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MITIGATING RISK AND CREATING VALUE: A FOCUSED APPROACH TO DUE DILIGENCE

VALUABLE GUIDANCE FROM THE MOST ACTIVE MIDDLE MARKET M&A PRACTITIONERS

BEST PRACTICES OF THE BEST DEALMAKERS

FIRST EDITION: PART 2

The stakes have changed in M&A due diligence over the past few years.

Perfecting your due diligence is all about uncovering the real facts and factors that may exist in an M&A transaction. However, the pressure to close the deal in a compressed time frame while getting to the truth is becoming much more complicated. Many times in the euphoria and momentum of closing a transaction, an acquisition may not seem all it was positioned to be in the initial analysis. Consider the following:

> *"We were hired by a U.S. company to investigate a manufacturing company they had just acquired in China. We conducted a background search and found out the former owner had a history of fraud. We quickly identified that the entire company and all its financial records were fraudulent. But since the transaction was already closed, the acquirer couldn't do anything about it. And because it was in another country with limited laws, our client had very little, if any, recourse.*
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> *U.S. companies making investments or hiring fund managers in other countries often assume they are working on the same level playing field as in the U.S. They're not. When you're in China, Mexico, Russia, you have very little recourse against fraudulent sellers.*
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> *The best we could do for our U.S. client was to bring the fraud to the highest level of prosecutor in the U.S. to hopefully put pressure on the people in China. The company did everything possible, but they couldn't recover anything. They ended up losing a lot of money."*
>
> *— Robert Strang, CEO, due diligence services firm Investigative Management Group*

Strang's story, although extreme, is far from rare. It highlights how the stakes have changed in M&A due diligence over the past few years. Growing interest in cross-border investments, increasing regulation and a competitive marketplace have all complicated M&A transactions. For buyers, the pressure is on to quickly identify attractive targets, conduct thorough due diligence and close the deal in shorter time frames. And, as the above story illustrates, buyers need much more sophisticated due diligence practices to ensure sound investment decisions.

Whether you're a sophisticated investor with more than 40 years of experience or a newly minted transaction specialist, today's dealmakers need to ask themselves the following questions:

- When was the last time you audited your company's approach to due diligence?

In today's rapidly evolving markets, chances are that you are at risk of omitting key criteria in your investment decisions.

- Are you certain that your due diligence is delivering all it should be in today's complicated M&A environment?
- Are you focused more on the latest checklists of legal and accounting due diligence than the prioritization of the critical items?
- How do you differentiate the critical items to prioritize when you don't know what the issues are going into the transaction?

In today's rapidly evolving markets, chances are that you are at risk of omitting key criteria in your investment decisions.

How do the most successful dealmakers focus their due diligence efforts so that the important critical items are not missed or overlooked? While researching this issue and interviewing the best dealmakers, we've discovered they've adopted a "new" definition of due diligence that goes beyond the traditional definition and yields better investment decisions.

At the risk of oversimplifying the "new" due diligence, it can be defined in two major categories:

- Risk mitigation due diligence
- Value creation due diligence

In interviews with the best dealmakers, we have found that their focus and case studies fall into one or both of these categories. We have discovered that their thinking about due diligence has evolved from one which only considers checklists (or traditional due diligence) to being filtered and prioritized into one or both of these categories. This chapter of the "Best Practices of the Best Dealmakers" provides an insight into how these dealmakers define the "new" due diligence and how you can apply it to your organization.

I. An Updated Approach to Due Diligence

Expanding the definition of due diligence

So, what really is due diligence? In simplest terms, due diligence is defined as "an investigation or audit of a potential investment. Due diligence serves to confirm all material facts in regards to a sale. Generally, due diligence refers to the care a reasonable person should take before entering into an agreement or a transaction with another party."[1]

[1] http://www.investopedia.com/terms/d/duediligence.asp#ixzz1cxjrXcZ1

"Due diligence has to be equally balanced with areas of opportunity as much as it is around risks and concerns."

In the M&A context, due diligence has traditionally been defined as the legal, financial and operational analysis that a buyer undertakes to validate the seller's presentation of its company. For decades, "buyer beware" has been the underlying focus of most due diligence efforts—focusing primarily on identifying the buyer's risks if they acquire a company. Increasingly, experts have challenged this risk-focused approach as too narrow in scope. "Probably the most important thing to understand in today's world is that 'due diligence' probably got the wrong name," said Robert Filek, global leader of the Transaction Advisory Services group at FTI Consulting, "There is a connotation of risk and negativity associated with the term. The truth is that in today's market, due diligence has to be equally balanced with areas of opportunity as much as it is around risks and concerns. One of the biggest mistakes you can make around due diligence is not having the proper balance of opportunity in the process."

Filek, an experienced M&A advisor who has been directly involved in more than 300 transactions, sees today's leading-edge acquirers actually starting out with an opportunity assessment prior to or in parallel to trying to understand the quality of earnings or risks and contingent liabilities in a deal. "The deal market is very competitive; prices are very high. People want to know there is a strategy to win the transaction before they get too deep into it," he said. "There's been an important shift from 'let's make sure there are no real risks here before we go forward,' to 'let's understand the full set of opportunities before we go forward.'"

This shift in thinking is also signaling a change in the way buyers direct their due diligence efforts. The due diligence team should approach the process with the mentality of an investor as well as that of an auditor and use value creation as the guiding principle for many of its activities.[2]

Assembling the right due diligence team

Most due diligence teams include legal and accounting expertise at the bare minimum, with additional resources assigned to cover environmental risk, human resources, information technology and other areas of operations. The exact makeup of the team will vary due to many factors: the nature of the deal, the industry, geographic location, the buyer's size, access to resources, level of M&A expertise and experience.

[2] William J. Gole and Paul J. Hilger, *Due Diligence: An M&A Value Creation Approach*, (New Jersey: John Wiley & Sons, 2009) 16.

Industry experience is critical to successful deal making.

But successful dealmakers emphasize two key points when building an effective due diligence team:

- Pertinent industry experience is a "must," and it should be considered across all areas of due diligence, including legal, accounting and operations.
- Key roles should be staffed by people who are experts in their field and who also have in-depth business experience.

Relevant and timely industry experience is crucial, said James Hill, executive chairman of Benesch Law and chairman of the firm's Private Equity Practice. "It's dangerous for a buyer to rely on a subject matter expert whose industry experience is not recent. They're not really in tune with what is going on right now."

For Jay Greyson, managing director and principal for investment bank Vetus Partners, industry experience is critical to successful deal making. Greyson, an experienced dealmaker who has worked with numerous buyers and sellers in the wholesale distribution market and the engineered products and solutions markets said, "We are a strong believer that to truly provide the highest level of advice and value to our client, we have to deeply understand the industry and our client's position therein, as well as their customer, vendor and market dynamics." Greyson continued, "Every P&L for every industry looks different; every balance sheet looks different. What may be a normal process in one industry is not normal in another, not just from the perspective of the financial statements but what I expect to see regarding customer and vendor behavior such as purchasing patterns and how/what buyers I recommend to approach."

