M&A HANDBOOK

BUY SIDE ROLE

- Increasing assets under management.
- Performing financial modeling and valuation.
- Conducting internal research on potential investment and financing opportunities.
- Identifying investors and recruiting capital to manage.
- Earning the most favorable risk-adjusted return on capital.
- Determining whether to buy, sell, or hold investments.
- Overseeing clients' money.

M&A PROCESS

1. Strategic planning
2. Preliminary target search
3. Evaluation of public available data
4. Initial Contact
5. NDA agreement
6. Initial business valuation
7. Letter of intent
8. Due diligence
9. Final valuation of target
10. Negotiation
11. Considering financing sources
12. Legal aspects
13. Purchase price allocation
14. Integration
15. Goodwill impairment

SELL SIDE ROLE

- Advertising and selling securities.
- Generating liquidity for listed securities.
- Assisting clients with getting in and out of positions.
- Providing equity research analysis of indexed companies.
- Performing financial modeling and valuation.
- Advising corporate clients on major transactions, mergers and acquisitions.
- Creating and building relationships with new businesses and corporations.
- Facilitating increasing debt and/or equity.

FINANCIAL ANALYSIS OF TARGET

- Define scope for review e.g. 3-5 years
- Financial statements
- Standalone positions in financials
- Profitability, liquidity, activity and structure indicators
- EBITDA normalization
- Revenue and expenses impact on EBITDA
- Reviewing business units performance
- Analysis NWC and debt

FINANCIAL PROJECTION OF TARGET

1. Sales and other revenue projections
2. Earnings projections
3. Operating expense projections
4. Net working capital projections (receivables, inventory, and liabilities to suppliers)
5. Long-term and fixed asset and depreciation projections
6. Financial liability and interest expense projections
7. Other balance sheet item projections
8. EBITDA projections
9. Cash flow projections

DEAL FINANCING

Cash Transactions:
Description: The acquiring company uses its available cash reserves to fund the acquisition.
Advantages: Immediate and straightforward; no additional debt or dilution of shares.

Stock Transactions:
Description: The acquiring company offers its own stock as payment to the shareholders of the target company.
Advantages: Preserves cash; can be attractive if the acquirer's stock is highly valued.

Debt Financing:
Description: The acquiring company borrows money (loans or bonds) to finance the acquisition.
Advantages: Tax benefits (interest is tax-deductible); doesn't dilute shareholder equity.

Mezzanine Financing:
Description: A hybrid of debt and equity financing, often used in leveraged buyouts.
Advantages: Less dilutive than equity; cheaper than high-interest debt.

Leveraged Buyouts (LBOs):
Description: Involves borrowing significant amounts of money to meet the cost of acquisition.
Advantages: Allows acquisitions without committing a lot of capital.

LETTER OF INTENT

- Introduction
- Description of the transaction
- Payment Terms
- Confidentiality
- Representations and Warranties
- Termination Provisions
- Binding or Non-Binding Nature
- Exclusivity
- Timeline and Next Steps
- Dispute Resolution

DEAL STRUCTURING

ACQUIRER
- Management and control
- Voting rights
- Protection against dilution
- Regulatory approvals
- Integration plan
- Consolidation effects

SELLER
- Equity stakes to retain
- Control and decision making
- Earn-outs
- Warranties and indemnities
- Liability to retain key personnel

VALUATION

- INCOME APPOROACH
- MARKET APPOROACH
- COST APPOROACH

VALUATION DRIVERS

VALUATION METHODS

- Discounted cash flow method
- Precedent transaction methods
- Net book value method
- Venture capital method
- Valuation by multiple
- Berkus method
- Comparable companies method

DUE DILIGENCE

FINANCIAL DUE DILIGENCE

Business and processes understanding
Finance function and team assessment
Overall financial statements reviewing
Reviewing specific balance sheet positions
Analyzing financial performance
Assessing financial controls
Examining contracts and agreements
Assessing contingencies

TAX DUE DILIGENCE

Understanding the tax function
Review external advisor outputs
Review current and past disputes with tax administration
Check did the taxpayer submit all tax returns and pay taxes timely
Standardized list of questions to the client
Prepare sampling for reviews
CIT testing
VAT testing
PIT and other taxes testing

COMMERTIAL DUE DILIGENCE

Market analysis
Product and service analysis
Customer and sales analysis
Marketing and brand analysis
Operational analysis
Financial performance analysis
Regulatory and legal compliance
Management and organizational assessment
Risk assessment
Synergy and integration plan

