

Duff & Phelps brings deep industry experience and our extensive capabilities to develop financial projections and quantify risks to your transaction team. For transactions where the bet is big enough that you have to get it right, in spaces adjacent to your business, or in markets that are difficult to predict, we add the robust review, the insights, and the confidence it takes to get the right deal done.



COMMERCIAL DUE DILIGENCE SERVICES

Acquisitions, joint ventures, licensing and partnering transactions are among the most important strategic initiatives for any business. Confidence in the value of the transaction is key, but your team may not always have the time, the skills, or the depth of market knowledge required to validate the financial projections in all of the target's markets. Every deal has risks, and contingent deal terms offer the opportunity to manage and share risk. However, to evaluate the deal price and to structure appropriate terms requires a deep understanding of the industry, the competitive landscape, the credibility of the assumptions underlying the financial projections, and the risk profile.

Duff & Phelps provides the in-depth understanding needed to move forward with confidence. We uncover hidden assumptions underlying the financial projections, rigorously test the validity of the key assumptions against industry and market research, quantify the value of synergies and contingent deal terms, identify management issues, and provide insights into post-closing issues that could limit the achievability of the business plan. Our multi-faceted approach includes the following service offerings:

Assess the Achievability of the Financial Projections

- Identify key trends in the market and their implications for the business
- Analyze the value proposition, competitive positioning, barriers to entry, and strength along the value chain
- Research the analyst and industry perspectives on size, market growth, share, opportunities and threats
- Interview customers (current customers, former customers, competitors' customers and prospects) and value chain participants (partners, distributors, suppliers, etc.)
- Benchmark projected operating performance & growth vs. industry comparables
- Quantify the value of anticipated synergies
- Assess the validity of the assumptions in light of historical performance, competitive positioning, market trends, and the above research and analysis

Profile the Risk

- Quantify the likelihood and impact on the financial projections of alternative future scenarios; analyze the sensitivity of investment value to key uncertainties
- Develop the expected value cash flows, and a risk profile (an executive-level, integrated view of the impact of multiple upside opportunities and downside risks)

Highlight Management Issues and Implications for Business Plan Achievability

- Identify limitations on business plan execution capabilities, including resource constraints, management weaknesses, retention issues, and sales/marketing weaknesses
- Assess the implications of the risk profile on purchase price, deal structure, and deal terms (earnouts, clawbacks, warrants, etc.)
- Suggest post-transaction strategies to leverage opportunities and mitigate key risks

Duff & Phelps delivers the market insights and independent, rigorous critique of assumptions that executives need to pursue transaction opportunities confidently, and to know when to walk away.

Case Examples

Paying the Right Price for a Key Acquisition.

For a mid-size entertainment industry player, we conducted commercial due diligence on the acquisition of a company with digital technology crucial to the future of their business. The technology not only would help them in their core business, but also might allow them to enter several new markets. Because of the large number of potential applications, the target wanted a high price, and our client was uncertain about whether this price was warranted. Our work included projecting opportunity and share in 10 markets, some of which were unfamiliar to our client. We also provided a quantitative risk profile, highlighted the key value drivers in the markets less familiar to the client, and quantified the deal synergies. The Board of Directors was “truly impressed with the thoroughness of the due diligence and how complete the materials were. I firmly believe having [this] valuation helped put them at ease re: how much we should be willing to pay.” Armed with this improved understanding, our client closed the deal at less than 10% of the seller’s original price.

Supporting Financial Investment in IP Portfolios.

For a large industrial client, we conducted commercial due diligence for investment in two large IP portfolios. The first portfolio included mature but underexploited IP with hundreds of potential licensees and applications in six different markets – some of them in spaces adjacent to our client’s current business. We developed financial projections based on estimates of future sales of the products subject to the patents, compliance rates, royalty rates, and assumptions about the penetration rate of newer technology. Our analysis enabled the client to negotiate and close the deal with confidence, and the result has been a profitable investment which has performed in accordance with our projections. The second transaction involved a portfolio of over 1,000 patents. Our independent view of the financial projections, developed through secondary research and interviews with niche industry analysts and market participants, led to a much lower valuation – one that did not support the price initially negotiated. After an unsuccessful attempt to negotiate more favorable terms, the client walked away from a deal that was unlikely to be profitable.

Identifying a Beneficial Deal Structure for a Sell-side Transaction.

Our client had developed an innovative new technology with applications in several industries. We helped the client understand the value of a licensing agreement with a major company that wanted to use this technology in an industry where our client had little understanding of the market potential or appropriate deal structure. We proposed a tiered royalty agreement that would provide the client with a minimum payment to support development, while allowing them to share in the upside potential. With these results, our client entered negotiations with confidence and had a successful initial meeting. The client described our work as “extremely useful in helping to establish our opening position in negotiations”.

Assessing Business Plan Achievability.

Our client, a venture capital fund, needed commercial due diligence to support a series of investments in internet businesses. In each case, we investigated the market and barriers to entry, evaluated the value proposition, competitive positioning, and fit with market needs, quantified the upside potential and downside risks, and identified key post-investment issues that could limit the achievability of the business plan. In some cases we helped our client avoid an unwise investment. In other cases, we produced a more credible set of projections on which the VC was able to make an informed “go” decision at an attractive price.

About Duff & Phelps

Duff & Phelps is one of the world’s leading independent financial advisory firms serving client needs in the areas of valuation, investment banking, transaction advice and dispute consulting. We are the foremost provider of industry focused, independent and objective valuation insight and advice. Our services include financial reporting valuation, tax services, transfer pricing, real estate and fixed asset services, merger and acquisition advisory, restructuring advisory, fairness and solvency opinions, due diligence and dispute & legal management consulting.

Our professionals bring practical experience, responsiveness and a collaborative approach to satisfy our clients’ needs with the rigor and independence that the market demands. When our clients can’t afford to get their analysis wrong, they look to Duff & Phelps to get it right.

With more than 800 employees serving clients worldwide through offices in the United States, Europe and Asia, Duff & Phelps is committed to delivering insightful advice and service of exceptional quality, integrity and objectivity.

**For further information regarding our services, please contact us at +1-866-282-8258.
You may also visit our Web site at www.duffandphelps.com.**

Investment banking services are provided by Duff & Phelps Securities, LLC.
Restructuring advisory services are provided by Chanin Capital Partners, a Duff & Phelps Company.