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The future of the deal

Introduction to Financial Due Diligence

Looking at a target company's relevant sources of value and risk can increase your chances for a successful transaction. This is why our Financial Due Diligence approach is design to support the deal decision making, negotiation, and eventually, post-announcement planning and execution, mainly targeting valuation related aspects of the deal. We have broad experience in working for the buy-side or sell-side to provide guidance and detailed insights about the in-scope target.

Key pillars of our financial due diligence approach

1 Quality of Earnings

A Quality of Earnings assessment seeks to understand **the nature, trends and sustainability of results**. It usually comprises a **review of revenues, gross profit and EBITDA**, culminating in the presentation of a **normalized EBITDA**: an analysis that aims to **portrait earnings as a driver for valuation purposes**, by adjusting reported results for one-time, non-recurring, non-operational, pro forma and other items.

2 Working capital

Working capital is analyzed as a metric to **understand the operating cash generation or consumption of a business**. Due diligence also seeks to understand what is the **"normal" level of working capital** and, by looking into intra-month working capital or cash trends, will **help the acquirer negotiate pricing** ("Target Working Capital") and assess what funding facilities they need to put in place with their lenders, if any.

3 Net debt

Business valuations are commonly assessed in terms of enterprise value. However, in order to calculate the **amount payable to the vendor, the enterprise value is adjusted for net cash/debt.** Under a typical pricing mechanism, the acquirer will pay in full for any cash/cash-like items and get a deduction in full for any debt/debt-like items. The purpose of a net debt analysis is therefore, to **provide information on the likely impact of cash, debt and debt like items** (in the target business) on the consideration to be paid for a business.

Benefits of the financial due diligence (non-exhaustive)

- ✓ A buy side **financial due diligence** provides a chance for the buyer to **confirm key deal assumptions/ hypothesis**. Ultimately, it allows prospective investors to make an informed decision.
- ✓ On the sell-side (vendor due diligence), an **independent and rigorous report** (commissioned by the vendor but for the benefit of the purchasers) will **address the needs of potential buyers** and **reduce the need for protracted due diligence** and negotiation.

Deloitte has been supporting thousands of deals across the globe. Take a look at our M&A and M&A Consulting sites to learn how we can support your business.

Ronaldo Xavier
Lead partner for Financial Advisory in Brazil
rxavier@deloitte.com

João C. Rabelo
M&A TS Partner
M&A Transaction Services
jrabelo@deloitte.com

Venus Kennedy
LatAm & Brazil M&A Leader
M&A Consulting Services
vkennedy@deloitte.com

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