



*Where disciplined creativity, strategy and leadership converge*

## **Due Diligence: Getting to the Point of Value**

InTune's due diligence framework includes the following phases:

- Planning
- Management Team and Strategic Analysis
- Finance
- Operations (including legal)
- Business Development
- Product Development

After completing our due diligence procedures, we'll obtain a letter of management representations to ensure that we have received all information necessary for a prudent valuation.

### **Planning**

- Obtain a signed engagement letter after meeting with the target's senior management team to: confirm their understanding of the engagement scope and objectives; establish rules of engagement (e.g. confidentiality guidelines, level of assistance); agree on the closing date and timing of milestones; and InTune's role and responsibilities throughout the engagement
- Gain an understanding of the backgrounds, roles, responsibilities, locations and availability of key personnel
- Obtain the following information from the target:
  - Strategic plan and any related analyses (e.g. SWOT, PERT)
  - The most recent financial statements (audited or reviewed, if possible) and management's discussion and analysis of those statements
  - The nature of current ownership and capital structure, including equity rights, debt agreements and other capital items
  - Its policies and procedures and organization chart
  - A list of major customers, distributors, suppliers and other partners in the value chain
  - Marketing materials (e.g. brochures, press releases)
  - Product catalogues
  - A description of the IT environment, including platform (e.g. Windows, Linux), software and systems (e.g. off-the-shelf, customized, legacy) and security
  - Significant contracts (including customer, supplier and employment contracts)
  - Documents which describe any patents held or pending, including information regarding their defense (successful or otherwise)
  - Its outside legal counsel and information regarding any pending lawsuits for or against the company
  - Information regarding the regulatory environment at the federal, state and local levels
- Identify significant financial statement line items and accounts, and inquire of management as to the nature of any special or unusual items
- Tour production/service facilities



Where disciplined creativity, strategy and leadership converge

### **Management Team Evaluation and Strategic Analysis**

- Evaluate each key member of the management team through interviews, level of technical, company or industry knowledge, past performance reviews and other pertinent information
- Review the strategic plan, board minutes and related information, and discuss with management the company's progress in achieving stated goals
- Review and discuss with management the target's strengths and weaknesses and consider the need to update information regarding the nature and extent of previously identified synergies
- Perform a systematic risk assessment that considers the political, regulatory, economic and industry environments, and which further identifies and evaluates opportunities and threats

### **Finance**

- Analyze the target's financial performance relative to prior years, as well as industry benchmarks and metrics, after accounting for owner's compensation
- Identify comparables
- Discuss the target's tax situation with management and perform a tax analysis that considers any unused NOLs, deferred taxes, and current tax laws
- Determine the preliminary deal structure (e.g. purchase of assets or equity, earn-out component, etc.), based on the client's objectives, the nature of the business, capital structure, the tax situations of both parties, the market environment and other relevant criteria; discuss with client
- Based on the preliminary deal structure, identify *relevant* significant asset, liability, revenue and expense items and accounts; obtain the target's assumptions underlying their future behavior, given the internal environment, the external environment, and the competencies of the future management team
- Challenge the target's assumptions through internally documented evidence (e.g. new customer contracts, most recent budget-to-actual results, distribution agreements in new markets), management estimates (e.g. warranty reserves, bad debt reserves), and external evidence (e.g. customers, distributors, suppliers)
- Review and adjust target company assumptions with client management, and confirm preliminary deal structure

### **Operations (Risk Management, Human Resources, IT, Facilities, Production and Logistics)**

- Review corporate and HR policies and procedures and organization chart for lines of reporting, levels of authority and compliance with applicable laws and regulations (e.g. workers' compensation, OSHA, EEOC)
- Review the contract process and ascertain management's philosophy regarding centralization, levels of authority, risk tolerance relative to key customer and supplier relationships and other factors
- Review significant customer and supplier contracts, noting assumptions of risk (e.g. indemnification, lack of limitation of liability) for consistency with management's philosophy and the overall business climate
- Review the nature and extent of insurance policies for adequate coverage
- Review the IT environment, systems and enterprise software (whether purchased, customized, or internally developed)
- Summarize roles and responsibilities regarding security, program changes and end-user access
- Gain a thorough understanding of key elements of the target's production process (e.g. purchasing, inventory management, production capacity, work flow, distribution, logistics and other relevant factors)
- Discuss with management the nature and extent of existing and proposed supply chain alliances



*Where disciplined creativity, strategy and leadership converge*

### **Business Development**

- Discuss prospects for existing and planned product lines and market segments separately with management and the sales force
- Evaluate product pricing strategies and tactics, given buyer types and the nature of their price thresholds, as well as their perceived value of product differentiation
- Discuss with management the nature and extent of existing and proposed sales and marketing plans and alliances
- Evaluate key elements of the sales function (e.g. in-house vs. external network, accuracy of forecasts and establishment of sales targets, reward structure)
- Identify sales stars and underachievers
- Determine the level of integration (existence of cross-functional teams, consistent communication, etc.) among sales and marketing, production and product development

### **Product Development**

- Review the target's research and development initiatives and compare progress against plan
- Discuss the rationale behind R&D initiatives in terms of how management makes the business case for funding new projects (e.g. nature and extent of market research, feedback from existing customers and product managers, ROI)
- Review project budget-to-actual results and discuss significant deviations with managers
- Evaluate the target's methodology and approach to R&D (e.g. development and documentation of statistically significant results for clinical trials or other accepted benchmarks used for marketing, customer acceptance, regulatory approval, or patent submission, approval and defense)
- Assess the reputations of R&D personnel with respect to the industry and applicable regulatory bodies and agencies