CULTURAL DUE DILIGENCE

Understand your own company culture
Research the target company's culture
Compare and contrast both cultures
Identify potential cultural conflicts
Develop a cultural integration plan
Implement and monitor the integration
Evaluate post-merger integration success

LEGAL DUE DILIGENCE

Preparation and planning
Document collection and review
Legal analysis
Analysis of compliance with local laws and regulations
Contract analysis: with suppliers, customers, employees
Risk assessment
Report and recommendations
Negotiation and finalization
Post-acquisition integration

TECH DUE DILIGENCE

Assessment of current technology stack
Software quality and code review
Cybersecurity and data privacy compliance
Intellectual property evaluation
It infrastructure and operations
Product and technology roadmap review
Team and talent evaluation
Compliance with industry standards and regulations:
Financial assessment of technology investments
Vendor and third-party assessment

POST M&A ACCOUNTING

- Financial consolidation and integrations
- Financial reporting requirements
- Purchase price allocation
- Identification and valuation of intangible asset
- FMV of tangible assets
- Goodwill calculation and recognition

POST M&A INTEGRATION

STRATEGIC & CULTURAL	OPERATIONAL	FINANCIAL
Align Vision and Goals; Cultural Assessment and Alignment; Communication.	Business Processes; Supply Chain and Logistics; Product and Service Integration	Financial Systems and Controls; Cost Synergies; Revenue Synergies
HR	**TECHNOLOGY & IT**	**COMMUNICATION & BRANDING**
HR Policies and Benefits; Talent Management and Retention; Training and Development	IT Systems Integration; Data Integration and Security	Unified Branding and Marketing; Stakeholder Engagement

COVENANTS

- Non-Compete Covenant: prohibits the target company or its key employees from engaging in activities that compete with the acquiring company's business for a specified period of time and within a defined geographical area.
- Non-Solicitation Covenant: restricts the target company from soliciting or hiring employees or customers of the acquiring company for a certain period after the merger or acquisition.
- Confidentiality Covenant: ensures that both parties maintain the confidentiality of sensitive information shared during the due diligence process and subsequent integration
- Financial Covenant: designed to maintain certain financial performance levels after the merger or acquisition.

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DUE DILIGENCE TYPES

FINANCIAL DD

- Business and processes understanding
- Finance function and team assessment
- Overall financial statements reviewing
- Reviewing specific balance sheet positions
- Analyzing financial performance
- Assessing financial controls
- Examining contracts and agreements
- Assessing contingencies

TAX DD

- Understanding the tax function
- Review external advisor outputs
- Review current and past disputes with tax administration
- Check did the taxpayer submit all tax returns and pay taxes timely
- Standardized list of questions to the client
- Prepare sampling for reviews
- CIT testing
- VAT testing
- PIT and other taxes testing

COMMERTIAL DD

- Market analysis
- Product and service analysis
- Customer and sales analysis
- Marketing and brand analysis
- Operational analysis
- Financial performance analysis
- Regulatory and legal compliance
- Management and organizational assessment
- Risk assessment
- Synergy and integration plan

TECH DD

- Assessment of current technology stack
- Software quality and code review
- Cybersecurity and data privacy compliance
- Intellectual property evaluation
- It infrastructure and operations
- Product and technology
- roadmap review
- Team and talent evaluation
- Compliance with industry standards and regulations:
- Financial assessment of technology investments
- Vendor and third-party assessment

CULTURAL DD

- Understand your own company culture
- Research the target company's culture
- Compare and contrast both cultures
- Identify potential cultural conflicts
- Develop a cultural integration plan
- Implement and monitor the integration
- Evaluate post-merger integration success

LEGAL DD

- Preparation and planning
- Document collection and review
- Legal analysis
- Analysis of compliance with local laws and regulations
- Contract analysis: with suppliers, customers, employees
- Risk assessment
- Report and recommendations
- Negotiation and finalization
- Post-acquisition integration

M&A DEAL
BUY SIDE ROADMAP

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PRE-ACQUISITION

- Strategic planning
  Define clear objectives, identify synergies, potential markets, and target company characteristics.
- Preliminary target search
  Utilize databases, industry reports, M&A consultants and other sources to identify these companies.
- Evaluation of public available data about target such as financials, activities, people
- Initial Contact and Expression of Interest
- NDA agreement
- Initial business valuation based on rough data
- Letter of intent
- Legal due diligence
- Financial and tax due diligence
- Cultural due diligence
- Tech due diligence
- Commercial due diligence
- Final valuation of target
- Negotiation regarding the price, terms, contingencies, and structure of the deal
- Considering financing sources
- Legal aspects of purchase agreement and ownership transfer

