

Due Diligence Who's Who.

It is a cliché but every cloud has a silver lining. The financial uncertainty of some firms, derived from a weaker economic outlook, has offered numerous opportunities for strengthening. These may manifest in the form of savvy investors making bargain acquisitions or sectors undergoing marketplace consolidation in a bid for survival. Alternatively, firms may take advantage of slower growth to grow organically by streamlining operations and improving efficiency.

Whatever the need, the case for due diligence is now proven and its necessity is fully appreciated. It is a foolish investor that undertakes a new project without prior due diligence, especially since the today's offerings extend far beyond simple audits and cross references. The due

diligence marketplace is grown in diversity to offer a variety of practices, which means clients can pick and choose to match their exact needs.

Many commentators have suggested that the greater risk aversion shown by investors into businesses over the last ten years has brought about an evolution in acquisitions, elevating the process to the status of a science by imposing analytical models on the target to discern viability.

However, while analytical models still feature prominently, there is a clear movement away from the 'tick-box' criteria based reporting that characterised the due diligence marketplace a few years ago. Most investors and consultancies now agree that a 'one-size-fits-all' approach to a target will only ever be of limited value to both the company and its new owners.

-  - Commercial Due Diligence
-  - Environmental Due Diligence
-  - Management Due Diligence
-  - Healthcare Due Diligence
-  - Valuations
-  - M&A Due Diligence

sible stage, and to help the business overcome these problems." She highlights one particular example where Calash has helped management teams to develop a more robust business model and establish methodologies to protect the business from changing conditions. "In some instances our support has been to assist a company exploit their position in the market, perhaps against general market trends". Ms Gregory also reveals that management teams are not always initially receptive to assistance, but as the review proceeds, "they generally begin to appreciate that the diligence process is truly constructive, and capitalise on our strengths as practical and experienced solutions providers."

Calash's own strengths come from its people, who have started, built or sold their own businesses. Their due diligence services are tailored to the client's needs and operations. "We highlight risks and opportunities and suggest ways in which these may be overcome or exploited, we maximise the value of the transaction for our client, and most importantly we view the transaction as the investor. Put simply, our purpose is to save our client money and minimise risk." Calash's services also extend beyond due diligence to include assisting investors in sourcing and originating deals in the energy sector.

ing exposure to energy use; regulatory obligations (e.g. emissions trading, renewable energy obligations) and potential physical impact (e.g. flooding, supply-chain disruption). On the upside this can present value enhancement opportunities by providing low-carbon goods and services in response to customer demands." Mr Carson states that due diligence is dependent upon transparent, repeatable and auditable assessment techniques to provide information to financial auditors, lawyers and corporate decision-makers alike. Such processes also satisfy legal obligations for financial disclosure. For M&A specific due diligence, ERM's analysis needs to support proper valuation, the setting of accruals and reserves and provide insights into asset utilisation. Fortunately, ERM has worked on many high profile M&A transactions through its comprehensive offering of bespoke environmental consultancy services. It employs more than 3,000 people and maintains over 135 offices in 41 countries, giving it an established international presence. In the last two years, ERM has opened in seven new countries including South Africa, Kazakhstan and Romania. Mr Carson comments that "it is our ability to work internationally together with our understanding of the complexity of compliance and disclosure requirements that distinguishes us from competitors and has earned us our reputation as the market leader."

UK - Calash




Merlyn Gregory, Project Manager
+44 1224 637017
m.gregory@calash.com

The global oil and gas industry continues to attract potential investment despite recent economic conditions forcing a reduction in energy prices. According to Merlyn Gregory, Calash's clients - particularly private equity - are recognising that whilst the reduced oil price may temporarily disrupt activity in the sector, the requirement for funding of future projects will reach a peak, and there may be some highly attractive deals to be found towards the third quarter of 2009.