Leading acquirers also invest in making sure their due diligence efforts are managed by senior professionals with deep experience in their specific area of practice and in business in general. Assigning basic data collection and analysis to junior associates may result in overlooking key information that should be factored into deal evaluation and negotiations.

Experienced dealmakers avoid the practice of delegating critical tasks to junior associates. "It's risky," said Hill, "Junior associates may be reading something that truly is a smoking gun, but they won't really recognize it as such because they don't have enough legal and business training to really understand what is important or how to look at it from an analytical standpoint."

"Price is important but what is equally important to the seller is how much time and money the potential buyer is spending on their diligence."

Benesch Law's approach is to use senior people with five, six, seven or more years of experience to perform the due diligence in the data room. "Because we really want people doing the diligence who understand the business scenario, why certain things are meaningful and what you should be talking to the client about," he said.

Experienced acquirers will also draw on other third-party services such as the following:

- Investigative services
- Specialized financial advisors
- Advisory consulting services
- External due diligence services
- Country specialists
- Virtual data room services

The bottom line is that the most successful acquirers invest in experienced professionals who can help them more quickly get to the most important factors in pursuing a transaction.

Equally important as the seller considers bidders, those with industry experience often have an advantage. Their diligence teams may be more detailed in their investigations, and may be asking tougher questions, but this is often viewed as a plus by sellers who are looking for committed partners who can help them grow their business.

"I have been on the seller side many times. Price is important but what is equally important to the seller is how much time and money the potential buyer is spending on their diligence," said Hill. In his experience, the acquirers who are most successful are those who understand the industry in which the target exists, "because they understand the industry, and how the company fits into the industry. They're more confident in their bid and will put in a higher bid because they have done their work," he said.

Regardless of your company's size or the scope of a pending transaction, it pays to begin preparation early in the pre-transaction period – and take advantage of data room technology. By working with a virtual data room, transaction teams can scan and index all relevant documents and create a logical, centralized electronic due diligence library that is remotely Web-accessible, secure, searchable and easy to update and amend. A smooth, well planned due diligence process with a highly

Experts stress that the checklist is a guideline, not a crutch. The art of due diligence lies in asking the right questions at the right time.

structured indexing methodology and the right virtual data room technology is much more likely to ensure that all required disclosures are made to the right parties and that the transaction is optimally managed and controlled.

Experts also stress that the checklist is a guideline, not a crutch. The art of due diligence lies in asking the right questions at the right time. Greyson views a well-defined diligence process as important, but also cites the need to have experienced people in both the process and industry to lead the team, especially when it gets down to making the tough calls. “Every one of these deals may be 60 to 70 percent process and 30 to 40 percent art. The outcome depends largely on how good the people leading the team are,” he said, “If you’ve dealt with that industry, you know where some of the skeletons may be buried, and you know what to ask and how to ask it. If you don’t ask the right questions, you won’t get the right answers.”

Additionally, serial acquirers have become much more stringent on the need for in-depth background checks on key personnel. Experts like Strang of the Investigative Management Group emphasize the importance of employing professionals who specialize in this area of due diligence to prevent errors and damaging oversights that can and do occur when lesser efforts are made. His firm is frequently hired to redo background checks that resulted in inaccuracies, omissions and even the mis-identification of an individual.

“When we’re talking about due diligence and background checks, choose an investigative firm that specializes in that very thin sliver on that person’s character and background,” Strang said. “A good investigative firm can do criminal history checks, motor vehicle history checks and others that lead them to additional addresses and locations. They have resources within law enforcement and the criminal justice community to guide them. They should also have specialists who have worked on fraud and money-laundering cases and know what they’re looking for. That is the most important part of these due diligence cases.”

Several experts emphasize the importance of being consistent in applying background checks. As one advisor noted, “It’s when you’re familiar with something that you make critical oversights that result in mistakes.”

The best dealmakers begin due diligence pre-LOI to investigate the industry and marketplace well before they focus on a specific target.

Establishing an earlier starting point

Traditionally, the formal due diligence process officially begins immediately after a letter of intent (LOI) is signed, and continues until a purchase agreement is signed and the transaction closed. Nowadays, the best dealmakers begin due diligence pre-LOI to investigate the industry and marketplace well before they focus on a specific target. The process may be formal or informal, managed by a combination of internal resources and third-party experts. But the most successful acquirers do not venture into a new industry or country without first performing the diligence to understand that market.

Smart acquirers, Greyson said, know how to stage their diligence. “I don’t have an exact number, but for every four or five deals that go under LOI, one often doesn’t close for a wide variety of reasons. For example, we actually had a client’s manufacturing facility literally blow up days before closing. So if you’re a buyer, you have to be careful,” he said. “You don’t want to go in and spend a million bucks (on due diligence) before you find out there is a problem. You can’t get that money back. So how you stage your diligence is very important: what work you do upfront, when you bring your advisors in and how you use them is very critical. The seller wants you to do everything as fast as possible, and as a buyer, you need to identify the key areas of risk and take them off the table before you start spending huge amounts of money with outside advisors. So in terms of staging due diligence, it is important for both sides of a transaction to identify the ‘go/no go’ issues as early as possible.”

Being prepared to walk away

Experienced acquirers set up their process to get information quickly, but this is not always possible due to a number of circumstances. For example:

- The seller may be hesitant to share certain information, lest the deal doesn’t go through. This is a particular concern in strategic acquisitions where the buyer may be a competitor.
- The transaction may be an auction with multiple interested bidders. The seller is in the driver’s seat, setting an aggressive timetable to get the deal done as quickly as possible. Sometimes the buyer may throw more resources at it to get it done. At other times they may walk away from the deal.
- Information may not be easily available. This is particularly challenging in cross-border deals in emerging countries, where information systems are dramatically different and information is not captured in the same way it is in industrialized countries. Sometimes the true red flags don’t come out until a company is well

"Sometimes the best deals we do are the ones we don't do."

into due diligence. At this point, it is not uncommon for the buyer to be emotionally invested in making the deal work. Experienced acquirers walk away, even if they have made a considerable investment in the due diligence process. Take the case of The Jordan Company:

> *"Last year our teams in both the U.S. and China spent eight months working on a large China auto parts deal. We kept asking to see the target company's supplier and customer contracts, but didn't receive them until the final stages of due diligence. When they finally showed them to us, we learned that all of their customer contracts had five years of automatic price decreases with no raw material adjustments. So in the final analysis of historical financials and projections, we realized that this company was spending about $1.50 in CapEx and increased working capital for every incremental $1 of sales. It showed us that they'd be losing cash flow every year and were never going to catch up.*
>
> *It was very hard for our team to recommend to our investment committee that we kill the deal, especially after we had spent a couple of million on due diligence. But it's better to spend money upfront and pass on the deal than to make the investment and realize later that it is a poor investment. Then you're in and struggling, and maybe you can turn it around, maybe not. I'll never forget when Jay Jordan, our co-founder and senior partner, wrote a nice letter to our team in China thanking them for the great work they did on this deal, and he said, 'Sometimes the best deals we do are the ones we don't do.'"*
>
> *— Andrew Rice, senior vice president of international business for The Jordan Company*

Sometimes, a buyer may have done all of the due diligence required and determined that the deal looked good on paper, only to then realize that "soft" issues such as conflicting management styles or organizational cultures were a problem. The tendency in the past has been to focus on the financial and legal details and less on this aspect of diligence. Nowadays, the most successful acquirers pay much greater heed to red flags and are willing to pass on the opportunity.