POST-ACQUISITION

- Purchase price allocation in line with GAAP and drafting consolidated financials
- Integration: Management onboarding, employees, processes and procedures, technology and system integration etc.
- Goodwill impairment testing at financial year end

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PRIVATE EQUITY VS VENTURE CAPITAL

	PRIVATE EQUITY	VENTURE CAPITAL
PRIMARY GOALS	Take control of established companies, optimize operations and drive growth before an eventual profitable exit.	Take minority ownership in startups, nurture innovation and growth, with an eye on substantial returns from these high-potential companies
TYPE OF COMPANIES TARGETED	Focuses on mature, established companies that are often underperforming or in need of revitalization. These firms are usually not publicly traded.	Targets early-stage or startup companies with high growth potential, often in emerging industries like technology, biotech, or green energy.
INVESTOR BASE	Accredited investors: high-net-worth individuals and institutional investors	Accredited investors: high-net-worth individuals and institutional investors
INVESTMENT SIZE	Involves larger investments, often in the range of millions to billions of dollars.	Smaller investments compared to private equity, often in the range of thousands to millions of dollars.
USE OF DEBT	Known for significant use of debt, especially in Leveraged Buyouts (LBOs), to amplify potential returns	Clear of debt, betting solely on equity growth in startups.
INVESTMENT DIVERSIFICATION	Moderate diversification, with a focus on concentrated investments in fewer companies.	High diversification, as funds are allocated across a broader portfolio of startups to manage the inherent high risk.
RISK PROFILE OF INVESTMENTS	Medium risk, as investments are made in established firms with a proven track record.	High risk, with the potential for outsized returns from a select few successful startups.
RETURN EXPECTATIONS	Expects substantial returns, often through a mix of debt and equity. The investment horizon is typically medium to long-term, around 4-7 years.	Looks for exceptionally high returns due to the high risk involved. The investment horizon can vary but often focuses on long-term growth potential.
EXIT STRATEGIES	Common exit strategies include selling the company to another firm (trade sale), an initial public offering (IPO), or a secondary buyout.	Exits typically occur through an IPO or acquisition by a larger company.

FINANCIAL DUE DILIGENCE CHECKLIST

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GENERAL

- [ ] All internal accounting acts reviewed (accounting policies etc.)
- [ ] Audit reports reviewed
- [ ] Auditor management letter points reviewed
- [ ] Tax authorities findings reviewed
- [ ] Compare official financials and reports for management
- [ ] Findings of other external financial or tax consultants reviewed
- [ ] Review business plan and budget
- [ ] Business understanding: review main processes : sales, purchase etc.

ANALYTICAL PROCEDURES

- [ ] Actual vs comparable period giures differences investigated
- [ ] Review of key ratio numbers and changes in ratio numbers
- [ ] Net working capital reviewed
- [ ] Budget achievements reviewed and differences investigated
- [ ] Review monthly movement in sold quantities, revenues and margins
- [ ] EBITDA adjustments review and check
- [ ] Quality of earnings report checked
- [ ] Cash flow statement calculation and verified
- [ ] Net profit margins and EBITDA margins reviewed
- [ ] Compare official financials with management reports

INTERNAL CONTROLS

- [ ] Review competences, processes, controls in accounting sector
- [ ] Review competences, processes, controls in controlling sector
- [ ] Review competences, processes, controls in tax department
- [ ] Review of automatic internal controls
- [ ] Test how is internal controls is performing
- [ ] Review of monthly / annual closing procedures

PROPERTY PLANT, EQUIPMENT AND IP

- [ ] Ownership documentation reviewed (eg. Title deeds)
- [ ] Useful life for all IP and PPE item groups reviewed
- [ ] Variance between tax and accounting depreciation rates explained
- [ ] Movement in IP and PPE balances explained
- [ ] PPE and IP registers reconciled with GL accounts
- [ ] Check weather GAAP is applied when PPE or IP is acquired (test)
- [ ] Check weather GAAP is applied when PPE or IP is sold (simple test)
- [ ] Review useful life for all IP and PPE item groups
- [ ] Is there PPE or IP impairment indicators?
- [ ] Check capital gains/ losses if any