Ms Gregory also reveals that the economic instability worldwide has affected both the commercial consultancy marketplace and the type of due diligence services offered. "Putting aside the present economic conditions, there has been a growing trend in recent years for investors - particularly banks - to obtain a deeper understanding of the businesses they support," she states, "and now we are beginning to witness this trend emerge in greater strength, with diligence-type reviews becoming an ongoing requirement for both investors and management teams. Winning Due Diligence Provider of the Year in 2008 has raised our profile, and increased demand for our services, this has reaffirmed Calash's position as market leader in the energy sector".

As a result, Ms Gregory explains that "our clients are now requesting that we provide continuous support to businesses within their portfolio, to identify potential issues at the earliest pos-

UK - ERM




Craig Carson, Partner
+44 203 206 5224
craig.carson@erm.com

Environmental consultancy in the European marketplace has become increasingly sophisticated says Craig Carson. He states that consultancies have responded to the growing scope and complexity of legislation and risks by offering a more extensive range of services. As a result, the market for environmental consultancy has evolved to comprise boutique consultants specialising in a particular niche and major players who have expanded their practices.

"EU legislation is providing a body of overarching legislation which is consistent in principle across the various member states," states Mr Carson. However, he adds that in practice, "compliance with this legislation varies as different regulators apply the legislation differently (even within the same country), and the risk-based approach underpinning much of this legislation allows for varying interpretations of this common legislation."

He also reveals that climate change is a major issue for the EU, which is reaching beyond socio-environmental concerns to affect the business sector especially those organisations which are large users of energy or have long supply chains. "The climate change agenda can impact on company evaluations, financial performance and reputation. Consequently the climate change agenda has informed M&A deal strategies and strategic management of portfolio companies," reveals Mr Carson, adding that "this includes opportunities to reduce operational costs by minimis-

UK - Glowinkowski International




David Physick,
Principal Consultant
+44 1206 710945
david.physick@glowinkowski.com

Demand for due diligence of managerial capability, or determination of the strength of an organisation's human capital, has grown in Europe, according to David Physick. David explains that the critical issue concerning any organisation's performance, whether during recession or not, is the quality of its leadership. Leaders should be asking themselves, "What 'Climate' do we help create?" states David, adding that "Climate means what does it feel like to work here?" He explains that any organisation that improves its Climate will enjoy a performance boost: "Organisations that invest in their leaders developing the behaviours required to build a high-performance Climate will weather the current economic difficulties."

Glowinkowski International (GIL) is always directed towards the actual behaviours of an organisation's leaders, comments David. According to him, it is behaviour that distinguishes superior performances from that of the ordinary and mediocre. He explains how GIL set about this: "We examine how leaders think out their plans for the future, win over others to support their ideas and how these will be realised. We also look at how they manage themselves." Personality is also a fundamental aspect of uncovering leaders' potential strengths and weaknesses. "We consider certain characteristics of leaders' underlying personality. For instance, how do they prefer to solve problems, complete tasks or engage with others? What do they enjoy doing?" These factors are

UK - Hilco Appraisal Europe




Chris Hall,
Group Chief Executive Officer
+44 8453 130 140
chall@hilcoeurope.com

Hilco Appraisal provide inventory, machinery and equipment and intangible property valuations, as well as enterprise valuation services covering retail, wholesale, manufacturing and service company assets.

Our client list, which is international in scope, includes asset-based and commercial lenders, investment banks, private equity sponsors and corporations. Every valuation reflects our in-depth understanding of the strategies, policies and thinking that guide critical business decisions, all of which can affect asset values.

Hilco's valuation methods consider market trends and variables. The background and market commentary provided with all valuations gives a lender extensive coverage of the current market conditions and an opinion of anticipated future fluctuations. By providing a uniquely comprehensive report, Hilco Appraisal gives you greater confidence in recovery values.

