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REFOCUSING TRADITIONAL DUE DILIGENCE: VALUE CREATION IN TODAY'S ULTRA-COMPETITIVE DEAL ENVIRONMENT

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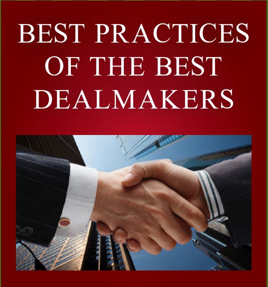

SECOND EDITION: PART 4

"How we create value is ultimately translated into the full potential blueprint for an asset. Acquirers want to spend their time and effort on assets that stand a good chance of winning in their respective markets. Buyers are being more thoughtful in screening assets earlier in the process, which results in quicker decisions about whether to proceed with a transaction."

Tim Meyer
Managing Director
Operations
The Gores Group

INTRODUCTION

Drawing on the experience and expertise of the "best in class" dealmakers, The M&A Advisor (http://www.maadvisor.com), together with the leading provider of virtual deal management services, Merrill DataSite® (http://www.datasite.com), publishes the quintessential dealmakers guide series - **"The Best Practices of The Best M&A Dealmakers."** Profiling the proven strategies and unique experiences of the leading M&A practitioners, "The Best Practices of The Best M&A Dealmakers" series is distributed in regular installments for M&A industry professionals in both print and interactive electronic media. Previously published features and chapters are also available in the online library of Merrill DataSite and The M&A Advisor. We are pleased to present **Refocusing Traditional Due Diligence: Value Creation in Today's Ultra-Competitive Deal Environment.** This installment discusses the best practices for executing the due diligence process in M&A transactions, with a growing emphasis on strategic value creation. On the following pages you'll find helpful observations provided by candid interviews with leading buyers, sellers and advisors, as well as timely insights into the most current trends.

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"I establish my deal thesis immediately, and that thesis is built on value creation." - Chuck Moritt

Part 4: Refocusing Traditional Due Diligence: Value Creation in Today's Ultra-Competitive Deal Environment

Introduction

The slow M&A recovery that fuels the fierce competition for a few quality deals reflects the tepid U.S. economic recovery. The good news, though, is that buyers and sellers continue to sit on the sidelines, harvesting the economic rebound and recapitalizing before they sell. What they want when they sell is a due diligence process that creates value, is efficient and produces more certainty. With fewer M&A transactions the trend toward deal time-frame compression grows more pronounced, especially among cash-laden strategics. Streamlined due diligence and value creation are products of pre-emptive bidding, which is becoming more prevalent due to constricted deal volume. Consider the observation made by David Smalstig, Senior Managing Director and Midwest regional leader of FTI's Chicago-based Transaction Advisory Services Group:

"It's a perfect storm now. Money is cheap. Banks want to lend. There are approximately 6,800 companies that have been owned by private equity for more than five years. By charter, private equity must monetize the return on capital to limited partners every 7-10 years under a fund. There's a maturity of portfolio companies in the marketplace. The economy is coming back. After the financial meltdown most surviving companies were able to take the cost structure out; they right-sized themselves."

The due diligence time frame is compressed because more buyers are convinced that speedier diligence – sometimes conducted in two weeks instead of the customary four -- wins deals among acquirers that prefer to close fast because much of their diligence has been conducted pre-Letter of Intent (LOI). Time-efficient diligence, however, often sacrifices information that is desired but is not obtained, such as trial balances, up-front access to audit work papers and information gleaned from unfettered access to target management. Instead, buyers are often left with pieces of information from which conclusions must be drawn.

Chuck Moritt of Mercer Consulting is a human resources expert specializing in M&A transactions. Moritt is a Mercer Senior Partner and the firm's North American Corporate M&A Leader. "Deal flow dropped off the table for a while. Organizations with strong balance sheets and cash continued to make transactions. With the onset of the financial crisis buyers and sellers became more selective, which has produced two major changes. First, they're more thoughtful and deliberate about how they proceed with their go/no-go analysis. Second, they're more thoughtful about making a deal and spending their money more wisely. The cost of a failed deal now is higher because fewer deals are made, and M&A transactions can be disruptive even under the best conditions."

According to Brent Earles, senior vice president at Allegiance Capital Corp.,a Dallas-based private investment bank, sponsored deals with commercial lender involvement, must be closed in a very circumspect manner, usually in 60 days post-LOI. Strategic buyers, however, he points out, often are already in possession of the needed due diligence data and have the cash to close much faster, especially if there is no need for lender support. Although there are dealmakers who continue to adhere to the traditional diligence process for reasons of prudence, a trend is clearly taking shape in which a streamlined form of due diligence not only fulfills its traditional confirmatory role but also emphasizes strategic value creation in truncated time frames that reflect the competitive imperatives of an evolving marketplace.

While traditional financial due diligence remains prevalent among buyers such as private equity firms whose objective is to sell a revamped target in the future, many corporate buyers looking to acquire a target for strategic purposes – and have already performed pre-LOI confirmatory diligence – are moving their emphasis to value creation in the post-LOI due diligence period. The result is a compressed deal time frame and a faster close that benefits buyer and seller and helps the buyer win the deal.

I. The Differentiators: Specialists Take Center Stage in Due Diligence Value Creation

Spotlight on Industry Experts

The importance of industry experts to the diligence process cannot be underestimated. They help identify issues and how to structure solutions that resolve those issues. They know their specific space. They spot emerging trends. They know how a company can more effectively differentiate itself in its

Our aim is to identify where and how we can create value together with management. - Tim Meyer

space, improving its position as an investment vehicle. In short, due diligence is predicated on the knowledge that specialists bring to the deal.

Specialist expertise is especially valuable in deals where the diligence time frame is compressed. Some buyers, without documentation, strive to complete their diligence in two weeks. At the conclusion of the two-week diligence period, the buyer must bring down the curtain on the process. By that point buyers have already obtained and digested the necessary information, including that provided by specialists.

Not surprisingly, the Affordable Care Act (ACA) – Obamacare -- has awarded insurance specialists extra prominence as value creators in the due diligence process. Buyers and sellers need a clear view of the status of company's healthcare and benefit programs. A generation ago corporations picked up the tab for 100% of premiums. Then companies began pushing payment responsibility toward employees in the form of co-share premiums. Today, corporate healthcare costs are inflating at a 4%-6% annual rate. As ACA becomes operational nationwide, insurance expertise during the diligence process is a necessity.

When it comes to squeezing real estate costs during due diligence, expertise in that industry is also essential, says DTZ's Gerard Picco, Senior Vice President at DTZ, a global commercial real estate company. Picco points out that his company's experts can significantly reduce a target's real estate spending.

