SECTOR SPOTLIGHT:
Reducing M&A Risk through Improved Due Diligence

Dr Rainer Mayer is a founder and managing partner of maconda GmbH, Cologne

maconda is a German independent management advisor for commercial transaction services, value enhancement and corporate restructuring. Our sector focus is on consumer goods, service industries of almost any kind, retail and wholesale and various other products. Since its foundation, maconda accompanied more than 370 advisory projects and almost 200 company transactions, mainly in the range of 30 up to 500 million €.

The team is specialised on commercial transaction services including target screenings, 100 days programmes as well as exit preparations. Key service of maconda are commercial due diligence analyses, where we are one of the most active and experienced providers in the German-speaking market. Since we often accompany cross-border transactions, we maintain a multinational team and local cooperation partners in France, Benelux, Turkey and some Central and Eastern European countries.

We see such local rooting as crucial for being able to provide reliable insights into regional markets, considering the diversity of regional demand, etc. For instance, due diligences with respect to CRH markets and increasingly often directly covering companies from this region have to address particular challenges: different business culture, difficult data collection process, a general lack of reliable market data, much more difficult interviews with market insiders. Therefore, involving local experts is essential for delivering a reliable analysis. Another part of our USP besides taking advantage of local knowledge is involving external sector experts with long-standing operational experience. They help our clients to address the most crucial aspects in an early stage of a transaction.

Another important feature of our reputation is our pragmatic approach, combined with a very pro-active and customer-oriented handling of a mandate.

Lately we have been involved in many challenging transactions. For example we assisted the acquisition of the German Kroll group – a globally leading provider of market research in the agricultural sector. Other recent mandates comprise of companies positioned in specific niche markets like frozen finger food and snack products, river cruises, discount fitness chain, nursing homes, special outpatient care, and various e-Commerce related companies.

Speaking about the general M&A environment, especially the small and lower mid cap market up to, let’s say, 120mn € enterprise value is still quite vivid, whilst larger transactions that may be interesting became quite rare. Hence, an obviously still increasing number of private equity investors are competing for a lower or at least constant number of potential deals, with a number pulled after some time due to lacking consent on conditions. In addition, we see more plain family offices entering the market with often a low need to third party financing.

Yannick Poivey is the founder and managing director of One Intelligence LLC in Geneva, Switzerland. Prior to founding his own company in 2009, he worked for the US risk management firm Kroll, in Paris and Geneva.

One Intelligence delivers reputational and integrity due diligence research services in the context of international transactions, such as acquisitions or investments. The firm works both for international clients requesting some research in Switzerland, or Swiss-based clients who need information abroad. Subject of research include corporations as well as individuals.

"Due to a stricter regulatory framework including FCPA rules, a growing number of organisations implement a first-level due diligence program that applies to third parties. However, we are happier with clients genuinely interested in the results of an in-depth integrity due diligence research, than with those who merely wish to "tick the box" for compliance purposes".

Indeed, in-depth integrity due diligence research is a key component of a sound approach to risk management. "We regularly work for a financial institution which grows through the acquisition of boutique firms in emerging countries. Reputational risks are paramount in this line of business. As a result, before signing a deal, this client always asks us to conduct an integrity due diligence research into its prospective partner. To them, avoiding reputational risks is worth the costs."

Reversely, the costs of skipping risk prevention can be high. "We had the case of those private investors who had put loads of money into an Asian company, based on data provided by an intermediary who appeared to be a crook. If they had made the effort of conducting an initial integrity due diligence research, they would have quickly understood that the intermediary could not be trusted and the target firm was bogus."

Needless to say, media, Internet and database information is useful but never sufficient. Indeed, One Intelligence is convinced that inquiries with human sources generate the highest value added. Finding smart and collaborative ways to talk to interlocutors allows for fruitful information gathering to the benefit of clients.

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