Hilco Appraisal has a staff of more than 150 professionals, worldwide, to quickly and expertly consult on any appraisal requirement or portfolio review. We encourage our clients to consult with us for our insights and commentary should they have concerns or questions about asset

UK - LCS International Consulting




Paul Saper, Partner
+44 207 034 3490
paul@lcsic.com

While worsening economic conditions do mean that there are fewer deals than before, LCS International Consulting (LCS) has been involved in an increased number of smaller projects. Our experience has been that many private equity providers and their bankers are more cautious than before and want to have the sector and related sectors examined thoroughly and in more depth. In addition, we are also finding bankers wanting to look back at earlier deals where the original prices paid have proved much too high and where investors are reluctant to invest more money. However, what has been the most interesting feature of the last quarter have been requests for advice from UK and overseas property investors about some of the healthcare property deals that they were lured into in the last 2-3 years where leases were incomplete and the valuations given may have been "reckless". It may well be that a number of property valuers, who are not specialists in the sector, could well find their original valuations challenged in the future.

LCS reports are not limited to where the market is today. We give our informed views on where the market is heading and what it will look like in three to four years time, factoring in political

critical, explains David as employees, including leaders, should not be paid for their personality but for delivering a prescribed set of behaviours. However, knowing what will and what won't come more easily provides leaders with critical information about their personal development needs."

GIL's consultancy is based upon sound diagnostic measurement. The firm's quantitative measurement is benchmarked against an international database that has been built up from over a quarter of a century of research and live consultancy. Its consultants have extensive managerial experience from their being senior organisational leaders before joining GIL.

According to David, there remains a strong degree of scepticism about due diligence of management capability. Often, such consultancy is dismissed as nothing more than 'psycho-babble', which is not surprising given the quality of some assessment processes. Furthermore, David reveals some firms fear a due diligence review into a proposed new organisation's leadership proficiency may, at worst, derail the transaction, or at least delay it.

Steve Glowinkowski, the founder of GIL, publishes his book, "It's behaviour, stupid!" What really drives the performance of your organisation' on 3rd March, 2009.

values or exit strategies. We share information without obligation. Hilco is a world leader in asset disposal services. Our real-time experience in selling all balance sheet assets means we can offer you the most up-to-date, reality-based perspective on current orderly and forced liquidation values. Many appraisers do not have a leading in-house Industrial asset disposal division selling assets on a global basis, so how can they reliably value them?

Hilco Appraisal is part of The Hilco Organisation. We provide a suite of strategic services to help companies, their advisors and investors identify the value in business assets, convert assets to cash either through acquisition or disposal, and utilise their assets to obtain debt or equity capital.

The Hilco Organisation is comprised of independent operating units, each specialising in one or more aspects of our complete business services package. Operating units are staffed and managed by teams of highly-skilled, experienced men and women, all of whom share an unwavering commitment to quality service, the highest standards of professional ethics and integrity, and to the achievement of successful results. We look forward to discussing how we can assist you in identifying value in your assets and gain greater confidence in a lending scenario.

and social issues, technological changes, levels of rivalry, barriers to entry and the possibility of substitutes and new product breakthroughs. This view is enhanced because LCS is not single country focused but is keenly aware of what is happening in Europe, the United States and the Pacific Rim.

As an independent due diligence firm we have no conflicts of interest with other parts of our business, nor are we obliged to do the work on a "success only" basis. Being 100 per cent healthcare, we are embedded in the sector and, with colleagues David Boxen, Matthew Young and Ged Taylor, regularly meet the highest levels in the NHS, Department for Health and independent sector. Our networking also extends to regular meetings with 'think tanks' in Europe and the United States.

We see more, not less, emphasis on commercial due diligence in the coming year. Deals of £25-150million in size will return. Very large secondary buy-outs however will be few and far between. Old style pressured auction processes may be put off until markets fully recover. Some private equity firms will be very active indeed.

