas of risk and value driver opportunities in each component. Risks, opportunities and key “so what” observations will be established based on markets, core manufacturing processes and assets, business processes, supply chain, vendors and partners, key sales and channel relationships, intellectual property, environmental and regulatory issues and other interrelated factors of the operating model that comprise the target company’s “secret sauce.”

• **Networking Reception.**
  
  o Enjoy great food and adult beverages in a unique resort setting. Build your professional and personal network while exchanging insights, lessons learned and war stories with workshop participants and presenters. Nightly networking receptions are complimentary and provided by one or more Partner Organizations to the Council.

**Day 2 - Program Highlights - Wednesday**

• **Managing the Diligence Effort – Using a Diligence Management Office (DMO).**
  
  o Given the extraordinary challenges, urgency, time pressure, chaos, multiple advisor teams and multiple stakeholders involved in any major due diligence -- this session explores an increasing trend among sophisticated acquirers. Participants will learn how to use a DMO to increase the efficiency and effectiveness of the due diligence process while improving the quality of due diligence findings. Based on the best practice of integration management office procedures to provide structure, discipline, accountability and support for integration work-streams. This module will explore how you can adapt and apply that concept to more effectively lead and manage due diligence. Key topics include: defining the scope role and objectives of the DMO, resourcing recommendations and skills required, how the DMO should support each diligence work stream, the DMO’s role in helping to manage the virtual data room (VDR), on-site due diligence logistics and readiness, establishing the enterprise diligence cadence statusing and reporting processes, and the DMO’s role in bridging from diligence to integration.

• **Valuation in an M&A Setting.**
  
  o Three approaches will be considered for establishing an appropriate valuation for a desired acquisition, including cost, market, and income. The discussion will include factors impacting purchase price from both the buyer and seller perspective. The advantages and disadvantages of using an earn-out will be considered as a means of bridging buyer and seller expectations of value. Alternative valuation methods will be considered along with the potential use of a fairness opinion by a competent third-party expert. Best practices and insights on valuation strategies in the transaction itself will be discussed throughout the module.
• **People and Risk.**
  
  o Based on the strategic deal thesis, this module will enable participants to more effectively consider the importance of people, employment liabilities, total rewards, leadership, talent, and culture on the overall due diligence assessment. Financial components are identified that impact the valuation model, bid price, integration, management costs, synergy goals, balance sheet and ongoing operational costs. These include executive and contractual issues, compensation, retirement plans, health and welfare benefits plans, cost structures, service providers, end-state integration objectives and potential costs. The presenter will identify what to look for in each category including hidden concerns, risks and lessons learned. Next the conversation will explore leadership, talent and retention and a comprehensive organizational and talent due diligence process will be discussed along with current research and best practices for retention design, retention structure, targeting and budget norms. Participants will discuss the difference between a culture scan and a formal cultural assessment and what can be determined at each phase of the deal process. This module brings all major people and risk factors together including non-negotiables, red flags, integration costs and synergies, along with key priorities and lessons learned.

• **Financial Due Diligence / Carve-Out Transactions.**
  
  o Considered by many sophisticated acquirers to be the riskiest and most complex of all deal types, this highly relevant module will define what a carveout transaction is, why it is so complicated, the unique due diligence challenges and essential priorities of a carveout. Participants will discuss the use of a transition services agreement (TSA) to provide a range of corporate shared services to the divested business prior to the point when the buyer can fully operate the business. Common TSA scope, pricing and management challenges will be identified and explored along with unique due diligence and valuation elements driven by TSAs.

• **Group Exercise: Dealing with Alternative Deals.**
  
  o This highly interactive group discussion exercise will allow workshop participants to explore the due diligence implications when acquiring a company outside your core competencies and determine key due diligence differences between privately held and publicly held target companies. Participants will also gain an appreciation for the diligence challenges of cross-border or global transactions.

• **Social Media Diligence.**
  
  o What public data and social media due diligence should be completed as an initial part of due diligence? What can be discerned from a target company’s social media presence? Live examples and stories will be shared to illustrate types of social media due diligence to capture; along with what social media data requests should be made of your target company; and which social media platforms are often used for different kinds of diligence data.
• **IT Due Diligence.**
  - IT is one of the most important areas of a comprehensive enterprise due diligence. This new and updated section is taught by leading M&A IT and cybersecurity experts. The session starts by exploring the primary objectives that must be delivered during IT due diligence and common mistakes still made by sophisticated acquirers. A range of assessment tools, priorities and IT due diligence reporting structures will be discussed along with an overall framework approach to organize resources and execute IT due diligence. Finally, best practices, risks and lessons learned will be interactively discussed in a wide range of IT due diligence categories including strategy; architecture; security; governance and controls; tools and applications; and, financials. Lastly, we cover the people and organization issues of an effective IT due diligence.

• **Best Practices for Buy-Side M&A Diligence.**
  - This module considers how serial acquirers can more effectively leverage software solutions, content platforms and technology subscription services to optimize the transaction and due diligence process. Beginning with an assessment of information flows throughout the transaction and diligence process, participants will learn key technology features and functionality that acquirers have used to substantially increase productivity from time savings and process effectiveness in transactions and due diligence. Finally, participants will discuss current trends and potential applications of artificial intelligence (AI) beginning to emerge in due diligence and how AI is impacting the M&A process.

