Grant Thornton
Bharat

12 October 2020

HALT - PLAN - REFRESH

Vendor due diligence: Optimise shareholder value by managing deal vulnerabilities

With COVID-19 impacting businesses across sectors, deal activity is expected to increase as businesses look to raise funds (equity/debt) and/or plan to exit/demerge/restructure. The deal process has changed considerably in recent times with higher competition for quality assets, including international bidders, and increased use of electronic data rooms. This has necessitated vendors to plan and exercise more control on the process and manage vulnerabilities better. Hence, vendor due diligence (VDD) has become an increasingly common feature in deal processes. Gone are the days when a team of specialists from buyer/investor side would descend on an 'unprepared' seller and subject the management team to several weeks of seemingly unfocused and distracting enquiries.

Here's how you can PLAN a VDD by understanding the requirement, deliverable and process involved in this exercise

What is VDD?

It is a seller-initiated process by businesses looking to raise funds (equity/debt) and/or plan to exit/demerge/restructure a business. This exercise enables vendors to proactively equip themselves with important observations and issues from an independent party perspective and thereby have greater control over the deal process. Consequently, a due diligence report is made available to the prospective investors/purchasers to help make an informed decision.

Why is it required?

In a deal process, due diligence is an integral part as it involves validation and in-depth analysis of the financial health of a business, which feeds into the business plan and the valuation model. Through VDD, a vendor can become aware of and facilitate the presentation of business dynamics in a balanced way. The story of business evolution and historical trading can be articulated in a way, which is supported by the financial analysis and also links into the overall deal positioning.

How does it help?

- Identifies diligence issues early, which enables vendors to manage and mitigate deal-related risks and where necessary, communicate them to prospective investors/purchasers in a controlled manner
- Shortens the deal process, maintains confidentiality and improves negotiating power. The issues can be identified at early stages when there is negotiation power and not at later stages, which could result into a value adjustment
- Multiple investors/buyers can read a VDD report rather than carry out their own due diligence, which would save time in the process and protect confidentiality

What does the exercise entail?

Value adds at each stage of deal process would be through:

Transaction planning

- Understand deal strategy
- Identify value drivers based on industry experience
- Pre-empt acquirer issues and address them
- Guide investment banker in matters relating to data-room

Pre letter of intent

- Undertake VDD, which involves accumulating findings and preparing adjusted EBITDA/revenue based on valuation drivers and net debt as well as working capital analysis that impact the deal value
- Issue draft report and update it based on discussions
- Work with investment banker to ensure data presented in information memorandum is consistent with the VDD report
- Guide investment banker in setting up data-room

Post LOI

- Distribution of the report and conference calls/ meetings with potential lenders/buyers
- Guide investment banker in matters relating to data-room access and management
- Roll forward key analysis based on further discussions

Closure

- Assist with negotiations around purchase price adjustments (identifying target working capital and debt-like items)
- Accounting aspects of the purchase agreement
- Assist in the tax structure of the transaction, if requested, as a separate mandate

Post-closure (on behalf of buyer/ investor/lender as a separate mandate)

- Update diligence report for extended scope period
- Closing working capital and net debt validation
- EBITDA validation for earnout calculation

Here's how Grant Thornton can assist you

Grant Thornton's Growth Advisory team can help provide a balanced, robust and independent advice in the context of the proposed deal. Our VDD offering is differentiated through significant involvement of our most senior transaction advisory specialists, flexible and practical approach and 'no surprises' delivery model.

Our aim would be to identify at the outset any impediments, or issues impacting value by evaluating potential due diligence issues, such as quality of revenue, sustainability of earnings, normalisation adjustments, deviations from accounting policies and possible areas of tax exposure. We will work with you to plan, identify and articulate these areas and support you throughout the deal process. Our deliverables are detailed and comprehensive aimed at providing comfort to the most demanding prospective investors/purchasers.

Our solutions include

VDD

A full scope due diligence exercise where the deliverable will be a due diligence report which can be made available to prospective investors/purchasers initially on non-reliance basis, but ultimately with a duty of care to the identified investor/purchaser.

Vendor assistance

This is an alternative when a full VDD is not planned so that initial inputs and 'high-level' confidence on the facts and figures is achieved before they go into the information memorandum or data room. The scope of work can be tailor-made.

For further queries, please contact:

North
Anirudh Gupta
Partner, Growth
Grant Thornton Bharat LLP
E: anirudh.gupta@in.gt.com
M: +91 98102 25831

West
Shanthi Vijetha
Partner, Growth
Grant Thornton Bharat LLP
E: shanthi.vijetha@in.gt.com
M: +91 86001 39991

South
Pankaj Chopda
Executive Director, Growth
Grant Thornton Bharat LLP
E: pankaj.chopda@in.gt.com
M: +91 99860 34995

Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans

For more insights on the COVID-19 crisis, scan this barcode to see continuous updates on our website