GERMANY - maconda

Dr. Rainer Mayer, Partner
+49 221 56964 0
r.mayer@maconda.de



In hindsight, 2008 was a good year for Germany's commercial consultancy marketplace. "We had not expected 2008 to be as good as it eventually became," admits Dr Rainer Mayer. He notes that maconda was very busy up to the third quarter and since then "there was visibly less transaction activity, and the number of pulled deals greatly increased." Mr Mayer is not concerned about the depressed consultancy marketplace however as the firm is compensating by way of increasing the business in its restructuring practice. "Whilst restructuring requires a different skill set, namely hands-on entrepreneurial execution skills, at least the initial phase of a restructuring project is similar to a due diligence project in that it involves speed, a thorough quality analysis and expressing a both distinct and reliable opinion," explains Mr Mayer. Its restructuring refocus has consequently been rewarded with the firm seeing even more business than before and having to hire extra staff to cope with the increasing number of business opportunities.

"Banks have become more cautious," he notes, "and have started to look more closely at factors that were less crucial two years ago." Questions over the cyclical nature of businesses also gained traction but Mr Mayer states that "as such topics have been a standard element of our usual

work, this did not present any challenges."

maconda's analysis is a combination of extensive desktop research, specialist input by its network of high profile external consultants (many of whom are former general managers) and often also sophisticated statistical analyses by its statistics team. "In a case by case basis, we involve highly experienced industry experts, who are able to dive right into the topic at hand and on equal terms with our customers," affirms Mr Mayer. This combination of extensive consulting experience and specialised industry expertise is one of maconda's main strengths and encapsulates its entrepreneurial spirit perfectly. It also allows the firm's projects to be completed at much higher quality than if they had been staffed solely by 'pure' consultants.

"The combination of a very professional, sophisticated analysis with seasoned industry experts makes the difference," maintains Mr Mayer. "This is certainly already true for due diligence projects, but it is essential for corporate restructurings. We therefore ensure a high degree of knowledge and implementation expertise in all of our projects and we can provide market information which is not accessible to everyone."

GERMANY - Mercer Deutschland GmbH

Konrad Deiters, Principal
+49 89 93949 661
konrad.deiters@mercer.com



"Buyers have become very astute and sophisticated at evaluating the economics of their investments," notes Konrad Deiters. He states that the effective management of commercial risk has become paramount due to the nature of the private equity business model: a proper valuation; clarity around the economics of a deal; requirements of debt providers; and the need for a 'clean exit' on behalf of the limited partners to meet required returns on invested capital are now all expected.

Long term strategic benefits are desirable when corporate buyers consider possible M&A transactions, according to Mr Deiters. Prioritised issues include ensuring compatibility of company cultures, whether synergistic benefits can be obtained and the extent to which a deal will be earnings-accretive. Mr Deiters also explains that whilst investors tend to pick familiar business sectors, they are also seeking cross border acquisitions and to capture and diversify earnings in new industries or markets. However he also notes that European workforce protection can be a "minefield" as work councils, unions and government protection are all commonplace in Europe, and can present significant obstacles to restructuring or downsizing plans.

Mr Deiters comments that at the end of last year, Mercer saw merger volumes drop by 20%

"as companies struggled to digest sub prime-related credit problems and a feast of big deals done. Nevertheless, he explains that even against the backdrop of economic uncertainty, the number of strategic buyers is increasing. "Even in unprecedented times, they manage to have ready access to debt and they can use their own assets," affirms Mr Deiters, adding that once the painful restructuring is over, the number and volume of transactions will begin rising. He also envisages private equity firms focusing more on SMEs.

Mercer is well equipped to handle this eventual bloom in the German marketplace. "M&A due diligence forms the base upon which virtually all key decisions – both strategic and operational – are made," notes Mr Deiters. He reveals that people involved in such transactions have recognised the importance of due diligence in identifying potential 'deal breakers' and any items that may have a material impact on the negotiations or price. A different approach to the due diligence process can yield different and far superior results from an integration standpoint. As in many other countries of the world, Mercer Germany has assembled a highly specialised and professional team to assist clients with all processes of the due diligence review, from start to finish.