All of the areas discussed above – expanding the definition of due diligence; assembling the right team, dealing with compressed time frames and being prepared to walk away – are best practices aimed at keeping your diligence focused on two key factors: identifying risk and value.

One best practice that leading dealmakers are very clear on is the need for a consistent methodology.

II. Risk Mitigation Due Diligence

Traditional due diligence focuses primarily on mitigating risk. Legal and accounting due diligence checklists focus more on confirmatory due diligence, that is, "is what they told us about the company during our initial evaluation true and correct?" Risk mitigation, however, moves beyond traditional due diligence. Below are examples of risk mitigation that the best dealmakers list as best practices to ensure that diligence activities are prioritized and focused in the right way.

Following a structured methodology

One best practice that leading dealmakers are very clear on is the need for a consistent methodology, anchored by a detailed due diligence checklist, for every opportunity they consider. Successful acquirers do not deviate from this practice. They apply it to every opportunity that is being considered. This is the best way to keep the team focused on what needs to be identified to answer the key questions of the investment thesis.

Experienced acquirers have developed a standard list and modify it to address the specific parameters of the deal. Just as important, they establish procedures to make sure everyone on the team is working from the same checklist, a task that can be difficult when dealing with multinational due diligence teams.

Another best practice is to take the emotions out of the process or "chill the deal" to ensure that the decision to go/no go is being made for the right reasons. At times, the due diligence team can become highly motivated to "do the deal" and risks losing sight of the most important goal: increasing value for the shareholders. This can be accomplished by including members from different areas of the organization in the decision-making process. The following case study on Nestlé provides a good example of how this can be accomplished.

Nestlé: Organizing for Decision Discipline

Nestlé is a good example of a company that has successfully organized and institutionalized a program of deal making.

The largest food company in the world, Nestlé has focused its acquisitions on growing a select number of very attractive businesses in markets where it can achieve leadership positions.

Like most successful acquirers, Nestlé has a core deal team, headed by James Singh, which is in charge of all acquisitions. Every year Nestlé's senior management group

Experienced acquirers rely on the experience of cross-border specialists to help them enter emerging markets.

No Room for Assumptions: Expert Advice on Cross-border Deals

The most successful acquirers don't try to "go it alone" in emerging markets where they do not have experience. Even in cases where they may have a fair amount of industry knowledge in their existing operational regions, they may also seek the advice of an industry expert with firsthand knowledge in the new region under consideration. And they will also augment their core legal and financial diligence team with localized experts.

Experienced acquirers also rely on the experience of cross-border specialists to help them enter emerging markets. According to Euan Rellie, co-founder and senior managing director for Business Development Asia LLC (BDA), it is difficult and risky for newcomers to identify a high-quality target.

"In the past, many companies wanting to enter the Asian market went ahead and did a deal with the first firm they met without first making sure they were going into business with the highest-quality partner," Rellie said. "In these exciting, yet treacherous markets, the highest-quality partner is generally the right one to target. But a common mistake we see is that the buyer picks a lower-quality target, which results in unfavorable results. It's a recipe for disaster."

Now, many multinational companies rely on Rellie's firm to help identify targets that meet their requirements. The investigative process is extremely detailed and time-consuming, taking anywhere from 12 to 18 months.

"It's easier to do research in the Western markets where you can quickly find plenty of good information about companies," he said. "It's much harder to find good quality information about Asian companies, so we do a lot of detailed reputation checks. This includes talking to their peers in the industry, talking to the bankers and conducting multiple interviews with the company's owners and managers to test the quality, the probity and upstanding nature of the Asian companies. Our goal is to make sure we really understand the Asian company before we even get the deal so we can set up the right kind of transaction that will facilitate a smooth integration of the firms."

To find an attractive target, BDA's team may begin with 100 or so companies and whittle the list down to fewer than 10…. Even then, by no means does the process guarantee a transaction. Rellie estimates that, even after all the diligence is complete, his clients move ahead with a transaction only 50 percent of the time.

"Time is the enemy of all deals."

sets targets and strategies for its strategic business segments. The M&A team begins its work by evaluating how M&A can help each business unit achieve its objectives.

To ensure that it accomplishes its goals, Nestlé has structured the acquisition process with a standard template and clear acquisition criteria against which major investments must deliver. Those criteria are written down and communicated to all.

When the time comes to evaluate a prospect, Nestlé pulls operations people into the acquisition process. It also brings finance people from the strategic business units and geographies into the process to assist in the financial evaluation. For international transactions, Nestlé requires the local-market CEOs and CFOs to be involved in the process. Ultimately, the line managers, operators and finance people are responsible for estimating the potential synergies, with guidance from the M&A team.

The relevant line people are not only involved; they ultimately have to sign off on the acquisition proposal, including the valuation. Said Singh: "As a matter of fact, we would not necessarily recommend buying a business, no matter how attractive it might be, if the operational management was not prepared to support it."

Nestlé kills deal fever through the selective involvement of CEO Peter Brabeck. Nothing gets bought or sold unless he approves the move, and would-be acquirers within the company know full well that their ideas will ultimately be subject to Brabeck's critical eye. In fact, Singh believes that senior-management leadership and support are a key success factor in M&A. "The CEO and the key executives in the business units provide leadership for the entire acquisition and integration process. And they provide me with the support and clarity to get the job done," said Singh. "That creates an obligation for communication with the executives to be frequent and relevant, so that direction can be given before you get too far down the process."[3]

Dealing with compressed time frames

As many dealmakers have noted, "Time is the enemy of all deals." Today, as buyers are re-entering the M&A market in larger numbers than in the past few years, strong, attractive targets are being able to choose from multiple bidders in a fast-paced deal environment. Such targets are now in the position of running a formal deal process with multiple parties and delaying exclusivity until very late in the process, if at all.[4]

[3] David Harding and Sam Rovitt, *Mastering the Merger: Four Critical Decisions That Make or Break the Deal* (Bain & Company, 2004); www.masteringthemerger.com. (Note: Job titles reflect persons' positions at time of publication.)

[4] Milton Marcotte and Joe Kinslow, "Successfully Navigating Due Diligence in a Competitive Deal Process," RSM McGladrey, Inc. and McGladrey & Pullen LLP, 2011.