For Mercer's Moritt, the utilization of specialists is a function of a deal's specifics and of the deal thesis that will drive value. "If I'm buying a high-risk business, oil tankers, for instance, I'll get an insurance expert who understands the risk, the exposure and the causes of loss in that business and how to mitigate against those factors. If I do that deal I can project the likelihood of a significant cost burden – especially costs related to catastrophic events -- and whether that cost burden will jeopardize my deal thesis and my potential return.

Moritt advocates the marshalling of experts in such areas as human capital, especially experts in talent-related issues involving executive talent, capabilities

and compensation. "If you're picking up a plan that involves unions and defined benefit plans, experts in those areas will be needed to assess risk."

Tim Meyer's firm, historically has specialized in operational due diligence. In his opinion, operations and M&A are equal contributors to the value creation process. "Our aim is to identify where and how we can create value together with management. Once we own the asset, the same group that identified the value is held accountable for realizing that value."

Meyer's ops team includes subject matter experts in finance, taxation, IT and Lean Six Sigma experts who focus on manufacturing and sourcing. These and other experts conduct the diligence, mapping to their counterparts inside the asset. "Our finance specialist maps to the asset's CFO. I map to the CEO, etc. They're responsible for conducting deep and exhaustive diligence in their respective areas and folding their findings into a valuation model."

All the participants are then held accountable for the assumptions employed to drive the benefits that have been identified in their respective functional areas. "Their findings highlight the risk in the asset, downside protection and potential growth opportunities around the business." Ultimately, Meyer explains, this effort contributes to the asset's blueprint.

DEAL NOTES

Strategic Diligence on the Ascendant: A Dealmaker Explains How Top-of-Mind Awareness Has Been Achieved

Mark Sirower is a Principal at Deloitte Consulting LLP and leader of the firm's M&A Strategy practice. Before joining Deloitte in 2008 Sirower was global leader of Boston Consulting Group's M&A practice. He has closely monitored the evolution and ascendance of strategic due diligence throughout his career. He is author of the M&A bestseller, *The Synergy Trap* and an adjunct professor at NYU's Stern School of Business. "I've watched the development of commercial and strategic due diligence for 15 years, from when most due diligence was financial in nature and focused on quality of earnings, to today when strategic diligence is seen as nearly on a par with financial due diligence in top-of-mind awareness and dealmaker utilization. The ascendance of strategic value, especially since 2008, has been dramatic. Strategic value is not statutory like financial diligence; it's still regarded as optional, but there is no question that the concept has achieved significant status.

"Strategic due diligence regarding a public or private company revolves around three major issues: the value of current operations; the current and projected value and security of recurring revenues and profits; and the target's growth potential in terms of projected market growth and market share gains as a result of the deal.

"Testing for current operations value helps buyers resolve a frequent dilemma: Why would a buyer pay even the current operations value of a business if that business is in decline? Because even in decline a company may be worth more than its current value if strategic diligence determines that a target's future competitive positioning -- in the form of an emerging technology, for example -- may enable that company to have a future that's better than its present.

"We test for recurring revenue, revenue growth and margin sustainability because while a target's revenues may be growing, its margins may be declining. Margin sustainability is a major concern beyond just the potential growth in the revenue line. We test to ascertain the target's cost proposition in the delivery of revenue to understand how expensive the product or service is to provide and the cost associated with distributing the product or service. Margin sustainability often can be impacted when there is a disconnect between the cost of the goods sold and the prices customers are willing to pay over time.

"When assessing a company's competitive position during diligence we are gauging upside potential and downside risk. What are the upside potentials if the company is run differently? Is there an underserved market segment or segments that could be better served? Has the target ignored areas of potential growth? We assess a target's offerings relative to those of its competitors. Companies that that facilitate successful acquisitions can transform a target's products into broader solutions. The objective is to understand not only the stated needs of its customers but also unmet customer needs.

"In determining downside risk, we consider what customers are telling us about their satisfactions and dissatisfactions, the likelihood that customers will switch and how difficult it is for them to switch. What is the process involved in switching? What is the customer's willingness to pay? Will the target's technology be obsolete in a year? We plot the target across several dimensions relative to its major competitors. We assess customers from a geographic risk standpoint. Are competitors encroaching on a target's market segments in various geographies? In conducting our strategic diligence we try to talk with 50-60 customers in a three-week period. If it's a consumer-based business we'll launch surveys for 100-1,000 customers. There is an increasing demand in the market for that deep customer understanding that can be gained from thorough Strategic diligence.

"Post-acquisition synergy achievement is often poorly thought through by acquirers. We perform a bottoms-up synergy capture exercise as part of strategic diligence to gauge the real potential for post-closing revenue and cost synergy. If a private equity firm or strategic acquirer is willing, we work with the organization's new management team to help the team improve performance in their new business. That synergy-building exercise can be executed in a 3-week period while the financial and other operational diligence is underway. This is a difficult process but companies that opt to do it then have a roadmap in place after they buy the asset – and the members of the asset's management team sign up for the plan they're developing."

"The pressure to drive returns and shareholder expectations on sustained earnings has changed everything." - Gerard Picco

II. Due Diligence Emerges as a Strategic Value Creation Tool

Although due diligence retains its defined purpose -- an audit of investment to confirm all material facts regarding a sale -- the diligence process has assumed another dimension for buyers and sellers: strategic value creation. M&A participants now use the due diligence process to unearth nuggets of long-term growth opportunity that create equity value in a business via commercial or operational diligence. In commercial diligence the buyer develops deep insight into the target's industry and competitors while seeking to leverage the target's capabilities. Operational due diligence gauges the soundness of a target's capabilities, competencies and assets.

"The pressure to drive returns, and shareholder expectations on sustained earnings, has changed everything," says DTZ's Gerard Picco. In fact, he acknowledges, "many companies that are acquisition candidates now seek private equity firms that will collaborate with them to create value."

Huron's Brian Demkowicz, says that his firm regards due diligence as a vehicle that complements strategic planning. "Our strategic planning begins during due diligence. Often our due diligence analysis will form the foundational research for our strategic plan. We are continually evaluating ways to improve operations and mitigate risk." He believes that value creation in the due diligence process is equally important to buyers and sellers. "The end game is the same: to create equity value in an acquired business."

According to Tom Herd, Managing Partner, North American M&A Practice at Accenture, his buyside private equity clients are utilizing due diligence to help them focus more closely on and confirming opportunities for rapid cost reduction to generate immediate returns -- and to provide them with cash flow to invest in growth – even if the deal cycle is lengthened.

Says Herd, "Our clients are verifying the target's business plan, operational capacity, talent depth, product pipeline and customer relationships with much greater scrutiny than pre-crisis. Our clients are being more rigorous in their diligence. An ounce of prevention is worth a pound of cure."

According to Tom Herd, Managing Partner, North American M&A Practice, Accenture, his buyside private equity clients are utilizing deliberative due

diligence to help them focus more closely on and confirming opportunities for rapid cost reduction to generate immediate returns -- and to provide them with cash flow to invest in growth.