UK - SHM Smith Hodgkinson

Christian Humphreys, Director
+44 161 233 2900
christian.humphreys@shm-group.com



The UK asset valuation industry changed greatly over time and even more so in the current economic downturn according to Christian Humphreys. He states that asset based lending is set to grow further as banks turn to ABL as an alternative to traditional financing. "The problems in the financial sector really highlights the need to return to fundamentals such as can my client pay and what is their asset security really worth; SHM are well placed to provide valuation advice," said Mr Humphreys, adding that the firm's network of offices offers many routes to comparable research methods for valuations worldwide.

"Valuations," Mr Humphreys notes, "have now become imperative to a lender's underwriting criteria and independent specialist opinion is vital to the decision making process." SHM offers an extensive and detailed method of valuation and report delivery service to meet client's requirements.

While there are murmurs that asset and business valuations have been overpriced for years and are only now returning to reality, Mr Humphreys' opinion is that "value is only a reflection of what the market place is prepared to pay. Asset markets have changed substantially. The economic downturn has on one hand caused an increased supply of assets in the market

whilst a lack of funding has reduced buyer's ability to acquire the assets thus a slide in demand. It is not necessarily a case of more 'realistic' values; moreover it is a case of values following market and industry trends."

Mr Humphreys states that "there are three accepted valuation approaches used to derive an indication of asset values including: the Cost Approach, Income Approach and Sales Comparison Approach," the latter of which is most commonly used. It consists of a set of procedures where a valuation indication is derived by comparing the assets being appraised to similar assets that have been recently sold, or are currently available for sale and also takes into account appropriate units of comparison, each item's marketability and adjusts the values based on elements of comparable to sale prices.

SHM leverages its 100 years of valuation and sales experience and worldwide representation to provide advice to public and private companies, financial institutions and professional advisors. Clients gain a 'total asset solution' which encompasses the valuation and disposal of business assets. SHM's key differentiator is that it can employ its own capital to give confidence in its opinions of value and disposal strategies.

UK - Strategic Resource Limited

John Sutherland, Managing Director
+44 1539 431945
strategicres@aol.com



John Sutherland states that with the weakening of the Sterling against the Euro, there has been "an opportunity for growth in for UK consultancy in the European marketplace." He reveals that Strategic Resource has seen an increase in both assessment and team development work in continental Europe over the last three months.

Conversely however, the firm has also seen a marked decrease in management due diligence since August 2008. Mr Sutherland confirms this and added "we do not expect this to change for some months to come." Some firms and their clients are using the downtime wisely though. Mr Sutherland notes that "a number of our regular clients are using this time to run wide ranging reviews of their due diligence processes and this has led to us getting valuable information about where our due diligence work adds most value." Thanks to this feedback, Strategic Resource has been able to refine its due diligence reporting structure to offer an even more competitive consultancy service.

"We assess the degree to which management teams have the individual and team skills

they will require in order to achieve their business plan," explains Mr Sutherland. "We also assess the likely long term working relationship between the team and our client, whether they are a bank or venture capitalist." Founded in 1995, Strategic Resource are highly experienced in management due diligence. Its approach is derived from evidenced based applied psychology, with each consultant possessing a background in behavioural sciences. "We provide a genuine assessment of team performance," affirms Mr Sutherland, "as well as a detailed analysis of individual competence."

According to Mr Sutherland, one of the main challenges in carrying out management due diligence is assessing a team during the deal process, "when business as usual is overtaken by the sheer volume of work generated by the deal process." "We assist in this firstly by being on-site for as little time as possible and secondly collecting historical data (where possible) that backs up our observations of current performance with evidence about recent (pre-deal) performance."

