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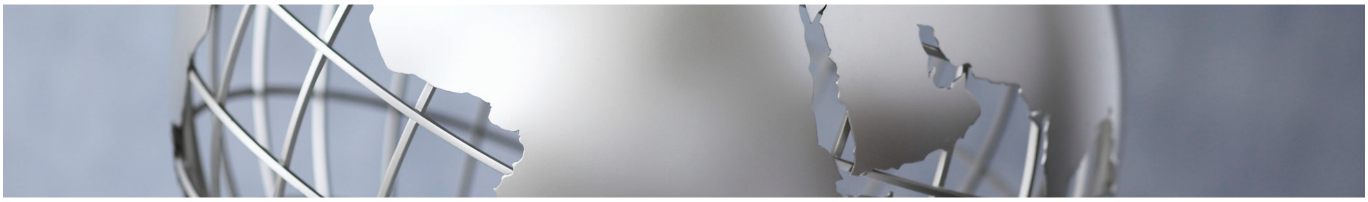


July 2010

Due Diligence Planning:
More Important than Ever

History shows us that economic downturns are followed by a swift surge in business transactions as optimism recovers. We are already seeing signs of this recovery. To grasp opportunities, businesses need to be prepared, and to be nimble.

In this month's newsletter, we explain why effective due diligence is vital for successful business transactions.

In an upward market, competition for assets drives deal premiums higher. This makes it even more important for a deal to deliver its perceived opportunities. When a deal does not achieve its anticipated benefits, it is deemed a failure.

In these times, due diligence has never been so important. But what makes due diligence effective?

Effective Due Diligence

It is important to focus on the key drivers that affect maintainability of earnings and ensure synergy benefits are realised.

An effective due diligence project:

- Limits costs through efficiency
- Identifies deal breakers, key risks and operational issues
- Contributes to the final investment decision and negotiations
- Forms the basis of the 100 day post-completion and integration plan.

Case Study:

Effective Due Diligence Helps Formulate your Integration Plan

Mr Simpson's business, selling patented construction machines, grew so rapidly in the early years that he was able to offer employment to people in his regional town, an area where jobs were badly needed.

Business growth brought the need for further capital. Mr Simpson found a local supplier who was interested in injecting equity into his business.

While the supplier understood the nature of Mr Simpson's business and how it was run, the supplier was concerned about aspects of the business' internal administration. To understand the potential risks, the supplier engaged Crowe Horwath Corporate Finance to conduct financial due diligence and to perform time studies around the internal administration function.

Following our due diligence, the supplier formulated a 100 day post-completion and integration plan that incorporated strategies to overcome the inefficiencies in the business.

The Effective Plan

When designing a due diligence plan, it is essential to:

- Establish the framework and parameters for the due diligence team to work within
- Appoint a team with experience and expertise to cover all aspects of effective due diligence
- Understand the value drivers of the transaction and ensure the scope of the due diligence aligns
- Set and monitor a time line and reporting process
- Ensure that the parties understand the strategic context before the due diligence commences.

The Effective Team

Putting together a due diligence team means finding people with the right skills and experience to cover your key risks. Consider each deal on a "case-by-case" basis to identify the specialists relevant to your deal. When you bring in specialists early, you can identify risk areas and value drivers upfront, before fieldwork begins.

Case Study:

Effective Due Diligence Reduces Investment Costs

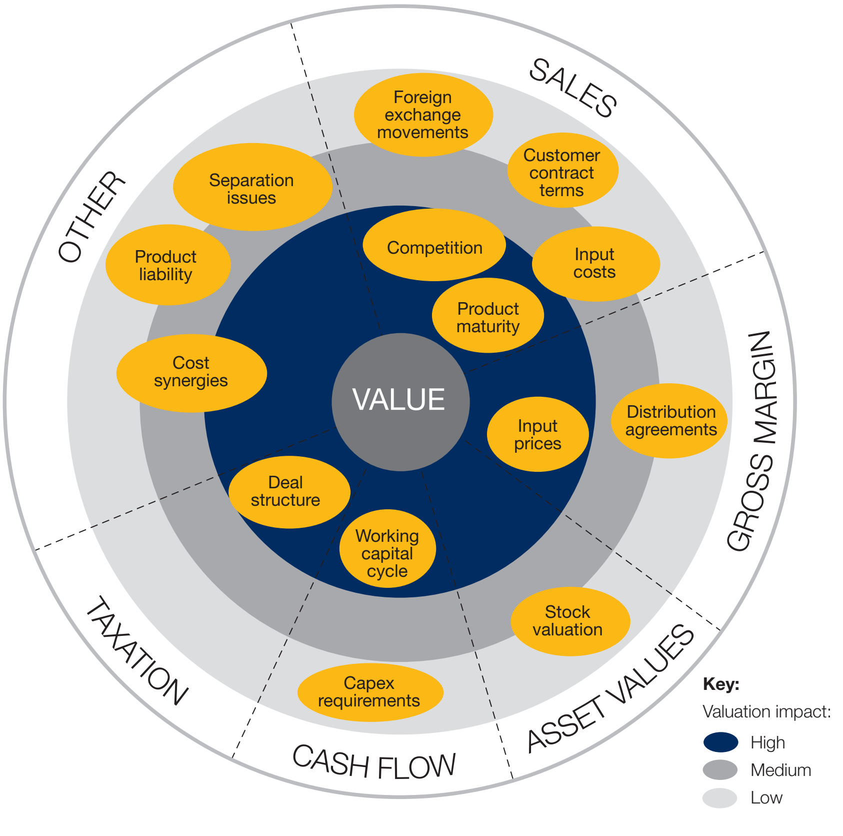
When acting for the prospective purchaser of a specialised railway component manufacturer, we were asked to comment on the forecasts provided by the vendors and any ongoing investment requirement. The forecasts were aggressive and the purchaser had some concerns.

Our analysis identified that a large percentage of the revenues were contracted. Even though the revenues for the forecast were significantly more than historically achieved, the revenues reflected contracted production for a number of years.

For plant capacity and utilisation, we worked with the purchaser's Manufacturing Manager. We identified that:

- Total manufacturing capacity was well below the required levels implied in the forecast
- Equipment was aged and would require replacement
- Running the equipment at full capacity would bring the replacement requirements forward
- There were a number of Occupational Health and Safety issues.

Our client used our analysis and the Manufacturing Manager's observations to negotiate a reduction in the purchase price equal to the investment required to upgrade the facility.



For Further Information

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The Effective Focus

Initially, focus is on high risk and high impact areas. These have the potential to break the deal. A due diligence team that links its findings to the context in which value of the transaction has been determined is one that delivers maximum value.

Some of the key drivers we look at to evaluate a business include:

Case Study:

Effective Due Diligence Means Understanding the Key Transaction Drivers

When a leading entertainment distribution business sought to acquire the distribution business from another international entertainment business, a significant element of the deal was that the vendor would continue to distribute its products through its divested distribution business. This required the valuation of the unit cost of distribution for the three years following the deal.

Despite the purchaser's appointment of a due diligence expert to perform relevant financial analysis. The expert's report covered historical financial analysis but did not address the key commercial issue: a per unit cost of distribution.

The purchaser engaged Crowe Horwath Corporate Finance to re-examine the due diligence, particularly on the current and achievable unit costing. We focused on utilisation of plant being acquired, staffing levels and the overall cost structure of the distribution function.

As this was not a traditional business or share sale, it was important that our due diligence team understood and stayed focused on the key transaction drivers.

Crowe Horwath Corporate Finance

With Crowe Horwath's expert Corporate Finance team, your business transactions will be appropriately assessed, run smoothly and efficiently, and you will receive relevant advice you can actually use.

Crowe Horwath in Australia

Crowe Horwath works with companies and individuals to maximise their growth potential and achieve financial goals. The firm's team of more than 800 principals and professionals delivers a full range of accounting including, audit and taxation, business advisory, corporate finance and wealth management services nationally from offices in Brisbane, Melbourne, Perth and Sydney. Crowe Horwath is an integral part of the ASX-listed WHK Group – Australia's fifth largest accounting services group – and a member of the global Crowe Horwath International network. Crowe Horwath International is ranked among the world's top-ten accounting networks and comprises more than 140 independent accounting and advisory services firms in more than 100 countries. See www.crowehorwath.com.au.

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