Overall, Herd's clients are engaging in more deliberate due diligence, even if doing so leads to longer deal cycles. "Our clients are verifying the target's business plan, operational capacity, talent depth, product pipeline and customer relationships with much greater scrutiny than pre-crisis. There's a sense that valuations are high and competition for potential targets isn't especially fierce, so our clients are being more rigorous in their diligence. An ounce of prevention is worth a pound of cure."

Tim Meyers's firm views operations and M&A as equal contributors to the process of value creation. In M&A transactions, Meyer, as the operations lead, is responsible for driving all aspects of due diligence. "How we create value is ultimately translated into the full potential blueprint for an asset." He says that focused diligence enables buyers to qualify M&A deals earlier in the due diligence process. "Firms want to spend their time and effort on assets that stand a good chance of winning in their respective markets. Firms are being more thoughtful in screening assets earlier in the process, which results in quicker go/no-go decisions."

Yet for other dealmakers the competition to win deals has necessarily altered the face of the due diligence process, necessitating shorter diligence time frames. The posture of a target's management team is comparable to that of a homeowner who puts his house up for sale. The homeowner knows the market is in his favor. A prospective buyer tells him he wants to spent three weeks on due diligence. But there will be another buyer the following week that will meet or surpass the homeowner's price. The second suitor wins the prize.

For FTI's Smalstig, the most prudent way and productive to skirt traditional due diligence "is to come in with a list of perhaps 8-10 of the most important items, take 3-4 days to resolve those items that are deal issues – or potential deal breakers or items that ought to be renegotiated – and minimize the due diligence fee." There is nothing worse, he continues, "that running up a bill for several hundred thousand dollars to write a nice report only to have the client read the report and return to the table to renegotiate – and you lose the deal."

It would be better, he insists, to eschew the report and instead prepare a 4-5-page hard-hitting PowerPoint presentation highlighting issues and possible solutions. "If it's a deal issue, let's go pencils down and renegotiate. That's where

diligence has migrated since 2000." For many buyers, he says, due diligence has evolved from a phase of a deal to a "step process" that might include simultaneous concurrent steps. "The idea is to hit the important issues but also to keep moving forward on all fronts. If we can't achieve satisfaction we won't proceed. We'll just stop."

III. Value-Creation Opportunities for Buyers and Sellers

As a strategic value creation tool due diligence creates opportunities for buyers and sellers, both strategic and financial. Monetary savings on transaction costs represent an important value- based opportunity. According to David Carpenter, a Partner in the Mayer Brown law firm in New York, "I've worked on transactions where as a result of our diligence we have helped the client to negotiate purchase price adjustments worth tens of millions of dollars. In connection with a diligence exercise, if you haven't generated opportunities for the client to help negotiate the price then you have failed in your efforts. It could be that the company is spotless, but that's probably extremely rare.

"Part of our exercise in diligence involves the identification of issues that impact valuation. These issues can then be used to get the other side to retain that risk or alternatively to contribute financially to its resolution. For example, where there's environmental liabilities you'll often negotiate a price sharing to deal with the risk. This has the benefit of motivating both parties to achieve risk mitigation in an efficient way. Sellers don't like to say, 'You take care of that and I'll reimburse you.' They'd rather have a shared financial risk in the outcome."

According to Tim Meyer, his firm focuses on an asset's value creation potential from the outset. "It's through the due diligence process that we clarify how we'll create predictable, sustainable value with an asset. It's on the front end of the diligence process that we formulate a response to the questions, How do we add value operationally to this asset? What do we have to do to realize that value? We are constantly testing and refining our hypothesis regarding how we'll create value."

Sellers that are large corporate parents, Meyer explains, are often concerned about how the asset will perform post-close. "Our ability to demonstrate our carve-out and value creation capabilities through the diligence process to both the seller and the management team is very important to winning the deal," Meyer emphasizes, because our strength in those areas builds provides comfort to seller and to target management.

"Diligence is a component of the broader strategic planning environment." -- Chuck Moritt

According to Mercer's Moritt, "Diligence is a component of the broader strategic planning environment because it tests against the deal thesis and influences the ongoing vision of how the business will operate with long-term success and sustainability."

For Accenture's Tom Herd, validating a deal's "value creation story" – its investment thesis – is the core reason for conducting buyer due diligence. "Clients that are 'strategic' buyers are calling upon us more often to help them validate an acquisition's value creation potential. One of our healthcare provider clients has reached out to us several times in the last year to conduct 'commercial' or 'strategic' due diligence on small, privately held firms with technologies that can help our client improve patients' ability to care for themselves at home after their hospital stays, reducing the frequency and burden of readmissions."

That client, he continues, "wants to know the market size for this capability, the likelihood it will work, the amount of investment it will take to implement at scale, and its likelihood of retaining key talent. Our clients want this analysis quickly, grounded in facts and presented by senior practitioners who know the industry. Our clients realize that traditional 'checklist' based due diligence isn't telling them the full story they need to know before they commit to an investment."

For Smalstig, value creation "is the end of the diligence tail." Buyers, he says, ask management, "How can we help you improve your numbers? How can we grow sales, take costs out, streamline your efficiencies or your production or your supply channel?"

Value Creation in Due Diligence: Who Benefits Most, Strategic or Financial Buyers?

Is value creation more important to a strategic buyer that acquires and holds a company, or to a financial buyer for whom a quick buy/sell turnaround is the objective? Although strategics and financials appear to be opposites in terms of objective, the importance of value creation to each is similar, if not the same.

"The pressure to drive returns and shareholder expectations on sustained earnings has changed everything," says Gerard Picco of DTZ. In fact, he

acknowledges, “brands or companies that are acquisition candidates now seek private equity firms that will collaborate with them to create value.”

Strategic buyers may have operations that overlap the target’s, Mayer Brown attorney David Carpenter points out. “If there is snag in the diligence process involving such an overlap that snag can often be resolved in other areas of the target’s business. A financial buyer, however, unless the target is a bolt-on to an existing platform, may lack that advantage.”

Mercer’s Chuck Moritt notes that the difference, if there is one, is found in the DNA that separates strategic and financial buyers. “A strategic buyer buys with the intent to hold in perpetuity. A financial buyer buys with the intent to improve the value of the asset and reap a financial return by disposing of it. I buy it; I fix it; I sell it. A strategic buyer says, ‘This is going to benefit my long-term strategy; I expect to hold it and extract the value that way.’

“Whether I’m strategic or financial I still need to do the same kind of diligence under my model, because my model says I evaluate the financial implications; I evaluate the operational implications – because the operational implications have financial implications. Whether I’m strategic or financial I want to know those operational implications. I want to know what I need to do to fix the asset in order to maximize my return.”

