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High-Stakes Decisions Commercial Diligence



Collectors often purchase classic cars at auction, where they only have a short time to evaluate their targets before bidding. Commercial due diligence is much the same. Acquisitive companies often have only weeks to decide whether to make an offer, and an important decision factor is whether they believe a target company's claims about its position in the marketplace, financial stability, and hypotheses about future growth potential.

Due diligence for merger and acquisition (M&A) decisions often takes place in compressed time frames and under extreme pressure from competitive bidders, analysts, and investors, and in the face of the ongoing imperative to meet growth objectives. Companies that don't frequently undertake M&A transactions generally don't have the specialized skills, knowledge, experience, and resources in-house that are required for effective commercial diligence, especially with tight time limits. A company may create significant risk if it cannot uncover important facts through its commercial diligence and determine how those facts align with the company's M&A strategy.



Effective diligence can drive results

Often, M&A decisions are made in compressed time frames and under extreme pressure. Effective commercial diligence is imperative not only to validate important attributes of the deal, but to do so in as short a time as possible.

How we can help

Deloitte's Commercial Diligence practice tests the information that informs a client's M&A deal valuation and post-merger acquisition plan. We can validate a target company's recurring revenue, revenue growth, and margin sustainability, as well as conduct rapid primary research on its markets, customers, suppliers, and competitors virtually anywhere in the world. Through strategic diligence, we also assess potential upside opportunities that the business may not be taking advantage of, and we identify possible downside risks that could jeopardize the near term or ongoing value of the deal.

We work closely with our other M&A practices, such as M&A Strategy and Operational Diligence, to provide insights at each stage of the M&A life cycle. We also leverage the audit, financial advisory, risk management, and tax services of Deloitte's network of practitioners to bring the targeted resources to our commercial diligence engagements.

Our Commercial Diligence services include:

Testing important inputs to the deal valuation. These include stability of the company's current revenue line, validity of claims of growth and revenue potential, and sustainability of profit margins.

Sizing markets. Quantify the addressable market for a target company's particular set of products and validate the target company's claims about the growth potential of the market.

Testing the competitive position of the target. Test a target company's market segmentation, positioning, and geographic locations relative to other competitors, and identify gaps in investment or market position that can signal potential issues in the future.

Testing for deal synergies. Conduct a (top-down and bottom-up) synergy capture to bring clarity to deal valuation assumptions.

Operational diligence. Our Operational Diligence team can assist companies in critically evaluating a target's attractiveness through operational assessments and risk mitigation strategies, linking these findings to deal value for informed transaction decision-making, negotiations, and eventual strategic and financial value realization.

Vetting the investment thesis. Our M&A Strategy team helps companies define how they employ M&A — in alignment with their corporate strategy — to drive profitable growth and enable them to compete effectively in their industry.

Potential bottom-line benefits

- A clear view of a target company's performance.
- Quantifiable inputs to the deal valuation and post-merger integration plan.
- Primary research that creates awareness of upside potential and downside risks.
- Valuable inputs to help with planning for how the client can capture deal synergies.

Three ways you can get more value now

Don't assume the target company's current business is stable. Identify current threats and market trends that signal potential future challenges.

Understand competitive positioning.

Know how the company is positioned relative to competitors and be aware of emerging competitor offerings or technologies that may pose real threats.

Listen to the voice of the customer.

It is critical to understand areas of customer satisfaction, dissatisfaction, loyalty, willingness to switch, and willingness to pay.



The big idea

Quality, quantity, and speed — M&A deal making depends on quality business intelligence gathered in sufficient quantity to inform the deal valuation and post-merger integration plan, in the shortest possible time frame.



Learn more

Commercial diligence is a critical step when considering a merger or acquisition. To learn more about how Deloitte can help, visit www.deloitte.com/us/
CommercialDiligence or follow us on Twitter at @DeloitteStratOp.

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