In an uncertain economy, an increase in bad debts is common. Look at the target's receivables' aging to see if collections are slowing.

Important Areas of Risk Mitigation Diligence

Last 12-month (LTM) results

In a difficult economy, trends may be more important than raw numbers. LTM EBITDA may be falling, so a close review of the most current results and a comparison to historical results is vital. If results are trending down, the target company may be slow to release financials. Also, watch for accounting changes, such as deferring costs that used to be and should be expensed, or changes in accounting for inventory. The target also may attempt to accelerate revenue by offering incentives and discounts to customers. Normalize for any such activities to get a true picture of results.

Backlogs

Backlogs can be a leading indicator of declining financial performance. In the current market, sellers may try to avoid or may be slow in disclosing their current backlog, or may delay reflecting cancelled orders. Backlogs also may not be in saleable condition. Be sure to look at comparative backlogs over time so you will know which way this indicator is trending.

Accounts receivable and bad debts

In an uncertain economy, an increase in bad debts is common. Look at the target's receivables' aging to see if collections are slowing. Other signs of trouble? Are customers disputing invoices in an effort to defer payments or lower costs? Is the target tightening credit limits, which may lead to lower sales? Remember, deterioration in receivables will affect the company's borrowing base and loan structure.

Compensation and staffing

Payroll is usually the largest expense for an employer so it's no surprise that a troubled company may take steps to reduce its personnel costs. Has the company reduced, eliminated or deferred bonus payments, or has it forced salaried personnel to take unpaid leave? If so, be sure to consider the likely effects on morale and retention of key personnel, as well as potential future costs to make up for skipped or delayed payments. If the company has laid off workers to save money, make sure that those cuts are sustainable.

Source: White Paper: "Dangerous Opportunities: Understanding the M&A Market During the Recession and the 10 Keys to Successful Due Diligence," William Spizman, Managing Director, Transaction Support Services, RSM McGladrey

With only a matter of weeks to uncover the strengths and weaknesses of a business, it is vital that the acquirer go into the process with a due diligence plan that uncovers all the information they need to make an informed purchase decision.

This environment makes it extremely challenging for buyers to conduct the due diligence they need to uncover the value and risks inherent in a deal.

Overall deal times have continued to compress. With increased competition on the buy-side, exclusivity has been cut short, if not eliminated, and private equity practitioners are beginning to see the benefit in adding the help of third-party expertise even before signing the LOI.[5] With only a matter of weeks to uncover the strengths and weaknesses of a business, it is vital that the acquirer go into the process with a due diligence plan that uncovers all the information they need to make an informed purchase decision.

Many successful acquirers, when dealing with a tight timeline, dedicate whatever resources are necessary to complete their due diligence requirements. It's a point on which Greyson and Vetus Partners won't compromise. "We have a very structured plan from which we do not deviate. You have to be diligent," he said. "The key is that you're going to beat it up until you've taken any risk that you can see off the table and mitigate it to an acceptable level. There is no substitute for diligent preparation and execution."

Most expert dealmakers expect the trend of compressed deal time frames to continue for the foreseeable future. Nonetheless, in their view there is no benefit to taking shortcuts in the diligence process. It's simply not worth the risk.

III. Value Creation Due Diligence

One best practice that a growing number of serial acquirers have adopted is to prioritize their due diligence by first focusing on the opportunities a deal offers before spending time and resources fully investigating its risks. "These acquirers focus first on understanding the upside, if they can be competitive, and then really staging the due diligence around an efficient risk/reward ratio," said Robert Filek of FTI Consulting. "They want to get into the next round; they don't know where the valuation is going to end up, but they do know they want to be in the game. So they focus their resources on identifying the opportunities upfront and the risk on the back end. Buyers who manage their due diligence budgets well will find ways to phase the due diligence process and spend money once they have reached a higher probability of closing the transaction."

Although not "new" or "different," over the past few years the best dealmakers have begun to focus time, talent and resources on value creation due diligence. What

[5] McGladrey, "Managing Portfolio Investments Survey: Maximizing Value in an Evolving Market," RSM McGladrey, Inc. and McGladrey & Pullen LLP, 2011.

Proceeding in reactive mode leaves the buyer in a less than ideal position to objectively assess the opportunity.

aspects of this company provide value to our investment? What due diligence items do we need to prioritize to get the value of this company? What aspects do we need to confirm that will enhance our ability to extract this value when we own this company? Does this company "fit" with our current business model? The best dealmakers take the time to create a solid investment thesis that addresses these questions and anchor their due diligence process to it.

Beginning with a sound investment thesis

Taking the time to develop an investment thesis seems like a basic requirement for every investor, but many companies venture into the M&A marketplace without a plan. In fact, in a recent study, Bain & Company surveyed 250 senior executives who had been involved in sizable acquisitions. More than 40 percent admitted they had no investment or strategic thesis behind their transactions.[6]

In an ideal world, buyers are in the driver's seat, proactively identifying targets based on their investment plan according to their own timetable. But in the real world, investors spend a fair amount of time reacting to deal opportunities that bubble up for reasons outside of their control:

- A company executive receives a call from an investment banker about a potential target, and directs the corporate development team to look in to the target.
- Investors are introduced by their peers to a potential partner who can help them enter a new market.
- An owner decides to sell his or her company and contacts another competitor, based on their own industry knowledge.

Many deals are kicked off in reaction to such events. But proceeding in reactive mode leaves the buyer in a less than ideal position to objectively assess the opportunity. If the acquisition team is reacting rather than acting, it's likely to pursue deals with prices below the valuation model, deals with limited upside and almost unlimited downside, and deals where numbers can be massaged until they meet corporate hurdle rates. The team will turn down transactions that appear to be too expensive but actually are not in terms of their long-term strategic benefits. Furthermore, the team will fail to uncover opportunities that might have turned up on their own if they had followed a strategic roadmap.[7] Pursuing an M&A opportunity in this manner can also result in a flawed deal that destroys value rather than creates it.

[6] David Harding and Darrell Rigby, Bain & Company, "Winning in Turbulence: Pursue Game-Changing M&A and Partnerships," Harvard Business Press, 2009.

[7] Harding and Rigby, Winning in Turbulence.

Turnaround specialists are trained to quickly identify a company's problems and opportunities—a valuable skill in today's volatile economy.

Take a Tip from the Turnaround Experts

Are you looking for an edge to improve your due diligence results? Add a turnaround specialist to your team. Most people think of turnaround specialists as the emergency team called in to help a company in financial crisis. These specialists must quickly identify the company's problems and develop a plan to lead it back to health. It's a task that requires seasoned business experts who can quickly gain an accurate "bottom up" picture of the company, said Gerald P. Buccino, chairman and CEO of Buccino & Associates, a firm specializing in turnaround and restructuring.