Accenture, Tom Herd’s company, is engaged by strategic and financial buyers to conduct value creation-oriented ‘strategic’ due diligence. “Strategic buyers want to make sure their anticipated revenue and cost synergies exist,” Herd says. “Most of our strategic buying clients understand the need for strategic due diligence, as do our PE clients. Both want to understand what cost reduction potential may be available from a major investment in a beloved condiments company, for example, and they want to validate the opportunities for investing in growth with the savings. Our private equity clients are just as committed as strategics to uncovering the value creation story during due diligence.”

DEAL NOTES

The Role of Third Parties in Private Equity

Are third parties poised to become a force in the provision of due diligence advisory services? Tim Meyer says yes, although their presence has not yet been keenly felt. A scan of corporate websites reveals that firms such as McKinsey, Bain, Mercer and Deloitte, to name but four, are already trumpeting their M&A due diligence capabilities.

"These firms are retooling their diligence offerings to accommodate the private equity space," Meyer notes. "For private equity firms that lack operations capabilities the participation of a McKinsey, for example, can be useful, especially in a distressed, complex transaction." The ability to cope with transactional complexity should be a requirement for third parties looking to be active in M&A due diligence, he insists; their presence would be especially helpful for those private equity firms that are seeking transactions that are increasingly complex.

Even Meyer's own firm, he predicts, may leverage third parties in certain situations. He says that he recently encountered an unverified statistic that surprised him: "Within the private equity space there are a few hundred operators, individuals defined as operations experts." With the growing demand for operational due diligence in M&A deals, "five years from now we may see that the number of operators in private equity has doubled." Private equity firms in particular, he says, are realizing the value of operations to help unlock the full potential of an investment, but also provide some downside protection should operating performance fall short of expectations.

IV. The Due Diligence Process

How Due Diligence Is Organized: Vive la Difference

The ways in which a due diligence process is organized are as different as one organization is from another. Some private equity firms combine their functional experts with operating partners to administer and execute the diligence process. Others place accountability in the hands of one or more key individuals. Still others assign responsibility for overseeing due diligence to a single individual. For each organization what works best is the best way to go. There is no set formula.

"We develop a specific plan for each acquisition," says Huron's Demokowicz. "We organize our functional experts and also our operating partners. Through our executive network we bring 2-3 Huron Operating Partners into the process early on. They act as our river guides in the areas of operations and marketing. These are key resources in our process. Together with the management team, we begin the process of identifying 5-7 value creation initiatives."

"Our industry clients have organized this successfully both ways," says Accenture's Herd. "Several have dedicated strategic and operations due diligence resources – and Post-Merger Integration (PMI) -- embedded in their central corporate development functions to support the business

The ways in which a due diligence process is organized are as different as one organization is from another.

units by framing and conducting relevant analyses. These resources rotate between corporate development and the business units to ensure that these individuals develop in their career paths and understand their businesses." On the other hand, he continues, "more of our clients rely upon traditional functional and business resources to conduct strategic and operational due diligence, and then augment these resources with qualified advisors and resources from firms like Accenture."

David Carpenter's law firm, Mayer Brown, organizes its due diligence process according to subject expertise/legal discipline and geography, "We align our subject matter experts and their coverage on the process, then layer on geographic scope coverage."

According to Gerard Picco, DTZ diligence is divided into the following categories and tasks:

- Global research, which supplies data sets and submarket benchmarks
- Industry consultants, who contribute strategic input and expertise in specific asset classes
- Financial analysts, who provide comparative analysis and financial matrices
- Transaction advisors, "our boots on the ground"

Leigh Brand's management system assessment team can be summoned by a PE firm, for instance, to audit a target's performance against a recognized standard such as ISO 9001. Brand's team then generates a report for its client as to whether the target has a performance standard in place, whether the company is conforming to that standard and the areas of non-conformance, if any. The results, he says, will impact his client's acquisition decision regarding the target and an exit strategy from a value enhancement standpoint. The audit is performed, he explains, by auditors certified by the International Registry of Certified Auditors (IRCA). "It's very important," he declares, "that all audit team members carry that basic certification – and are experts in the target's industry."

DEAL NOTES

Diligence and the Deal Flow Process: One Dealmaker's Perspective

Chuck Moritt, a Human Resources expert specializing in M&A deals, is North American M&A Leader at Mercer, a firm with a strong HR focus. When assigned to an M&A transaction Moritt is the overall strategic advisor during the deal's due diligence process, leading the broader team and, from an HR perspective, all the teams conducting HR diligence. He defines due diligence as financial, operational and risk analysis.

"My job is to understand business operations and how those operations are influenced by individuals," Moritt declares. "There's a strong link between the importance of HR and the individuals who make deals work. If it's a 'people issue' it's also a business issue. The people who drive sales, customer relationships, develop new technology and new processes, for example, bring a deal thesis to life."

At its highest level, he emphasizes, due diligence, is the process that tests against the thesis, enabling the dealmaker to determine whether the transaction is worth making, whether it will achieve the dealmaker's strategic intent – and how the deal can be shaped and reshaped to a satisfactory conclusion.

The deal thesis, Moritt says, begets the deal flow. Moritt's vision of a deal flow process in the due diligence phase is a comprehensive system of operations consisting of the following three main interrelated stages.

1.) Organizational strategic intent and planning

2.) Formal diligence

3.) Integration strategy and implementation

Preliminary due diligence that ultimately results in value creation, Moritt points out, commences in the first stage of the deal flow process, when growth strategy is determined by buyers and sellers and the ways and means of achieving that strategy are decided. For buyers and sellers, the first decision in this stage is whether growth will be achieved organically or inorganically, via acquisition or divestiture. In either case, he says, portfolio rebalancing is required to reach growth objectives.

The deal hypothesis – the deal thesis – is established during the growth strategy stage and is then tested against a bonafide acquisition target. Hopefully, he says, "the target meets the initial criteria by providing access to new customers, geographies and technology capabilities, thereby facilitating revenue and profitability growth or by removing a competitor."

The second stage of the deal flow process – formal due diligence – involves a more intense analysis of the target's financials, customers, products and people with the aim of

deciding as quickly as possible whether the transaction will proceed. The business case for the deal – a refinement of the deal thesis -- is the result of that investigation.

Valuation is determined during due diligence and is heavily influenced by decisions on how the target will be operated under new ownership, as are the terms and conditions that are designed to protect the buyer and the target's employees.

Third-stage issues requiring resolution include the size of the investment necessary over time to achieve revenue or operational expectations. Will the target need investment in plant or equipment to bring it up to code? Will talent capability or systems need improvement? Is the HR system sufficient? Will integration costs be significant? Can a price be attached to synergy expectations? None of these questions can be answered, Moritt says, without a clear understanding of the integration strategy and long-term operating thesis and the specific workforce characteristics needed to effectively achieve the expected business results.

Key Individuals in the Diligence Process: Skin in the Game

In the due diligence process each firm relies on an individual or group of individuals as guides or administrators. Usually, these pivotal individuals are senior executives – or partners – in their organizations who have substantial stakes in the conduct and the results of the diligence process on which many deal depend for buy-no-buy decisions.

