CT

Winning The Deal

Researching A Target Quickly Can Make The Difference

Ian Bone, **CT**

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In today's frothy deal making environment buyers are snatching up companies like gangbusters. In many cases buyers do not have ample time to conduct due diligence as thoroughly as they would have liked to. To help ensure that buyers are in fact purchasing what they think they are purchasing without buyer's remorse, buyers and their respective counsels are turning to firms like CT, a compliance and due diligence services provider, to have more thorough due diligence conducted for an extra level of confidence.

"There are the usual four part searches that lawyers do around liens and judgments, but there are so many other types of searches that buyers can conduct that can help them understand the company they are potentially acquiring," says Ian Bone, Senior Manager, Product Planning and Innovation for CT.

What's more, these types of searches have become more popular with not just buyers, but also lenders today. "With more restrictions placed on banks, lenders need to know more about their clients than ever before. And while lenders are often negotiating the deal with a private equity firm, they are in actuality lending to the entity being acquired. Evolving Know Your Customer requirements mean that trusting the private equity firm's due diligence is no longer enough. Additionally, given the current multiples, lenders want to make sure they will be getting projected future cash flows and that there are no unforeseen issues around the borrowing company's ability to pay," says Bone

To that end, CT is conducting many new types of searches today. For example, negative news searches are becoming more commonplace. CT combs though thousands of press outlets and alerts clients to any red flags or negative information that could affect the target acquisition's reputation and be financially impactful. In fact, CT recently conducted a negative news search on a food company for a potential buyer. Although the potential buyer didn't expect the search to yield any results, it turned out the company had had a product recall due to not properly listing allergens in the ingredients. By uncovering this information the potential buyer was able to review how the company's financials held up during this time, how the recall impacted the company and how the company was able to move forward after the recall. Additionally, as a result of finding this new information the potential buyers then decided to examine the target's facilities more closely to review their production procedures.

"It allows the buyers to model in a certain level of risk that they couldn't previously," says Bone.

The buyer walked away from the deal. In addition to the information the negative news search uncovered, there were other issues that made the buyer wary of moving forward with the transaction. "In this case the deal was not closed, but in other cases searches have led the buyer to negotiate deal terms and valuations. Risks need to be understood and accounted for properly," says Bone.

In addition to negative news searches, industry specific searches have become increasingly important to buyers and lenders as deal making has become more sector focused. For example, transportation and logistics companies typically should conduct motor vehicle searches, in which CT searches through titles, liens, registrations, VIN numbers, insurance information and driving records among other things to reveal any issues. As another example, in the healthcare sector hospital lien searches have become more important than ever before as hospitals are consolidating and in many states they file liens in order to recover from an individual the costs of emergency and other medical services.

"It never hurts to make sure a fleet of trucks or vessels are properly registered and have no liens against them. The same goes for factory equipment or rigs in the oil businesses. When specific property, real or intellectual, is a big part of the deal, it's best to know exactly what you are getting yourself into," says Bone. "And the bottom line is there are a lot more regulations on the federal, state and local level. You don't want to have issues down the line that could have been averted quickly with a thorough, high-quality search conducted by professionals."

CT, part of Wolters Kluwer, works with businesses around the world to offer customized capabilities and comprehensive business compliance and deal support services. Drawing on more than a century of experience, CT's full suite of services can assist you from beginning stages of due diligence, through the high-pressure stage of closing — offering expertise and continuity every step of the way.