However, turnaround specialists are also called by companies that are not in crisis, but need to improve overall performance. They may be dealing with a range of challenges including declining revenues, product obsolescence, over-expansion, an outdated business strategy and more.

"One of the first turnarounds I did was for a large company of 50,000 employees," said Buccino. "The company was making approximately 1 percent on its revenue so it was profitable, but clearly below industry expectations. We were hired to fix the problem, so we sold off divisions that made no sense and cost-contained the company in ways that made sense. We put in more efficient systems and procedures, and implemented a marketing plan that improved the revenue line by 5 percent. The company therefore improved its profit margin significantly and improved cash flow and earnings per share."

Turnaround specialists are trained to quickly identify a company's problems and opportunities—a valuable skill in today's volatile economy. For this reason, investors are turning to turnaround specialists to assess potential investment opportunities.

"We apply the same skill set to prospective due diligence on target companies that we apply to turnarounds," Buccino said. "But we go beyond talking to executive management; we perform intensive due diligence by working with the line managers who run the business on a day-to-day basis."

"We go in with a different eye," he said. "We focus on cash. We don't just interview the CEO and CFO; we dig into middle management. If you talk to the head of

"They'll tell you, 'I live in the trenches here every day, and I'll tell you what is really going on.'"

production, purchasing, sales, engineering or accounting, they'll tell you, 'I live in the trenches here every day, and I'll tell you what is really going on.'"

Buccino added, "This is where we find out if, for example, a company is relying on one customer for more than 25 percent of their revenues (always a risk) or is too dependent on one supplier (another red flag), or deferred capital expenditures are compromising quality control. These are just some examples of the areas we dig into to get to a company's true numbers."

Buccino, who has worked with more than 1,000 distressed companies, has also frequently been hired by investors to assess distressed asset opportunities. "We often find that performance in distressed companies is lower than that presented to the investors," he said. "This isn't always a signal to walk away, but it may mean setting lower expectations on price. For example, a seller may say its EBITDA is $5 million, so at five times EBITDA, the purchase price is $25 million. But after our due diligence, we find that EBITDA is only $3 million, lowering the purchase price to $15 million. However, we may also have identified six areas of improvement that could result in an EBITDA of $6 million. This is where we create value." He added, "On the other hand, we might discover that the company could never make those numbers and is not a good investment. In these cases, we also create value by preventing investors from taking losses."

Buccino's firm also provides due diligence on healthy, yet undervalued opportunities for numerous private equity firms. These firms appreciate the practical expertise that turnaround experts can contribute on potential targets and on portfolio investments that are experiencing problems. "It makes great sense to add turnaround experts to the team," said Buccino, "If we're involved in the due diligence process, we can help the buyer make an accurate assessment of the target, provide an action plan to improve profits and cash flow, and prevent the target from getting into a turnaround situation."

Successful acquirers minimize reactive decisions by using their investment thesis to create a filter to assess every opportunity.

It's a common challenge that Jay Greyson, managing director and principal for investment bank Vetus Partners, has faced many times. "For example, when we're working with sellers, our clients are often convinced they know 'THE two or three businesses that are the best buyers of their company,'" he said. "Even so, we still conduct extensive research to identify the full buyer universe and highlight the best buyers who could maximize value for our client. In the 50 to 60 transactions that I have led, after carefully analyzing the prospective buyer universe, the top three candidates have almost never been those we initially thought they'd be."

Translating the investment strategy into a filter for due diligence
Successful acquirers minimize reactive decisions by using their investment thesis to create a filter to assess every opportunity. It's the best way to prevent the team from digressing from core objectives, particularly when presented with a great number of potential targets.

For example, two successful middle-market PE firms, Castle Harlan and The Jordan Company, have translated their investment thesis into a filter that enables them to objectively analyze as many as 1,000 companies a year. The work is time-consuming, but the filter they've developed protects them from losing sight of their investment objectives.

According to John K. Castle, chairman and chief executive officer of Castle Harlan, his and his partners' diligence activities are guided by an investment thesis of targeting companies with strong defendable market positions that are going to thrive in both good and mediocre times, and can be purchased for a reasonable price.

"Of all of the opportunities we consider, half are dispatched fairly quickly because they don't meet our criteria," he said. "Identifying the good investments is hard work, but by keeping your nose to the grindstone and looking at a lot of things, out of every thousand opportunities, a few good companies with the qualities that we want will appear, even in relatively difficult times."

The Jordan Company has continually refined its filter to assess potential targets in China. "We see about a thousand potential deals a year," said Andrew Rice, senior vice president of international business for the Jordan Company, "We pass on 75 percent of them based on a review of the initial teaser we get. Of the 250 that are left, we'll sign a non-disclosure agreement (NDA) and request more detailed material.

"After that initial evaluation, we'll pass on half. Now we're down to 125. Of those, we'll visit the company and send them a preliminary information request list. Once we

"You shouldn't be creating a strategy around a target because you think it's attractive; develop the strategy and then find the target that best fits your strategy."

analyze the preliminary data, we will pass on another 100. In a year we identify only 20 to 25 that we really want to dig into. We'll try to reach an agreement on the LOI before we spend a lot of money on the legal and accounting due diligence. If all the other due diligence flows into place, we'll do four to six deals in a good year."

Successful corporate acquirers also use an analysis model based on their investment goals. For example, Harry Durity, senior advisor at New Mountain Capital and former senior vice president of Worldwide Business Development for ADP, led ADP's corporate development team through 120 transactions in a 10-year period, yielding a rate of compounded annual return of 20 percent for ADP's shareholders over that period. To achieve this success rate, Durity and his team employed a formal, structured methodology to review hundreds of target companies according to the company's investment thesis. Durity believes that this approach was instrumental in ADP's acquisition success.

Considering target companies outside of the strategy was not an option. Durity developed a mantra that he has shared with many managers who have wanted to pursue "one-off" acquisitions. "I'd have to remind the managers at times, 'there should be no deal before there is a strategy. A deal is a way to accomplish a strategy,'" he said. "You shouldn't be creating a strategy around a target because you think it's attractive; develop the strategy and then find the target that best fits your strategy."

Once developed, the investment thesis should be considered a living document. Successful acquirers continually update their strategic plans over time to ensure that the investment thesis reflects current strategic objectives. In addition, they also periodically test their investment strategies and revise them to reflect changes in their business and in the market.

Articulating the investment thesis to the due diligence team

Successful acquirers also take the time to ensure that their due diligence teams are kept up-to-date on the investment thesis and use it to guide their work. There is no other single factor that is more important in determining whether a due diligence exercise will be a success or a failure.[8] This helps the team prioritize its work and focus its search on the right kinds of target companies. It also helps to enforce a uniform due diligence methodology by which findings are always analyzed according to the investment thesis.

However, keeping the investment thesis at the forefront of the entire team's activities

[8] John Keffer and Mark E. Thompson, "A Guide for Successful Due Diligence," Due Diligence Review: M&A Behind the Scenes, *Financier Worldwide* (2004), 11.