"We advise our clients to organize their strategic due diligence processes beneath an accountable executive who has skin in the game, who owns the deal and will make sure that it's the right acquisition at the right price that can be implemented to achieve the investment thesis," says Accenture's Herd. "Best practice is this executive, such as a business unit owner, would then have accountability for integrating and operating the acquisition." Overall, Herd adds, "our clients are being more careful not to throw different parts of the M&A lifecycle across internal fences to different disjointed process owners. Too many handoffs lead to too little accountability and too much loss of information and time."

At The Gores Group, explains Tim Meyer, three key individuals oversee diligence: the M&A leader who manages through the deal dynamics and structures the transaction, and the operations and finance leaders. Although the functional leads are important to the process, Meyer says, "our ultimate decision will hinge on whether the three key individuals wish to press forward with the transaction subject to investment committee approval. "

On the legal side of the diligence process, Mayer Brown's Carpenter says his firm assigns pivotal responsibility to the individuals whose expertise is most

"We advise our clients to organize their strategic due diligence beneath an accountable executive who has skin in the game."
- Tom Herd

relevant to the target's business. If the target is a company whose value in its brands, the Mayer Brown IP/trademark specialist will serve as the diligence fulcrum. Likewise, he notes, "if we're helping to structure a deal in which there are significant tax advantages for the buyer, where there are huge tax advantages to a buyer, our tax specialist will be important to the diligence process." Similarly, he adds, "if there are significant litigation risks associated with the business but the buyer is experienced in dealing with that form of litigation then the litigation specialist will be most important."

Nevertheless, at Mayer Brown there is no question that Carpenter is the deal quarterback. He organizes the deal team, makes sure that all the necessary disciplines are covered in his review and allocates responsibility among team members "so that we've got the right intellectual property lawyers looking at the right material on IP and that we're not duplicating efforts."

Carpenter also fulfills a process role. "I read every due diligence report for every transaction that I work on. I edit the report. I make sure that its quality is consistent. I'm responsible for identifying the key issues to be elevated for client consideration, usually in connection with a bid process. When we do contract reviews I have my own forms, for example, that I've developed over the years that I have my team fill out so that I know we're getting the same information from everyone who is doing the work."

His overall objective, he says, is to ensure a consistent work product from the team, no matter where the team members are located or their specific role in a transaction. "Of course, the IP lawyer is going to issue reports that differ from those issued by an attorney who is studying the litigation because they'll perhaps identify IP that hadn't been transferred from a predecessor company, for instance."

No Longer Confirmatory Centric, Due Diligence Moves beyond the Data Room

Once confined to a data room, the confirmatory—or final -- stage of the due diligence process served mainly only to verify for the buyer the accuracy of a seller's representations. Today's diligence casts a far wider net, capturing strategic value creation opportunities.

According to Huron's Brian Demkowicz, "The best firms use diligence to confirm and verify but also "to dive into operations and marketing to determine areas of risk and opportunity." Compared to five years ago, he says, private equity firms, before the closing, are generally more educated about the companies in which they're investing."

For buyers, real estate is a substantial upfront cost in an acquisition," DTZ's Gerard Picco points out. For sellers, he adds, accurate valuation of owned and leased facilities can make or break a deal. "Separating the upfront cost of the real estate from the actual cost to acquire the business can accelerate the deal at a substantial discount." His advice: Separate the value of the business from the cost of bricks and mortar.

Beyond the confirmatory stage, Tim Meyer comments, "the diligence defines the blueprint and levers of value that we'll attack in the post-close phase. For us, the diligence is about bounding the risk, determining and protecting against our downside, and then crafting the blueprint, including the full potential of the asset and how, together with management, we'll drive the asset to realize that full potential."

"Due Diligence serves its purpose best when it's focused on buttressing or disproving the investment thesis," says Accenture's Tom Herd. "It's in both parties' interest to find that potential value. Sellers in some cases may be less comfortable with this additional scrutiny, but if it's a means to justify premium asking prices, it's in their best interests to facilitate it particularly in today's environment where multiple suitors might not be lining up outside the door."

V. Identifying Due Diligence Best Practices

Every due diligence practitioner has his/her list of favored best practices. Here are a few:

Tim Meyer favors the increasing use of experts: "Owning the resources and capabilities to conduct the bulk of the diligence in-house is valuable and is a differentiator for us. But the diligence needs to be conducted with a high level of detail. Often we get positive comments from management about the business acumen, the level of detail, the level of rigor that we apply to gain a deep understanding of a business. Management appreciates that we have real operators, individuals who have been CEOs and CFOs who understand how businesses work from having run them. Functional orientation is important, there are too many issues inside each of these functional areas that need to

"In the future, businesses will need to be operated more efficiently and will have to dig deeper for value than ever before."
- Tim Meyer

be understood, requiring experts who know how to bound risk and find opportunity, both of which are very important skills when the market is looking for higher valuations. In the future, businesses will need to be operated more efficiently and will have to dig deeper for value than ever before."

The evolution of operational capabilities inside of private equity firms will continue, Meyer says, "because you want to buy right and you want to sell at the top of the market, but with so much competition for these assets today, and the fact that they're trading at very high multiples, somehow you have to find a way to create value. It's no longer enough that an ex-CEO sits on a firm's advisory committee. I think we'll continue to see this evolution in the PE space, where the shops are becoming deeper and more sophisticated when it comes to operations."

Private equity firms will continue to pull some expertise into the due diligence team, Meyer predicts. "When we're looking at assets in a sector with which we're familiar and have conducted a lot of diligence, we're comfortable proceeding with our own resources." However, he adds, "When we're looking at a deal in a space in which we lack deep experience, when we're trying to find the needle in a haystack, the individual who truly understands how that specific space moves, understands the assets in that space and the nuances that only someone who has been deep in the sector really understands is the individual we need. The task of finding that individual who has a very detailed understanding of a given space is becoming more critical to the diligence process."

DTZ's Picco agrees: "Active dealmakers, COOs and CFOs are looking more and more to service provider teams in legal, accounting insurance and real estate and engaging the teams' expertise in order to gauge measurable bottom line returns. We recently ran an analysis on eight warehouse sites and penciled out restructures totaling $4.4 million dollars and we only scratched the surface of opportunity; there are 67 facilities in that portfolio."

Tom Herd of Accenture sees leading acquirers tying their due diligence processes more explicitly to their investment thesis. "Our clients are using due diligence to validate a deal's potential value levers and its key risks. A lot

"I always ask the U.S. company's management, 'Are you familiar with the target's market?'" - Gregory Bedrosian

of "checklist", confirmatory Due Diligence is still going on but our clients are using us more – and putting more money and time on the line – to convince themselves that a particular acquisition likely will create value and has a clear 'merger integration' implementation path for capturing that value."