INVESTMENT IN ASSOCIATES AND SHARES

- [ ] Investment in associates reconciled with associate's equity
- [ ] Purchase agreements reviewed
- [ ] Check how well associates is operating, is there impairment needed?
- [ ] Valuation of shares listed on stocks is properly done
- [ ] Check capital gains/ losses if any

INVENTORIES

- [ ] Inventory structure analyzed (raw materials, WIP, FG)
- [ ] Annually / monthly movement in stock reviewed and explained
- [ ] Days inventory outstanding (DIO) reviewed and explained
- [ ] Inventory cost and recognition is aligned with GAAP/IAS
- [ ] Review the results of annual stock inventory
- [ ] Shortages, write-offs and surpluses verified and explained
- [ ] Inventory register reconciled with GL accounts
- [ ] Stock ageing structure analyzed
- [ ] Cost vs Net realizable value compared

ACCOUNT RECEIVABLES

- [ ] Annually / monthly movement in AR balance reviewed and explained
- [ ] Customer list per sales and balances prepared and reviewed
- [ ] Ageing structure / overdue list of AR prepared and analyzed
- [ ] Check how much AR balances is reconciled with debtors
- [ ] AR sub-legder reconciled with AR general ledger accounts
- [ ] Movement of AR impairments and reversals prepared and reviewed
- [ ] Main customers credit rating and liquidity checked
- [ ] Collection / credit risks identified and explained
- [ ] Days sales outstanding (DSO) reviewed and explained
- [ ] AP provision analyzed and explained

REVENUES

- [ ] Revenues structure analyzed (per product, categories, business units etc.)
- [ ] Annually / monthly movement in revenues reviewed and explained
- [ ] Main customers' contract reviewed and aligned with associated revenues
- [ ] Gross margin analysis done: movement in GM, GM per products etc..
- [ ] Discounts to customers recognized in appropriate reporting period
- [ ] Revenues reconciled with sales reports for management
- [ ] Sales actual vs budget vs. LY analysis performed

LOANS AND INTEREST EXPENSE

- [ ] Creditor list per funding amount and balance prepared and analyzed
- [ ] Loan balances reconciled payment plans - loan schedules
- [ ] Loan agreements, mortgages and other debt documents reviewed
- [ ] Interest expenses properly accrued based on payment plans
- [ ] Short term vs. Long term liabilities presented in line with payment plans
- [ ] Net Financial Position calculated
- [ ] Debt to equity ratio calculated and analyzed
- [ ] Debt to EBITDA ratio and Income Coverage Ratio checked
- [ ] Debts covenants evaluated

ACCOUNT PAYABLES

- [ ] Annually / monthly movement in AP balance reviewed and explained
- [ ] Supplier list per purchase value and balance prepared and reviewed
- [ ] Ageing structure / overdue list of AP prepared and analyzed
- [ ] Check how much AP balances is reconciled with debtors
- [ ] AP subleader reconciled with AP general ledger accounts
- [ ] Consider reasons if due liabilities is not paid - (impact on NWC)
- [ ] Days payables outstanding (DPO) reviewed and explained

COMMITMENTS AND CONTINGENCIES

- [ ] Litigations and litigations risks reviewed
- [ ] Assumptions of debt litigations reviewed
- [ ] Contracts that involve payments exceeding material amounts reviewed
- [ ] Calculation of potential liabilities based on current contracts
- [ ] Check procedures that company apply when approve material contracts
- [ ] List of guarantees reviewed
- [ ] Check environmental commitments, liabilities, or contingencies.
- [ ] Interview key stakeholders to gain insights into contingencies

HEADCOUNT AND SALARIES

- [ ] Management labor agreements reviewed
- [ ] Typical employee labor agreement checked
- [ ] Cost of salaries matches with the amounts in agreement
- [ ] All bonuses and benefits properly accrued
- [ ] Annually / monthly movements in salaries balance reviewed and explained
- [ ] Average monthly salaries analyzed
- [ ] Ratio salaries in revenues reviewed during periods
- [ ] Short-term and long-term employee benefits check

OPERATING EXPENSES OPEX

- [ ] OPEX structure analyzed
- [ ] Recurring operating expenses matches with agreements
- [ ] OPEX variance identified and explained
- [ ] Ratio OPEX in revenues calculated and reviewed during periods
- [ ] Prepaid expenses accrual checked
- [ ] Check the accruals for undeceived bills and other provisions
- [ ] Main supplier contracts reviewed, key elements reflected in financials
- [ ] COGS share in revenue: changes considered and explained
- [ ] Insurance agreement reviewed

