

M&A case study: Due diligence across multiple functional areas

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Comprehensive due diligence enables successful food industry acquisition

A recent strategic acquisition by the operator of a food processing facility illustrates the importance of taking a comprehensive approach to due diligence that extends beyond financial analysis alone. By applying the expertise of multiple teams of Crowe specialists, the company was able to quickly and responsively prepare a successful auction bid for a company elsewhere in the food industry.

Moreover, the insights gained through the work of Crowe professionals in operations, IT, tax, and other specialized fields enabled the acquirer to recognize and address critical questions to help formulate its negotiations position and mitigate risk through contract protections and third-party insurance coverage.

Pursuing a strategic opportunity

The potential acquisition offered the opportunity for the food processing operator to pursue its growth strategy while also taking advantage of valuable complementary strengths related to raw material utilization, manufacturing, and sales and marketing capabilities.

To help the acquiring company compete successfully in the auction, Crowe due diligence teams completed their work on accelerated timelines in order to allow sufficient time for necessary reviews and approvals by the parent company prior to the auction deadline. But responsiveness was only one aspect of the Crowe approach to the acquisition opportunity.

Even more important was the ability to apply a full suite of diligence services that evaluated multiple facets of the target company's operations in addition to the financial and tax questions typically addressed with due diligence. An especially valuable component was an in-depth pre-deal accretion analysis, which gave the acquiring company a credible estimate of the expected impact of the acquisition on future earnings.



A comprehensive approach to due diligence

To support the company's functional area leaders, the Crowe merger and acquisition (M&A) team brought in other Crowe specialists to perform in-depth due diligence and analyses across a broad range of areas, including:

- **Financial due diligence** – Crowe accounting professionals provided a full complement of financial due diligence services, including comprehensive quality of earnings and net working capital assessments. This enabled the acquirer to develop a more complete understanding of the target company's revenue drivers; its ingredient, labor, and overhead cost drivers; and risk of cost fluctuations on future profits based on its projected volumes and product mix.
- **Tax due diligence** – The Crowe tax team reviewed historical income tax filings, including a detailed review of how the tax aspects of previous restructurings had been handled. It identified a previously unrecognized income tax obligation that could have resulted in significant negative cash flow to the acquirer post-close if the issue had not been identified and addressed in the negotiations process. Crowe helped convince the seller's advisers that the target company needed to make the significant tax payment prior to the deal being consummated. The tax team also reviewed the target company's handling of payroll, personal property, sales and use taxes, and escheat filings.

Learn more

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- **Human resource (HR) due diligence** – In addition to analyzing the target's documentation of organizational structure, head count, and turnover, Crowe HR specialists reviewed employment law regulatory compliance, employee litigation liabilities, base and incentive compensation programs, and benefit plan coverage, costs, and reporting requirements.

- **IT due diligence** – Crowe IT specialists projected costs for a series of post-acquisition IT projects to address risk and support earnings before interest, taxes, depreciation, and amortization improvement in the areas of the target's business systems, infrastructure, security, controls, staffing, vendor management, and spend.

- **Operations due diligence** – The Crowe operational transaction advisory team reviewed the target company's operations to assess historical capacity utilization and the required investment to support growth. The team also identified constraint points and opportunities to improve throughput through optimized flow, line balancing, performance management, and layout changes.

- **Pre-deal purchase price allocation** – Crowe prepared a pre-deal purchase price allocation study to help the acquiring company understand what amounts of the proposed purchase price would be allocated to various asset classes, such as inventory, machinery and equipment, and intangible assets. This allowed the company to estimate the accretive or dilutive impact that the transaction could have on post-transaction net income and earnings per share.

Food industry knowledge

In addition to deploying functional area specialists, Crowe used members of its food and commodities team to provide industry expertise to the engagement. Examples of the value these team members contributed include assessment of projected future market price fluctuations for cost inputs and analyses on excessive freight and fleet utilization.

Breadth, depth, and a collaborative approach

By engaging a single consulting organization to perform a full range of due diligence services and the pre-deal purchase price allocation, the acquiring company was able to streamline its pre-deal preparation while enhancing the overall effectiveness and completeness of its bid process. The Crowe M&A team's considerable previous experience working with representations and warranty insurance underwriters also helped streamline the process.

In addition, because it already had assigned multiple teams of specialists to a broad range of due diligence studies, Crowe was able to perform the purchase price allocation accretion analyses with minimal additional research. This spared the acquirer the need to devote time and resources to engage and communicate with additional outside service providers.

The collaborative approach of the Crowe M&A team, coupled with the in-depth expertise of numerous specialized Crowe teams, not only supported a successful bid and acquisition, it also led the acquiring company's executives to engage Crowe in an additional operational improvement assignment at an existing plant after the transaction documents were signed.