Attorney David Carpenter approves of the technological advances that have facilitated the replacement of paper-heavy data rooms with virtual data rooms. "The last time I was in a physical data room was 10 years ago," he recalls. "We sat in those rooms staring at paper. Technology has made the data room concept – and the diligence process -- much more efficient, easier and, in terms of travel, less expensive."

A virtual data room (VDR) is an online repository of information that is used for the storing and distribution of transaction-related documents, including documentation used to facilitate the due diligence process during an M&A deal. The VDR has largely supplanted physical data rooms for reasons of cost, efficiency and security.

What has not changed, Carpenter says, is a mainstay best practice: employing due diligence to identify the risks for the client. "Following a disciplined diligence process ought to divulge all of the warts on the business that your client needs to know and that can impact the valuation of the business."

On the cross-border front, investment banker Gregory Bedrosian, CEO/ Managing Partner of the Redwood Capital Group, and, like Carpenter, a veteran of many overseas deals, recommends the implementation of cultural and leadership due diligence best practices that are effective in complex crossborder transactions. If a U.S. buyer evidences a desire to acquire a non-U.S. company, Bedrosian says, "I always ask the U.S. company's management, 'Are you familiar with the target's market, have you been active in that market?' If the response to one or both of those questions is negative I know that the deal will be more difficult to close because of the complexities around cultural and business norms." Instead of flying blind into an unfamiliar market, Bedrosian recommends that U.S. buyers instead adopt an alternative approach: conduct research about existing distribution or partnership agreements between the U.S. company and groups that are active in the market the buyer wishes to enter. In a scenario in which the U.S. buyer is familiar with local

"I establish my deal thesis immediately, and that thesis is built on value creation."- Chuck Moritt

norms, how the U.S. buyer's deal team reacts in times of stress becomes critical to the transaction's success. "Do the team members anticipate possible areas of difficulty and have a plan in place to resolves the salient issues? Do they have pre-established red flags that signify possible deal breaking scenarios? In our deals we are finding that foundations laid during diligence enable us to flag problem issues early, allowing the deal team to resolve them post-signing, pre-closing in a way that ensures a successful culmination of the transaction."

VI. Assembling a Value-Focused Team

As early as the exclusivity period, and sometimes sooner, buyers are assigning more emphasis to assembling teams dedicated to the value creation portion of operating and growing a company. In an era of compressed deal time frames, focusing resources solely on traditional "checklist" diligence during the exclusivity period often will not provide buyers with sufficient insight into how best to adjust their bid or where to apply the most intense focus in their pre-close planning efforts.

Huron Capital's Brian Demkowicz places great value in assembling the operating team as early as possible in the due diligence process. "Having experts weigh in during this critical juncture is important in understanding the risks and opportunities."

The Gores Group's Tim Meyer runs such a team. Each team member is responsible for diligence in his/her respective functional area. Opportunities for value creation, he notes, could include shutting down some overseas operations or ending a product line – or investing to grow. Sometimes, he adds, value creation opportunities are multi-dimensional and cross-functional,which may require leveraging third parties with deep sector experience or unique operational capabilities to fully comprehend.

For DTZ's Gerard Picco, assembling value creation teams during the exclusivity phase has become a higher priority out of sheer necessity. "A few years ago our practice consisted of around 10% due diligence and 90% post-acquisition integration." Today, however, his practice consists of 30% due diligence and 70% post-occupancy. "In the next two years what's now

“There’s a significant disparity between how companies are able to create a realistic picture of the future.” - David Carpenter

30/70 will become 60/40 in favor of due diligence.” More and more legal and accounting firms, he says, now seek to develop strong working relationships with firms, like his, that focus on value creation during the exclusivity period.

For Mercer’s Chuck Moritt, team assembly occurs during the first phase of diligence, even before the exclusivity period. “I establish my deal thesis immediately, and that thesis is built on value creation.” His team members are often spread throughout the world, to be called upon during knotty transactions – especially cross-border transactions -- to cope with value creation questions surrounding issues like employee defined benefit pensions. In European Union countries, for instance, resolving issues involving quasi-regulated ingrained benefits programs may necessitate negotiations with local workers’ councils or unions.

“Much of my firm’s intellectual capital is invested in cultural issues that require local expertise in the form of deep expertise on a specific subject or broad expertise across many subjects.” Having local on-the-ground expertise in individual countries is crucial, Moritt notes, because differences exist on a country-by-country basis in all aspects of operations, including culture, benefits, regulatory environments and the ways in which business is generally conducted.

Quality assurance expertise, insists Leigh Brand, has an important place in the exclusivity period focus on value creation and on operating and growing a target. “Let’s say that during the due diligence stage we report that the target lacks a management system that encompasses such issues as quality, environment, health and safety. A member of the exclusivity period team assigns a dollar value as part of the exit strategy should we choose to implement one or more quality assurance standards. We’d contact that target’s customers, analyze their quality assurance efforts and ask them if the lack of standards at the target made a difference to them.”

Although operating and growing a company is not part of legal diligence, attorney David Carpenter says he has seen that phase of diligence performed effectively and ineffectively. “Those that do it well bring in their supply chain specialists to analyze the cost of the target’s supply chains and then determine whether there are cost advantages.” He has seen companies that are proficient

at building a model and others that build a model and then make assumptions that are not necessarily based on fact. "There's a significant disparity between how companies are able to create a realistic picture of the future."

Due Diligence Operational Value Specialists: Are They Dedicated or Strategic?

Some organizations embed ops value creation specialists on staff for internal diligence purposes while others – both buyers and sellers – utilize ops specialists for external M&A due diligence.

At David Carpenter's law firm, the specialists develop the data which can be used by the M&A or finance team in assessing value. The legal side joins forces with supply chain specialists, production specialists and analysts. A facilities specialist analyzes capital costs involved in bringing a factory up to the buyer's standard. "There's an entire team that generates the data that can be used to plug into the model that will determine value," he says.

Gerard Picco's DTZ maintains a combined service due diligence platform for internal and external use. "Due diligence is now far more than a static report

DEAL NOTES

Due Diligence in Cross-Border Transactions: from a Sow's Ear to a Silk Purse in a Tight Time Frame

In some ways, due diligence is different overseas. How customs, legal restrictions, regulatory issues and overall emphasis deviate from the U.S. model depends on the overseas venue – or venues – involved in a deal. For example, some international clients are very thorough in their diligence and expect a due diligence report in the same template for each jurisdiction. Due diligence report quality and consistency often present a challenge due to the lack of work product sophistication in some overseas jurisdictions. Very often, says veteran cross-border M&A attorney David Carpenter of New York law firm Mayer Brown, "our job is to transform a sow's ear into a silk purse within a tight time frame."

