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Streamlining Successful Transactions:
Phase 1 Due Diligence – Financial and Integrity

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Before a planned transaction gets ahead of itself in terms of costs and emotional buy-in, it is critical to conduct a preliminary analysis across the entire spectrum of the planned deal including the financials and the respective participants.

First, list the key factors separating the transaction from success or failure and then perform preliminary or Phase 1 Due Diligence.

Define and quantify all the relevant "Go" or "No go" decisions relating to moving the transaction toward closing. The preliminary due diligence process should be conducted with a limited number of participants to streamline the activity, maintain focus, and keep the costs under control.

Document all "key" deal assumptions that have no paper trail support and have all parties "sign off" on any verbal representations. Documentation avoids later stage confrontation and finger pointing before a lot of capital has been expended.

It is critical that the Phase 1 activities be planned and executed well in advance of moving to Phase 2 due diligence. Many times, the Phase 1 results will uncover issues that require immediate attention or may result in termination of the deal before the point of emotional/financial no return is reached.

As part of the Phase 1 Due Diligence, a high-level Financial Analysis, and an Integrity Inquiry should be performed.

The high-level financial analysis has to be custom designed to meet the needs of the transaction. There is no cookie-cutter approach possible here.

The Integrity Inquiry is also unstructured, complicated and critical. The basis of conducting the Integrity Inquiry is to deliver a robust basket of information on the parties, places, and other objects impacting the potential value of the investment opportunity.

The process begins with interviews to glean all pertinent information regarding the impending transaction. Based on this information gathered, a portfolio of intelligence is created by conducting in-depth background investigations on each person involved in the proposed transaction. Specifically, who they are, where they have been, who they are associated with, where they spend their time and money, their business and personal interests, where they travel to, their financial status, and of course, any criminal history.

Examining, documenting, and evaluating actual business capabilities, operating and financial position, client lists, management strengths and weaknesses, joint venture partners, vendor relationships, and competitor insights are valuable inputs leading to an assessment of the value of the tangible and intangible assets of the business in question. The mission is to produce a due diligence product that encompasses a comprehensive risk analysis of financial, physical and human assets at the early stages of the transaction, not at or near the end.

The major benefit of this approach is to quickly determine if any major obstacles will impede, delay or "kill" the transaction. If significant issues arise, then they can be immediately addressed. Secondly, this Phase 1 analysis will set a good framework for the next phase of the project.

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