Targets in trouble may adjust their purchasing and accounts payable practices in ways that could affect their value.

Important Areas of Value Creation Diligence

Sales/revenue
In a declining market, effective due diligence takes into account not only the amount of sales and revenue, but also its quality. Take a close look at recent lost customers, or at customers who have stated an intention to move their business and find out what is driving those decisions. Credit is obviously a key concern for every business currently, so carefully evaluate the creditworthiness of the target's client base. Is the target offering more generous warranty terms, discounts or other incentives to shore up sagging sales? Look for increases in barter activity, changes in return policies and increases in customer concentration – all could be bad signs.

Gross margins
A target company may take a variety of steps in a declining market that could adversely affect margins. For example, companies often discontinue less profitable or unprofitable product lines in tight markets – but that could mean that a higher percentage of overhead will be allocated to the remaining product lines, adversely affecting their margins. Discontinued product lines or slumping sales could mean the loss of volume discounts the company enjoyed in better times. The target's suppliers and vendors may be increasing prices or otherwise changing terms.

Accounts payable and purchasing
Targets in trouble may adjust their purchasing and accounts payable practices in ways that could affect their value. The target may be slowing payments to vendors and suppliers to conserve cash, or it may be having more disputes with vendors as it tries to return merchandise in an effort to control inventories and preserve cash. Take a close look at the target's purchase obligations—are volume guarantees and associated penalties likely to become an issue? Is the target switching vendor relationships to control costs or stretch cash? This could lead to quality issues. Finally, even if the target itself is healthy, the failure of a key vendor could lead to interruptions and higher costs as the company scrambles to find a replacement, so you also must also assess the health of the company's key suppliers.

Successful acquirers are careful to ensure that team members do not operate in silos, but share their findings across the team.

Inventories

If sales are falling, a company's inventories often will creep up, which creates a higher risk of excess and obsolete inventory and related write-downs. If the target's customers are experiencing slower sales or other issues, then returns are likely to increase, which also can cause inventory to increase. The target also could be allocating idle costs to inventory. All of this puts a drain on cash as increased inventory costs push working capital requirements higher.

Restructuring charges

Depending on their size, restructuring charges could cripple or destroy the target company. Watch for targets establishing restructuring charges and adding the results back to EBITDA. Also look for changes in reserves designed to artificially boost earnings.

Source: White Paper: "Dangerous Opportunities: Understanding the M&A Market During the Recession and the 10 Keys to Successful Due Diligence," William Spizman, Managing Director, Transaction Support Services, RSM McGladrey.

can be challenging. Due diligence teams are often made up of a broad spectrum of experts from areas including accounting, legal, operational, regulatory, industry and other areas. If the deal is a cross-border transaction, the effort is compounded by international diligence requirements. While each of these areas requires specialized expertise, successful acquirers are careful to ensure that team members do not operate in silos, but share their findings across the team.

Dealmakers such as Durity advocate regular meetings and update calls between all team members to promote cross-pollination of expertise. "It's more challenging to get everyone in the same room, especially on international deals, but we achieved the best results when we held 'all hands on deck' meetings in which everyone shared their current state of knowledge," he said. "The tax expert might bump into something in the tax record that could be important for accounting. Or the HR executive might uncover something that's important for the general manager and the new team tasked with running the new company." Durity made such meetings a top priority in all of his transactions "because cross-pollination results in better discussion, in-depth discovery and more informed decisions," he said.

Some serial acquirers first perform their own informal due diligence on a potential

"One of the most productive diligence exercises our firm can undertake is where the client shares, at the outset, the business models and assumptions it has made with respect to the target company, and why the client wishes to acquire the target company."

target and then hire external diligence experts to see if their assessment is accurate.

> *"One of the most productive diligence exercises our firm can undertake is where the client shares, at the outset, the business models and assumptions it has made with respect to the target company, and why the client wishes to acquire the target company," said Kenneth A. Gerasimovich, a shareholder of law firm Greenberg Traurig LLP. "Recently, a client (the acquirer) performed high-level due diligence of the target. The client provided us with its 15- to 20-page model (which included the assumptions included in its model) and asked us to prove the model and determine the validity of its assumptions. This exercise became a significant part of our legal due diligence efforts.*
>
> *For example, as part of the model, the client identified a warehouse that the client intended to shut down to reduce costs. We reviewed the leases and identified certain issues with respect to the anticipated costs of closing the warehouse and terminating its lease. For example, there were long notice periods required to terminate the leases and significant penalties for doing so. The client could shut down the warehouse, but was not going to realize the anticipated savings that were modeled. Of course, in addition to proving out the client's model, we still need to thoroughly review the targeted company and find out where the skeletons are, but helping our clients prove their initial assumptions is invaluable."*

Conducting deeper diligence on future earnings

Successful acquirers delve deeper to get a true picture of the target company's performance. To accomplish this, experienced acquirers are now actively engaging in pre-LOI due diligence and digging deeper to get a much more granular understanding of the target's actual day-to-day operations.

As James Hill of Benesch Law noted, "Private equity firms and strategic buyers are looking at companies much more holistically and asking deeper questions as to where the company is going. Diligence as a whole has become more sophisticated. People are looking beyond the financial statements and legal documents, and getting into the quality of earnings, human resources and more. They want to know where the company fits in the market, where its competition is and candidly, where is the whole industry going?"

The leading acquirers are doing much deeper diligence on a target company's current

In Robert Filek of FTI Consulting's view, having a good grasp on forecasted earnings is crucial.

financial results to gain a clear understanding of its ability to sustain such performance in the future. Hill recommends that buyers pay close scrutiny to the target's quality of earnings, EBITDA and financials going forward to gain a true understanding of how the company creates its revenue base.

This is critical for a number of reasons. If the target is a distressed company, it is important to ensure that the sellers have not made an attempt to cover up negative trends and poor results. Even if the target company is solid, the due diligence team needs to be able to determine if the numbers represent a realistic picture of the company's true performance or if it is somewhat skewed as a result of "dressing the company up for sale."

In Robert Filek of FTI Consulting's view, having a good grasp on forecasted earnings is crucial "because at the end of the day, that drives the value. Doing rigorous work and understanding the upside as well as risk in the forecast are the most crucial areas," he said.

For example, a seller's strong sales numbers may or may not be a realistic indication of future sales revenues. "A seller may say they've got a great backlog of orders and they do. But often, buyers fail to really examine the margins on those orders," said Hill. "The target may have sold a lot of product at lower margins than they'd been achieving in the past. Suddenly as the new owner, your gross margin is going down and you're stuck with that business. You're asking, 'How did that happen?' Well it happened because they were selling a lot of business at lower margins to get business in the door."

Another area that warrants a deeper dive into due diligence is around operations and capital expenditures related to operational equipment. Savvy buyers know that this can be an area of hidden costs. "When owners start to think about selling their business, they may forego certain capital expenditures to increase their earnings," said Hill. "Buyers need to evaluate the quality and condition of that equipment to determine how much CapEx they're going to have to have in order to get the company back to where it was before the owner decided to sell the company."