Carpenter led the Mayer Brown team representing Nestle in that company's 2012 landmark $11.5 billion acquisition of Pfizer's infant nutrition business. "Dealing with cross-border M&A creates a host of complexities in the diligence process," he declares. "The data room is filled with documents in foreign languages or your deal can involve jurisdictions where you may not have an office. We handle those differently depending on which clients we're working with." In some cases, he explains, "there might be a network of local counsel with which we'll collaborate in locations where we lack an

office." In other geographies, Latin America, for example, "we have lawyers who speak Spanish and are familiar with actions and legal structures in Latin America. Through our internship programs for lawyers from Latin America we'll handle that diligence in-house and usher it through the bid submission."

Carpenter takes two approaches to due diligence with his international clients. One approach is the generation of a full-scale diligence report that minutely details the backgrounds of each entity's board members and the amount of share capital. "We don't provide a summary of the articles of incorporation but we can identify transfer restrictions with respect to shares – information that is less consequential than informational for the client." An exceptions report is an alternative approach for clients with cost constraints, Carpenter says. This report involves reviewing information that resides in the data room and pointing out data-related problems. The result, he notes, is a more compact due diligence report.

As for utilizing cross-border due diligence as a tool for value creation, "I have no doubt that if we do our job thoroughly we'll identify many issues that need to be addressed in the deal documentation," Carpenter declares. "We may identify a pension underfunding, a potential liability. We'll then build the appropriate provisions into the purchase agreement to make certain our client receives indemnification coverage for those issues."

Although it is not a recent trend and apparently is not a consequence of the U.S. financial crisis, much of the due diligence produced in Europe is produced by sellers, not by buyers. Called "vendor due diligence", the process calls for sellers to enlist a third party to prepare, at the seller's expense, financial quality-of-earnings reports and legal due diligence reports for data room placement. Often these reports are used by the private equity firms, for example, to demonstrate that sufficient diligence has been performed. The buyer then verifies that there are no further issues to be addressed. According to Carpenter, vendor diligence has not caught on in the U.S. "because U.S. PE firms and strategic buyers prefer to do the diligence themselves, building their own models and generating their own work product." Overall, though, he remarks, there is little difference between U.S. and international clients in how value is created via diligence, except for differences associated with administering the process in diverse geographies. "You just have to roll with those differences," Carpenter says.

on a current status," he remarks. We view it as a crucial contribution to a successful business plan."

At Tim Meyer's firm, "everything we do is about operational value creation. Everyone on the due diligence team is focused on that objective," Meyer says. In the Gores model, he explains, "each functional expert develops a point of view in their respective area, including how to create value. All of this is then wrapped up in a master blueprint."

Chuck Moritt of Mercer ties the deployment of specialists to a company's growth strategy and whether growth will be achieved organically or inorganically. "In the diligence process, individuals with specific expertise analyze a target's customers, products, sales, financials, the building of the valuation model, the HR stream and substreams and the legal stream and substreams. Each of those vertical streams has its own leaders. Having a very competent and knowledgeable individual leading each of the work streams who is also conversant across other work streams is critical and important."

Specialized Disciplines that Create Value

Quality assurance consultant Leigh Brand considers himself a specialist in his field. "Our profession focuses on quality, environment, social accountability and information security. Our specialists must have expertise in the industry in which they're doing the work. I have certification as a system auditor but lack the background to audit a nuclear power plant, for example. We have people who are qualified to do that. Similarly, someone who is involved in manufacturing would not be appropriate to send to Citibank."

Brand is an adherent of the same Lean Six Sigma quality assurance practices championed by Jack Welch. Organizations with Lean Six Sigma standards "are on the right path," Brand declares. "If companies lack Six Sigma that presents an opportunity for private equity firms to demand that six Sigma practices be implemented. We deploy specialists who are Six Sigma Black Belts to help PE firms make that happen."

Carpenter cites environmental and insurance specialists as essential to value creation. "Insurance is important because it's a risk management assessment. An insurance specialist needs to look at the policies and say, 'These product liability risks are covered by the existing policies.' This may not amount to value creation in the sense that you're saving someone money but you will point out, for example, that there is a gap in coverage and that a policy should be bought that provides protection from that coverage gap."

Employee benefit diligence is as important as any other aspect of due diligence, he says, because it's important to ensure a smooth transition of employee benefit plans. "The last thing you want to do is to go into a deal and have angry employees when the deal is closed. Real estate expertise, he insists, is usually only essential in real estate M&A deals. "Often in a transaction you've identified multiple required landlord consents. The business side will say,

'We're not worried about that; they're not going to kick us off the property – we'll deal with post-closing."

Like Leigh Brand, David Smalstig regards industry expertise as a specialty group attuned to value creation. "I recently signed up a private equity client to do the diligence for a trucking company. When I was talking to him I could have rattled off what I expected the deal issues to be. However, we have individuals in our stable of experts who ran trucking companies. They understand the practical and strategic issues of the industry. They're up to date on what Caterpillar, Freightliner or Volvo are doing. They know how over-the-road operators are managing their fleets. They're aware of the ways in which trucking companies are employing telematics in terms of fleet management software. This is the kind of detailed, current, meaningful information the client needs to have."

The quality and relevance of industry information provided by experts during the due diligence process differs from the information he says he received when he was employed by a Big 4 accounting firm.

"I'd be participating in a virtual roundtable with my railroad experts, for example. We'd talk about pronouncements, acting FASBs and the like. We rarely moved beyond the Key Performance Indicators (KPI). The information was interesting but did not result in value creation and had little to do with why a buyer was acquiring the company. Where was the information about the direction of the industry, about vital strategic issues confronting the industry? Knowing the numbers is not enough." He predicts that the need for forecast-focused diligence will grow. "We'll need more industry specialists, more process engineers who can spot opportunities for value creation."

Conclusion

The diligence process is changing to meet the competitive necessities of a deal environment in which transaction volume lags the pre-financial crisis peak. In such an environment competition for deals will remain fierce. The trend toward an ever more time-efficient and value-focused diligence process will accelerate – and the roles of experts and industry specialists will become even more pronounced and pivotal.

Contributor Biographies

Gregory Bedrosian is Co-Founder, CEO and Managing Partner of Redwood Capital Group, an investment bank. He is responsible for the overall strategic direction and management of the firm and takes an active role in Redwood's relationships across the corporate and investment communities. Bedrosian is an award-winning and seasoned investment banker and private equity investor who lived and worked in Europe for over half of his 20 year career and whose experience spans both domestic and cross-border M&A and private equity transactions across the US, Europe and emerging markets. Prior to the formation of Redwood Capital, He was a co-founder of Renaissance Capital, a leading investment bank focused on the emerging markets of Russia and Eastern Europe and co-founder and General Partner of The Sputnik Funds, a $1 billion private equity firm investing in the media, communications and other growth sectors. Bedrosian is an active member of several foreign policy organizations including the Council on Foreign Relations (New York) and Chatham House (London).

