MERGERS AND ACQUISITIONS

SPECIALIST MARKET AND COMMERCIAL TRANSACTION SUPPORT

Due diligence is becoming much more specialist. In an edited version of recent articles for M&A Magazine and Business XL, Sempora partner Francis Prosser discusses the changing scope of market and commercial due diligence.

LET'S TALK SPECIFICS

Sound due diligence has long been an important part of deal-making but its boundaries are now shifting.

The process in the private equity market in particular is now becoming a lot more sector specific. Investors are looking at issues in much more detail, not only at sector level; they will be following a particular line such as a specific driver of profit or growth in that sector.

> Today's market

Market and commercial due diligence nowadays is an extension of the historic 'market appraisal', an investigation into the finer details of where the particular market is heading and what its growth opportunities are, combined with a review of the customer base.

The fundamental difference now is that we are often in markets that are mature or stagnating as a whole, so investors are looking at niche growth or focusing much more on distinctive competencies of a company.

In addition, private equity companies' long experience of working with portfolio companies means they have become more knowledgeable about key market issues and in turn are becoming more demanding with what they look for in a due diligence process.

As a consequence, the detailed nature of questions being asked by private equity firms has required advisers to strengthen existing expertise and develop new specialisations.

"Increasingly investors are looking for due diligence providers who have some kind of specialisation or access to the necessary expertise":

it's not enough to have experience in a general sector; there is a need to specialise within sub-categories of sectors. This expertise can be as specific as a product strategy for smoking cessation treatments, or understanding the niche end of a market such as steak restaurants or luxury yachts.

And as private equity now claims a lesser share of new deals, private equity firms are behaving even more like trade investors; they want to understand the business in much more detail, and increasingly work with them on strategy.

"There is always a requirement to ensure a quick turnaround on a due diligence process, but investors are increasingly prepared to take longer to understand the risks involved and want the process to add value wherever possible."

> Different ballgame

With investors looking to, or having to, exit the investments that they have held onto for longer than the traditional cycle of around five years, bolt-on acquisitions, as well as market development and geographic rollout, are increasingly important strategies for portfolio businesses.

These subjects don't always make the headlines, but they are all part of the market and commercial due diligence that is taking place.

If a trade buyer or private equity house is looking to grow a business through a series of acquisitions, it is a case of identifying whether the market can support that move and who the players who might potentially have a fit with the operation are.

As a form of strategic development this approach is driving the need for specialist due diligence providers who can add value to the investment process and inform the post-deal business plan.

The review process is now more influential in how it affects deal-making:

"Good due diligence will inform the strategy to some extent, rather than just rubber-stamping it. The process should go a step further to and say what must be done to minimise risks and optimise opportunities."

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