THE NETHERLANDS - Tauw

Hans Nieuwenhuis,
Senior Consultant
+31 570 69 98 29
hans.nieuwenhuis@tauw.com



In keeping with nature, soil was the basis from which environmental consultancy in the Netherlands grew from. Prior to the 1980s, there had been little interest in the sector until major ecological events involving soil and groundwater highlighted the necessity of environmental due diligence. One such event was the observation that the Netherlands' shallow groundwater table would spread pollutants easily once soil pollution occurred. According to Hans Nieuwenhuis, this realisation fuelled the discovery of other environmental risks such as noise, odour, waste, and asbestos. As a result, the Netherlands has developed a mature and sustained marketplace for environmental consultancy.

The EU has also provided an environmental framework but member countries continue to apply their own protocols. Mr Nieuwenhuis explains that "as legislation is still a national topic, we find it imperative to have local auditors who have the knowledge of national and regional legislation, understand the language and also understand the local culture of how to deal with authorities." He concludes that whilst the EU has contributed a continental framework, there remains "a need to have local employees carrying out the works." The EU has projected its influence far beyond Europe's borders though. China is looking to adopt appropriate environmental legislation and in

Tauw's view, "is trying to combine major economic growth with bringing into place proper environmental legislation and enforcement." Mr Nieuwenhuis adds that "of the BRIC countries, we think that China is most active in balancing this out."

Tauw is well positioned to comment on such a development. The European consultants were amongst the first to offer environmental due diligence services, and have since cemented their strong position by participating in the CAT Alliance – an international group of leading environmental business consultants. "We have educated our auditors to understand not only environmental technical aspects, but to put this in the wider transaction context and to be able to translate finding into business consequences and SPA advice," explains Mr Nieuwenhuis. He adds that the consultancy report is not a goal in itself, but can be part of a broader transaction advice.

Another marketplace development is the understanding of needs beyond 'traditional' environmental consultancy services. "We see EDD as part of a further development towards sustainability and governance. Based on the awareness of reputation risks of companies do not manage their supply chains well (child labour, bribery, corruption) there is an increased need for 'social' due diligence work, on top of the environmental side."

UK - Whitehead Mann LLP

Carol House, Partner
+44 113 229 1525
carol.house@whmlp.com



It goes without saying that in turbulent economic times companies need strong leaders. But they are also becoming savvier in how they go about recruiting them. Carol House, Partner at Whitehead Mann LLP, says: "There is growing requirement to make excellent people selections - and it is now understood that we have techniques and expertise to make better decisions that do not rely only on intuition." She adds that appointing executives at the main and operating board levels is one of the most significant decisions a corporation makes. "It can make or break a business," she says.

But the pervading economic uncertainty also means companies are less inclined to commission a formal search. Many want to adapt much more quickly to dynamic market conditions. "Hiring has become more opportunistic," says Ms House. "So we are seeing a higher demand for assessment, referencing and due diligence services to ensure recruitment risks are minimised. In private equity, for example, we have seen the demand shift from new deals to portfolio management changes." Whitehead Mann has also been asked by companies to provide senior management training to improve interviewing and decision-making abilities.

Troubles in Western economies have also led to many management opportunities moving east-

wards – towards the Middle East and Asia. "We work internationally and have recently expanded offices in these regions which means we can cover a wider area for referencing," says Ms House. Geographical coverage is however only one facet of Whitehead Mann's abilities. It enjoys over 15 years of experience in leadership consultancy and counts among its clients FTSE 100 and Fortune 500 corporations. All this has been delivered by a due diligence team independent of the firm's own search service. "This means we have access to the key sources, but can provide independent impartial referencing," says Ms House. "For some clients who seek the deepest insight on candidates, we use a combination of forensic referencing and psychometric questionnaires with structured interviews which are conducted by our own team of occupational psychologists".

In particular, forensic referencing is renowned for providing an objective, detailed and confidential perspective on a candidate's experience, performance and reputation. This allows Whitehead Mann to examine their attributes thoroughly and to determine whether they fit the successful criteria. Whitehead Mann has a great reputation in the market as a trusted company providing reliable and valuable information for our clients in a timely manner.