



Due Diligence in Corporate Finance Transactions

Course Content:

Introduction

- What is due diligence? Ten key questions answered
- How we should expect due diligence to affect a transaction – a framework
- Suppliers
- Users (bank lenders, private equity firms and other providers of finance, as well as companies on behalf of their investors/shareholders)
- Legal status of diligence reports
- Due diligence from the target's perspective; managing the subject of the investigation
- Who commissions and who pays
- Liability of due diligence providers

Types of Due Diligence: A Brief Outline

- Financial and commercial due diligence
- Employee/HR due diligence
- Legal due diligence, contracts, leases and obligations
- Fixed assets due diligence
- Systems and IT due diligence
- Environmental due diligence

Due diligence in the M&A timetable

- M&A process overview
- Phasing: the various stages of information release
- The traditional process, with all buyers undertaking independent due diligence

Flat 303, Dominion Centre, 43 - 59 Queen's road East,



Wanchai, Hong Kong

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- A process underpinned by vendor due diligence, prepared ahead of wider marketing
- The pros and cons of VDD
- Vendor assistance services: pre-sale preparation/cleaning up businesses pre-sale
- Smart preparation: Adding value through pre-transaction due diligence/pre-sale readiness review
- Interaction with other areas of information provision such as teaser, information memorandum, management presentations
- Co-ordinating due diligence finding and ensuring they are incorporated in the definitive agreements

The main areas of due diligence

- An overview of each area, reviewing the key areas of investigation and typical/potential findings including:
 - Financial, including a detailed review and analysis of how financial due diligence is used to help determine final pricing (quality of earnings; normalisations and proformas; cash & debt free; net working capital analysis)
 - Tax
 - Legal
 - Commercial
 - Property

Specialist areas of due diligence, to include, with examples:

- Certain transactions and targets call for a more specialised investigation into matters such as:
 - Contracts
 - Plant and equipment
 - HR
 - Market, commercial and strategic analysis
 - Brand strength

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- Customer referencing
- Information Technology
- Operational analysis. E.g: benchmarking
- Insurance
- Pensions
- Regulatory compliance
- Reputational enquiries
- People/psychometric/behavioural
- Patents/IP
- Competition risk
- Environmental
- Resources/reserves

Steps of Due Diligence

- Developing the right team
- Preparation of a checklist
- Collection of information
- Creation of Data room
- Review of documents
- Finalize reports and findings

Acquisition of Data/Managing a Data Room

- Role of a data room in due diligence
- Types of data rooms
- Physical data room vs. virtual data room

Creating the Due Diligence Team

- What is the right team?
- Composition of the team
- Delegation of the role and responsibilities of financial experts, business analysts, and legal professionals in the due diligence team

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How to Analyse the Received Information

- How to collect the information?
- What kinds of information should be collected?
- How to analyze the company information?
- Review of the company's competitors and industry

Planning and Monitoring a Due Diligence Assignment

- Importance of planning in due diligence
- Protocols for drafting a workable due diligence plan
- Naming the essential actions, targets, and deliverables
- Significance of continual assessment and assignment supervision

How to Write Attractive Due Diligence Reports

- Different types of reports
- How to organize your findings?
- Prevent the usual snags in business report writing
- Comprehending the components of an ideal due diligence report

Due diligence in planning and implementation

- Closing the deal is only the start – due diligence also has a role in planning for business combination and separation
 - Operational analysis and improvement
 - Synergies analysis, costs and benefits
 - Integrating the target – post-deal planning
 - Separation analysis – carve outs
- Discussion will include key areas of focus, examples of discoveries and potential risk areas
- Presentation of key findings

How due diligence integrates with the definitive agreements and goes to value

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- Due diligence and price
- Finalising the equity bridge
- Locked box or completion accounts elements – net debt and working capital – different approaches to final pricing
- The legal framework – SPA and the disclosure letter
- Representations and warranties
- Retentions and escrows
- Limitations on the liability
- Disclosure issues
- Indemnities
- Example due diligence findings – and their impact on either price or legal agreements

Capital markets transactions

- Prospectus and sponsor's role
- Long form report
- Working capital review
- Consultants' reserve reports
- Statement of Benefits

Case studies and examples

How to Decode the Due Diligence Report

- Assimilation of data and interpretation of results
- Influence of due diligence on decision-making
- Accomplishment of the recommendations made during due diligence
- Incorporation of finding in keys documents
- Successful assimilation of reports to crucial management

How to Undertake Startup Due Diligence

- How to organize the startup DD
- How startups DD is different

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- Things to focus on the DD
- Review of IPs, products, team, market, financial and capitalization
- How to plan the cost and time

Mistakes to Avoid in Due Diligence

- Common mistakes
- How to avoid such mistakes
- Impact of mistakes

The course will include a range of case studies, both due diligence findings and their impact on the deal such as:

- Financial due diligence
 - Normalised EBITDA, cash and debt, working capital, unspent capex
 - A detailed example equity bridge – linking to due diligence findings
- Potential legal discoveries
- Specialist retailer – commercial due diligence
 - Other typical commercial findings
- Example tax discoveries
- A debate on property
- Environmental due diligence – waste management, petroleum, brownfield
- IP – due diligence on a new technology
- Locked box and completion accounts – worked examples
- Warranties, disclosure against those warranties and potential impact

Conclusion

- Relating costs to value
- Trends in due diligence
- The place of due diligence in your transactions

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- Managing due diligence providers
- What buyers and other advisers should look out for

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