EQUIRY AND OTHER LIABILITIES

- [ ] Subscribed equity reconciled with official business register
- [ ] Retained earnings / accumulated loss matches with balance sheet data
- [ ] Statement of changes in equity reviewed
- [ ] Reserves examination if any
- [ ] Review of liabilities for taxes, customs and other admin fees
- [ ] Professional fees expense examined

INTERCOMPANY

- [ ] Understand the position of Company in the Group of related parties
- [ ] All related parties identified
- [ ] IC agreements examined
- [ ] IC transaction reviewed
- [ ] Verify if the IC pricing is aligned with market pricing
- [ ] Analyze financial benefits and risks from IC transactions
- [ ] Analyze transfer pricing files

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FINANCIAL DUE DILIGENCE PROCESS

1 PREPARATION AND PLANNING

Engagement setup

Define the şcope and specific areas and depth of the investigation.

Assemble a team of professionals with expertise in financial analysis, accounting, tax, etc.

Make timeline framework and duties of team members.

Data Collection

Make a list of requested documents and track status of delivery

Setup open questions on cloud and track status of delivery

Organize data room, and collect and review relevant financial documents, including financial statements, tax returns, budgets, etc.

General business review

Meet with key personnel of the target company to understand the business processes, financial practices, and any unusual items.

Understand business processes like sales, purchase, payroll etc.

Review business plan, business model, budgets etc.

2 ASSESMENT OF FINANCIAL FUNCTION AND TEAM

3 EXAMINING CONTRACT AND AGREEMENTS

4 INTERNAL CONTROLS REVIEW

Segregation of duties, Authorizations and approvals process,

Automatic controls in system in the process of revenue and cost recognition, reconciliation of accounts

Closing procedures and checks and others

5 ANALYTICAL PROCEDURES

Analyze financial performance, Analyze trends in KPIS and ratio numbers, Analyze actual vs historical vs budgeted figures

Review monthly movement in sold quantities, revenues and margins and other analysis

6 FINANCIAL STATEMENTS REVIEW

Income statement review

Revenues structure analyzed (per product, categories, business units etc.)

Gross margin analysis - movement in GM, GM per products etc..

OPEX analysis – movements, variance, contract matches etc..

Accruals recognition and cut off test

Salaries analysis, industry benchmarks, taxes, employee benefits, owner compensation, stock based compensation etc..

Other analysis

Balance sheet review

Assets ownership documentation reviewed

PPE and IP registers reconciled with GL accounts

Inventory structure review (materials, WIP, FG)

Assets impairment testing

Balance reconciliations with debtors and creditors

Related parties relationships

Commitments and contingencies

AP / AR ledger reconciled with GL accounts

7 FINALIZE REPORTING SET RESULTED FROM DUE DILIGENCE PROCESS

Quality of earnings

Present normal and sustainable level of operational earning to make sure that multiple-based price we pay for transaction is fair. Usual subjects of adjustments : Revenues, Costs, Net Working capital

Net working capital

Present a movement in NWC and its main components, review of DSO, DIO and DPO. Fair value of receivables: overdue, bad debt, payment terms, litigation, balance structure. Compare NWC/Revenue ration with industry benchmark and peers.

Proof of cash

Present a reconciliation procedure results that's used to prove the accuracy of the general ledger cash account. Present any unusual or suspicious transactions, cash inflows and outflows analysis etc..

Net debt

Present target's net financial position and how target use dept. to create an earnings. Estimate how much additional debt company can bear, and approach financial leverage.

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ABCs OF M&A

- A — ACQUISITION
- B — BUSINESS VALUATION
- C — CASH FLOW
- D — DUE DILIGENCE
- E — EBITDA MULTIPLE
- F — FINANCIAL ANALYSIS
- G — GOODWILL
- H — HISTORICAL DATA ANALYSIS
- I — INTANGIBLES IDENTIFICATION
- J — JOINT VENTURE
- K — KPIS
- L — LETTER OF INTENT
- M — MERGER
- N — NON-DISLOSURE AGREEMENT
- O — OFFERED PRICE
- P — PURCHASE PRICE ALLOCATION
- Q — QUALITATIVE FACTOR
- R — RETENTION BONUS
- S — STRATEGIC INVESTORS
- T — TENDER OFFER
- U — UPSIDE
- V — VERTICAL INTEGRATION
- W — WACC
- X — e X it Strategy
- Y — YIELD BASED VALUATION
- Z — ZONE OF INSOLVENCY