As experts have noted, due diligence to this level of detail can be time-consuming and

All of the above areas of due diligence are crucial, but as many expert dealmakers have said, "When you're buying a company, you're really buying the people. They drive the business."

beyond the scope of the buyer's resources, but it is crucial to assessing a target's true potential for creating value. One way to manage these issues is to reach out to people such as third-party industry or trade experts, suppliers or customers who have experience working through this maze.

Beginning deeper diligence, sooner, on human capital

All of the above areas of due diligence are crucial, but as many expert dealmakers have said, "When you're buying a company, you're really buying the people. They drive the business." Much has been written about the important role that integration plays in a deal's success or failure. One mistake that many acquirers make is to wait too long to identify key employees who should be retained in an acquisition, and wait too long to communicate human resource-related decisions to the newly formed organization. As a result, the organization is unable to move quickly and decisively to implement the post-merger integration plan, and deal synergies are lost.

Successful acquirers have addressed this common problem by adding human resource experts to their due diligence team, and seeking their input much earlier in the process. Increasingly, they are also getting the buyer's and seller's HR teams engaged in integration planning before formal due diligence begins. Experts note that companies "that have improved the manner in which they identify, track and leverage human capital data throughout the deal cycle are making a material difference to the success of the transaction." [9]

Mohammad Ali, senior vice president of Corporate Development and Strategy at Ayaya, said that integration is an essential part of the deal process. "When I start the meter of deals from inception to completion, a strong integration process has often helped performance improve by an average 23 percent." [10]

In the case of private equity firm Castle Harlan, a detailed assessment of a target's management team is a critical step in the firm's due diligence process. The firm prefers to invest in companies where it can partner with existing management, so a cultural mismatch is not an option. In Castle Harlan's view, properly aligning the interests of investors and management improves the likelihood of success.

"We are very involved with the management teams in our portfolio companies.

[9] Stephan Vamos, "Report on Mergers & Acquisitions: Integration in the Post-acquisition Phase," *Benefits & Compensation International*, Volume 38, Number 6, Jan/Feb 2009.

[10] Corporate Development 2010, Refining the M&A Playbook, Deloitte Development LLC, 2010.

A detailed assessment of a target's management team is a critical step in the firm's due diligence process.

> *We prefer to work in conjunction with them to develop a business plan that they can use to take the company to the next level," said John Castle. "We work closely with them to figure out ways to grow faster, improve profitability, take advantage of their natural strengths and try to move away from their weaknesses. So we want to work with existing management to make the company more successful."*

These are just a few areas of value creation that leading deal experts focus on to assess a potential target acquisition during the diligence process.

Summary

Much has changed in the world of due diligence, yet much remains the same. Internet-based tools such as virtual data rooms have made it much easier and more efficient for buyers and sellers to share critical information and accelerate the due diligence process. But, as noted by John K. Castle of Castle Harlan, "There is no substitute for hard work." In today's global markets, with increasing regulation and heightened potential for risk, the need for thorough due diligence is more important than ever.

Given the challenges of due diligence over the past several years, the best dealmakers have succeeded, time and time again, by adhering to a simplified focus on risk mitigation balanced with value creation.

Mitigating Risk and Creating Value Contributor Bios

Gerald P. ("Jerry") Buccino is Founder of Buccino & Associates, Inc. For more than thirty years, he has consulted with CEOs, boards of directors, lenders, creditors, and other economic stakeholders on turnaround strategies to improve cash flows and enterprise values. His business experience and comprehensive understanding of the turnaround process has led to an array of successful business turnarounds and reorganizations. Mr. Buccino has worked with companies in numerous industries ranging in size from middle-market businesses to major publically corporations. These positions include: Chairman, President and CEO of Fine Host Corporation, a $400 million NASD Food Service Company; Senior Vice President and Chief Administrative and Financial Officer for a 44,000 employee based NYSE Company; Chief Financial Officer of an international, $200 million NYSE company; and Chief Executive Officer and Chairman of the Finance Committee of a $600 million department store chain with 46 outlets. Mr. Buccino is a CPA and a CTP (Certified Turnaround Professional) and earned an MBA and Ph.D. in Business from California Coast University, Santa Ana. He earned his Bachelor of Science in Accounting and Philosophy from Seton Hall University. He lectures extensively on a variety of restructuring topics including corporate governance, especially in the zone of insolvency, the warning signs and causes of business failures, and related crisis management techniques, and is the author of more than 25 published articles on these subjects.

Harry Durity is a Senior Advisor at New Mountain Capital, which he joined in May 2005. From 1994 to 2005, Mr. Durity was the Senior Vice President of Worldwide Business Development, Head of Merger and Acquisitions group, and a Member of Executive Committee at Automatic Data Processing (NYSE: ADP). Prior to that, Mr. Durity worked for Revlon Consumer Products Company as a Senior Vice President of Corporate Development, where he also served as a Member of the Executive Committee at the company. From January 1990 to January 1993, Mr. Durity was president of the Highlands Group, a boutique mergers and acquisitions advisory firm. Prior thereto, he served as a Vice President/Corporate Development for RJR Nabisco, a consumer products company, from October 1980 to December 1989. He also served as a Senior Consultant at Arthur D. Little in their Managerial Economics department and started his career at Firestone Tire & Rubber Company as the Chief Economist. Mr. Durity was a Director of National Medical Health Card Systems (NASDAQ: NMHC) and is a Director of OrthAlliance Inc. (NYSE: OCA). Mr. Durity holds a B.A. from Western Maryland College with additional studies in Merger and Acquisition at the Darden School, University of Virginia and obtained a Master's degree from Washington State University.

John K. Castle is Chairman and Chief Executive Officer of Castle Harlan and a member of the Executive Committee of CHAMP, an affiliate of Castle Harlan. Mr. Castle is also chairman of Castle Connolly Medical Ltd., and is chairman and chief executive officer of Branford Castle, Inc., a holding company. Immediately prior to forming Castle Harlan, Mr. Castle was president and chief executive of Donaldson, Lufkin & Jenrette, Inc., one of the nation's leading investment banking firms. Mr. Castle is a board member of Morton's Restaurant Group, Perkins & Marie Callender's, Inc., and various private equity companies. He also served as a director of the Equitable Life Assurance Society of the U.S. Mr. Castle is a Life Member of the Corporation of the Massachusetts Institute of Technology. Previously, he had served for 22 years as a trustee of New York Medical College, including 11 of those years as chairman of the board. He is a member of the board of the Whitehead Institute for Biomedical Research, and was founding chairman of the Whitehead Board of Associates. He is also a member of The New York Presbyterian Hospital Board of Trustees and has served on various visiting committees at Harvard University, including the Harvard Business School. Mr. Castle received his Bachelor's degree from the Massachusetts Institute of Technology, his M.B.A. as a Baker Scholar with High Distinction from Harvard, and has two Honorary Doctorate Degrees of Humane Letters.