• **Cybersecurity Due Diligence.**
  - Given the enormous financial, personal, customer and organizational risks from cyber threats, no organization can acquire in the current cybersecurity environment without a best-in-class cybersecurity due diligence process, team and expertise. This new and improved module will quickly establish the business case of effective cybersecurity diligence by looking at the state of cyber intrusions and the financial and market risks for unprepared acquirers. Participants will learn the principal areas of cybersecurity vulnerabilities, including software patching; access control; third-party vendors; and; people. The presenter will identify best practice elements of a comprehensive cybersecurity risk management program; identify the anatomy of a hack based on several common recent examples in the news; and, identify an extensive list of frequent cyber risks and mitigating strategies once discovered. Participants will discuss best practices for reporting cyber diligence findings; implications for the go/no-go transaction decision; valuation, reps and warranties; and, integration implications.

• **Networking Reception.**
  - After another jam-packed and highly interactive day of learning and capturing insights, trust us, you’ll be ready for some refreshment! Council Networking Receptions are a highlight of each workshop and are provided by the M&A Leadership Council and its presenting Partner Organizations. Depending on location and weather, events may be conducted offsite at special venues or with special activities. Look for additional unique events, including optional tours, add-on specials and spouse/guest events in the future!
Day 3 - Program Highlights - Thursday

- **Guest Presenter: Avoiding Classic Errors in Due Diligence.**
  - Hear from a previous Council Alumni organization, how they tackled their most challenging due diligence issues, successfully demonstrated results, built internal M&A capability and advanced their career. You will not want to miss these invaluable insights, lessons learned, and best practices from a top dealmaker with decades of experience.

- **Addressing the Seller Dynamics.**
  - In addition to complex data analysis and risk management decisions needed during due diligence, this module explores the true art of due diligence that will enable you to more effectively build trust and credibility with the seller to increase your probability of getting the deal done. Using a highly interactive and experiential approach, both the presenter and participants will enjoy sharing war stories and essential lessons learned for how to most effectively engage and interact with the seller’s organization, deal team and due diligence team. Participants will learn to observe and respond to the common emotional, psychological, organization and personal obstacles and barriers to deal success. A range of practical tips and insights will be shared to help you more effectively manage the overall organizational, business and interpersonal dynamics of the due diligence process.

- **Strategic Diligence: Business Fit and Value Assessment.**
  - Now you are at the final stages of due diligence – based on the cumulative data findings and analysis, how do you compare and validate what you’ve learned against the initial business case, assumptions and deal thesis? This module illustrates a range of factors including strategic, operational, cultural, business model, people and organizational considerations to help your organization confirm its learning and logic, take stock of key similarities and differences and begin to consider critical implications for integration.

- **Transitioning from Diligence to Integration.**
  - With the diligence effort nearing completion and final transaction negotiations underway, the question now becomes “what should the deal team, due diligence and the integration teams be doing to effectively absorb and apply the diligence finding to create a comprehensive Integration Strategy Framework (ISF)?” Starting with a discussion of best practices for integration related due diligence and the role of the Integration Leader / Program Manager in due diligence, this section defines the essential components of a comprehensive ISF, who should be involved, when it should be done and key deliverables and decisions needed for an effective launch of joint integration planning prior to deal closing. Topics include: establishing version 1.0 of the integration Risks, Action Items, Issues and Decision Log (RAID) directly from the diligence findings report and master diligence log; establishing meaningful integration guiding principles and guardrails based on diligence findings; laying out the preliminary integration timeline, governance model, resource plan / budget, integration working assumptions, non-negotiables and rules of engagement for pre-close / post-close integration and more. Participants will learn an integration strategy alignment process called Concept of Integration to help translate deal thesis and due diligence findings into actual work-stream and value-driver decisions and initiatives. Best practices for
launching joint integration planning and pre-close legal do’s and don’ts will be explored, along with keys for conducting a meaningful and accelerated Integration Discovery process to lay the foundation for the full Integration Program of Record.

- **Coaches Corner: Insights & Take-Aways.**
  - Based on content and experiences covered throughout the program, participants have a chance to reflect on and share their key insights, lessons learned and best practices they can take and apply to their next due diligence assignment. Final observations and comments are provided by each presenting faculty member.

- **Now That You Are a Council Alumni – The Path Forward.**
  - Before departing for return flights or a well-deserved weekend away, the staff of the M&A Leadership Council will provide an overview of what you can do to continue to develop your career as a corporate M&A practitioner and what you can do to help contribute content, lessons learned and other valuable insights to thousands of other Council Alumni and corporate M&A pros.

**About Our Partner Organizations and Presenters.**

Our presenters are selected based on demonstrated expertise as best-in-class and the ability to effectively impart these concepts and insights based on real-world experience, war stories, lessons learned, and most of all, a passion to help companies and corporate M&A professionals build internal M&A capabilities.

**About the M&A Leadership Council.**

The M&A Leadership Council is an educational consortium comprised of professional services firms, authors, experts and authorities in the field of mergers, acquisitions, divestitures and joint ventures. They are dedicated to identifying best practices; establishing standards for training and certification; and providing methods, tools and expertise to companies conducting M&As. The Council’s Certified M&A Specialist (CMAS®) program provides credentials to professionals who have proven their knowledge, effort, resourcefulness and commitment to their specialty in M&A.

For more information about the M&A Leadership Council and its services, please visit:

[www.macouncil.org](http://www.macouncil.org)