Leigh Brand is the Founder and Chairman of Brand Consulting Group, Inc.. Leigh is an IRCA certified Quality Management System Lead Auditor (#A008984), a Senior Member of the American Society of Quality (ASQ). Since the company's inception in 1995, Brand has led the development of training, auditing, and consulting services for many of the world's most popular quality assurance and environmental management system standards. He has consulted, trained, and audited organizations in a diverse group of industries including basic steel making, plastics, data measurement, respirator manufacturing, hardware products, chemical processing, healthcare compliance and healthcare providers, food and drug manufacturing, food safety and grading, information technology, medical devices, software developers, automotive, service providers which include banking, cashiering, disbursements, payroll, and payment processing, shipping and customs, logistics management, IT customer service and help desk support, telephone operations, facility maintenance, human resources, architecture and design, and environmental management.

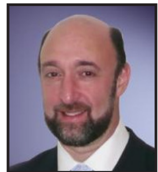
David Carpenter is a Partner at Mayer Brown, a New York law firm. He focuses primarily on mergers and acquisitions, divestitures and sales of businesses, joint ventures and strategic alliances, with particular emphasis on cross-border transactions. His practice also includes representing issuers and underwriters/managers on securities transactions, including private placements, Rule 144A transactions, and Regulation S offerings by international issuers, and advising on day-to-day compliance with securities law matters. He also represents corporate clients in negotiating and document relationships with outside investors, distributors and co-packers, and on corporate governance matters. Carpenter was named a "Dealmaker of the Week" by The American Lawyer in April 2012 for leading a Mayer Brown team that represented Nestlé in its $11.85 billion acquisition of Pfizer's infant nutrition business.

Brian Demkowicz is Managing Partner and co-Founder of Huron Capital Partners, a Detroit private equity firm. He has extensive experience in executing middle-market acquisitions, recapitalizations, restructurings, growth financings, and divestitures, closing over 100 transactions valued at over $1.0 billion. Demkowicz began his private equity career at Heller Equity Capital Corporation, the private equity arm of Heller Financial (now GE Capital), where he was responsible for sourcing, closing and managing middle-market buyout transactions as well as operational restructurings. In 1996, he left to pursue transactions in a more entrepreneurial setting utilizing an operational approach, establishing Huron in 1999.

Brent Earles is Senior Vice President at Allegiance Capital Corporation, a Dallas private investment bank. Brent has over 20 years of experience as executive strategic counsel to business owners, CXOs and Boards of Directors, and experience in macro business analysis, growth strategy, and brand development, negotiating and overseeing numerous multi-million dollar contracts. Earles is a published author and ghostwriter of numerous books and articles, including H&R Block's "Just Plain Smart" book series with Random House Reference on tax planning and financial planning. He has led senior strategy development for H&R Block, AT&T, 3M, P&G, Unilever, Pennzoil, Motorola, Allstate, Sirius Satellite Radio, and Hughes DirecTV. Earles has served as a strategic advisory in M&A transactions involving middle market and lower-middle market companies.

Tom Herd is Managing Partner of Accenture's North America M&A Practice. He has more than 20 years of applicable work experience in the military, consumer products and consulting industries. After graduating from Princeton with a BSE in Chemical Engineering, Herd was an Infantry Officer in the US Army stationed for two years in Germany. After military service, Herd spent three years with Procter & Gamble in a variety of product supply assignments in the U.S. and Asia. For the last 12 years he has focused on providing M&A and merger integration advisory services to clients in a variety of industries including chemicals, energy, forest products, consumer products, retail, health care, automotive, and defense.

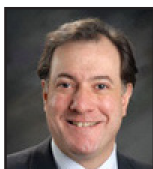
Timothy Meyer is Managing Director at Gores Group. He is a member of Gores' investment committee and responsible for leading the Industrial vertical, providing portfolio company oversight and leading operational due diligence efforts. In addition, Meyer has served as chief executive officer for two Gores' portfolio companies. Prior to joining Gores, Meyer was Vice President of Sales Operations and General Manager of Business Services at Gateway, Inc. Prior to Gateway, Inc., he spent five years with Bain & Company in the United States and Australia. Mr. Meyer serves as Chairman of the Board of Norment Security Group, Inc., Sage Automotive Group, Scovill Fasteners, Inc., and Cosmo Specialty Fibers. Meyer is also Chairman of Stock Building Supply, and previously Chairman of Lineage Power/Vincotech and Director for United Road Services, and Wire One Communications.



Chuck Moritt is a Senior Partner and North American M&A Leader at Mercer Consulting. With more than 25 years of human resources consulting experience, he has provided strategic consulting on a wide variety of M&A topics, including due diligence, integration and divestiture strategy, implementation, and M&A organizational effectiveness. Moritt has advised some of the largest and most brand recognizable companies throughout the world in the financial, insurance, defense, pharmaceutical and consumer products industries. For the past eight years he has been the M&A Market Leader for the Northeast Region.

Gerard Picco is Senior Vice President at DTZ. With 26 years of brokerage and national portfolio management experience in commercial office, retail, industrial and warehouse assets, his specialized areas of expertise encompass portfolio value engineering and consulting, new business development, leasing, investment sales and sale leasebacks. Picco's various local and national client transaction projects are valued at over $500 million for numerous firms including XO Communications, SUNY Downstate Hospital, L-3 Communications, Source Interlink U.S. Legal Support Inc. and Banco Popular, NA. His background in building operations, construction, facilities and project management and tenant leasing experience, provides his clients a hands-on approach to problem solving and formulating strategic real estate solutions.

David Smalstig is a Senior Managing Director of FTI Consulting. Based in Chicago, Smalstig is the Midwest region leader of the firm's Transaction Advisory Services group of the Corporate Finance/Restructuring practice. He is also a member of the FTI Executive Leadership Forum. His corporate finance transaction expertise includes buy-side and sell-side due diligence; structuring; expert witness; post-acquisition disputes; merger integration; industry roll-ups and consolidations. Smalstig also advises clients on system conversions; interim management; change management; information technology assessments; transition service agreements; fraudulent investigations and 144(a) offerings.



Mark Sirower is a Principal at Deloitte Consulting LLP and a leader in the M&A Strategy practice. He has more than 17 years of consulting experience advising clients in growth, strategy and innovation, M&A process and strategy, target screening, commercial due diligence, valuation, investor relations, pre- and post-close merger integration and on governance issues related to M&A decisions. Sirower has been active in helping industrial goods, consumer goods, financial services and pharmaceutical companies rethink and grow their businesses profitably through M&A. He is author of the M&A classic, "The Synergy Trap", and his research and articles on best practice in acquisition performance have been featured in major business periodicals including Forbes, BusinessWeek, Fortune, the Economist, The Wall Street Journal and Harvard Business Review. An acclaimed speaker on M&A driven growth, he is adjunct professor at NYU's Stern School and regularly presents to groups of CEOs, CFOs and boards of directors.

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