Robert L. Filek is a Senior Managing Director, and Global Leader of Transaction Advisory Services at FTI Consulting. Mr. Filek has more than 24 years of experience and has been involved in some of the most complicated acquisitions, divestitures and joint venture transactions in recent history, advising in both the private equity and corporate arenas. Robert has expertise in strategic evaluation; financial and accounting due diligence; transaction structuring; working capital adjustments; complex accounting matters; merger integration and performance improvement. His deal experience includes advising on more than 300 transactions globally, representing buyers, sellers and lenders in consumer products, retail, aerospace, automotive sectors, and healthcare. Some of Mr. Filek's notable transactions include Burnham's acquisition of Corporate Express; Whirlpool's acquisition of Maytag; Kraft's hostile cross border acquisition of Cadbury Chicago's Midway Airport; Dunkin Donuts' and Johnson & Johnson. Prior to joining FTI Consulting, Mr. Filek was a partner at PricewaterhouseCoopers, where he served in numerous roles, including as an audit partner, multinational Transaction Services leader, the National Assurance growth leader, and the retail and consumer leader for Transaction Services.

Kenneth A. Gerasimovich is a Shareholder at Greenberg Traurig. He has broad experience representing domestic and multinational corporations and private equity funds in mergers, acquisitions and sales of public and private companies, divisions and assets. His practice includes a broad range of related corporate matters including tender and exchange offers, proxy contests, stock and asset acquisitions and divestitures, joint ventures, special committee representations, Private Investment in Public Equity (PIPEs) and other corporate transactions, as well as general corporate advisory work.

Jay Greyson co-founded and serves as a Managing Director & Principal in the investment bank of Vetus Partners, the winner of seven M&A industry Awards in 2009 (The M&A Advisor's 8th Annual M&A Awards) including the coveted Boutique Investment Banking Firm of the Year. Personally, he was named Dealmaker of the Year, the highest individual honor in investment banking. Jay is also a Co-founder & Partner in Supply Chain Equity Partners ("SCEP"), the world's only committed capital Private Equity firm focused exclusively on making investments in the Distribution & Logistics industry. A highly experienced corporate finance and advisory professional Mr. Greyson has a strong background in analyzing, structuring, negotiating and executing complex financial and capital-raising transactions, both domestically and internationally. He focuses on sourcing and leading the execution of private and public company sell-side Mergers & Acquisitions, corporate carve-outs and divestitures, management buyouts, buy-side programs, distressed and bankruptcy process sales, and international transactions. Uniquely, Jay combines his finance background with over a decade of extensive experience in the manufacturing, marketing and distribution of industrial products and services. Collectively, Jay has over 25 years of combined investment banking, private equity and business experience during which he completed numerous M&A transactions, including a significant number of cross border deals.

James Hill is the Executive Chairman of Benesch and Chairman of the Private Equity Practice. He also serves as an active and practicing member of its Corporate and Securities Practice Group. Mr. Hill also served as Benesch's Managing Partner from 1999-2007 and is a member of the firm's Executive Committee. He focuses his active practice on publicly and privately held growth companies, in addition to representing mezzanine finance providers and equity participants. He primarily handles mergers and acquisitions, public and private offerings of equity, and public and private offerings of debt. Mr. Hill has published numerous articles and has been a keynote speaker on the subjects of mergers and acquisitions and dealing with the formation and ongoing operations of private equity funds and their subsequent acquisitions and dispositions of portfolio companies. Mr. Hill is also very active with enterprises that do not have a financial sponsor. He has a strong working knowledge of the transactional arena in transportation and logistics.

Euan Rellie is Joint founder and Senior Managing Director of Business Development Asia and is based in New York. Since founding BDA in 1996, Mr. Rellie has been worked in Singapore, New York and London and across China, Taiwan, Korea, Japan, India and the Middle East. From 1990 to 1996 he worked in the Corporate Finance Department of Schroders, the leading UK investment bank now a part of Citigroup. For most of his time at Schroders, Mr. Rellie worked on behalf of Western multinationals, assisting them in their international development. In 1995 and 1996, he was Head of SE Asia Execution for Schroders' Asia-Pacific Regional Advisory Group. Mr. Rellie's clients in Asia have included BUPA, DuPont, Hanjin, ICI, Intel, Kraft Foods, Lubrizol, Nalco, Parker Hannifin, Philip Morris, Reuters, Rohm and Haas, Sara Lee and Tenneco. He was educated at Eton College and Cambridge University (BA Hons, History) and is a Corporate Finance, Specialist Registered Representative.

Andrew Rice is Senior Vice President of International Business at The Jordan Company ("TJC"). Mr. Rice travels extensively assisting Jordan companies with their expansion overseas. Since 1990, he has helped coordinate over 45 acquisitions, JVs and wholly-owned start-up operations for TJC in China, Russia, India, Malaysia, Europe, Mexico, Brazil and other countries. Mr. Rice is currently focused on China. Mr. Rice earned a B.S. in Industrial Engineering and an M.S. in Engineering Administration, both from New Mexico State University. He also completed one year of graduate studies in international economics at the University of Melbourne, Australia, where he studied as a Rotary Foundation Graduate Fellow. Mr. Rice currently serves as Global Vice Chairman of the Association for Corporate Growth and is a member of the Board of Directors of the US-China Chamber of Commerce. Formerly, he was on the Board of the Illinois Finance Authority and the Washington, D.C. based Small Business Exporters Association.

Robert Strang is the CEO of Investigative Management Group. Bob is one of the world's leading corporate investigative and security specialists serving major financial institutions, Fortune 500 companies, large law firms and high net-worth individuals and families. Mr. Strang began his law enforcement career in 1979 with the Federal Bureau of Investigation in Washington, D.C. In December of 1980, he graduated from the Department of Justice's Special Agent Basic Training class. From 1980 to 1989, Mr. Strang was a Special Agent with the Drug Enforcement Administration. There, he distinguished himself on numerous occasions, winning four major U.S. Department of Justice awards, and two letters of commendation from the U.S. Attorney's office. Formerly the founder of Strang Hayes, the premier corporate security firms in the world sold in 2001 SPX Corporation (NYSE: SPW), a Fortune 500 company. In 2003, Mr. Strang formed Investigative Management Group to manage a number of complex global investigations involving proxy fights, due diligence investigations, litigation, hostile threats, bankruptcies and a range of other business challenges. Mr. Strang currently serves as Director for the New York City's Economic Development Corporation; Chairman of the Governance Committee and a member of its Executive and Legal Committees; Chairman of the New York City Civil Service Screening Committee; Director of D.A.R.E. America and member of its Executive Committee; Advisor to the University of Florida's Psychiatry & Addiction Advisory Board; and Directors at several non-profit organizations.

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