By Bojan Radojicic

M&A

BUY SIDE VS SELL SIDE

By Bojan Radojicic

BUY SIDE		SELL SIDE
An investor (Acquirer)	ENGAGED BY	A target company
Identifying targets	MATCHMAKING ACTIVITIES	Identifying potential investors
Investment decisions	MAIN AREA OF CORPORATE FINANCE	Financing (Raising capital) decisions
Detailed analysis of target company's books and other records	DUE DILIGENCE PROCESS	Assisting target company's management in responding to buy-side requests in DD
The goal is to decrease transaction value	TRANSACTION VALUE	The goal is to increase transaction value
DCF method primarily, then Comparable companies / transactions method	VALUATION METHOD	Comparable companies/transactions method primarily, then DCF method
Retainer usually, Success fee can be included	CONSULTING FEE STRUCTURE	Retainer + Success fee

UNWRITTEN

M&A MODEL

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Input pre-merger Acquirer's consolidated balance sheet

Input pre-merger Target's balance sheet

Analyze Target's books and identify fair value adjustment of assets and liabilities items, based on GAAP or other standards

Valuation of indefinable intangibles and goodwill calculation and recognition. (Completed purchase price allocation)

Purchase consideration	1,000

Balance sheet (000 $)	Pre-merger Acquirer Consolidated	Target	Target FMV Adjustment	Target Pro-forma	Consolidated projected	Financing	Payment	Consolidated realized
Cash	1,500	10		10	1,510	500	(1,000)	1,010
Account Receivable	4,500	50	(10)	40	4,540			4,540
Inventories	3,000	30	(10)	20	3,020			3,020
Other current assets	1,500	15		15	1,515			1,515
Current assets	**10,500**	**105**	**(20)**	**85**	**10,585**	**500**	**(1,000)**	**10,085**
					0			
Tangible assets	10,500	500	150	650	11,150			11,150
Intangible assets	2,000	50		50	2,050			2,050
Software					150			150
Trademark					170			170
Customer list					120			120
Goodwill	0			0	412			412
Non-current assets	**12,500**	**550**	**150**	**700**	**14,052**	**0**	**0**	**14,052**
					0			
Total assets	**23,000**	**655**	**130**	**785**	**24,637**	**500**	**(1,000)**	**24,137**
					0			
Trade payables	3,500	350		350	3,850			3,850
Financial liabilities	2,000	200		200	2,200			2,200
Other liabilities	1,500	15	20	35	1,535			1,535
Current liabilities	**7,000**	**565**	**20**	**585**	**7,585**	**0**	**0**	**7,585**
					0			
Long term financial debt	2,500	25		25	2,525	500		3,025
Other long term liabilities	2,700	27		27	2,727			2,727
Long term fin. liabilities	**5,200**	**52**	**0**	**52**	**5,252**	**500**	**0**	**5,752**
					0			
Equity Capital	1,800	18		18	1,818			1,818
Retained Earnings	9,000	20		20	9,020			9,020
Temporary adjustments			110	110	962		(1,000)	(38)
Equity	**10,800**	**38**	**110**	**148**	**11,800**	**0**	**(1,000)**	**10,800**
					0			
Total Equity and liabilities	**23,000**	**655**	**130**	**785**	**24,637**	**500**	**(1,000)**	**24,137**
Check	0	0	0	0	0	0	0	0
Excess prushase price		962						
Unidentified intangibles				852				

This is the part of purchase price that exceeds the target equity

Projected Target's BS before valuation of identified intangibles.

A consolidated Acquirer's BS after transaction, before DTA, DTL recognition

This is the amount of undeniable intangibles in this stage i.e. before valuation of specific intangibles.

How the financing and payment of transaction impact balance sheet

PROOF OF CASH
MODEL

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It involves cross-checking the cash transactions recorded by a company against its bank statements over a specific period. This is done to ensure that the reported cash position is accurate.

This step is crucial for due diligence, offering a layer of financial accuracy and transparency before finalizing an M&A deal.

The results of the proof of cash test can significantly impact acquisition price.

WHY IS IT IMPORTANT?

1. **Detection of fraudulent activities**
   One of the primary reasons for performing a proof of cash is to identify any discrepancies or unusual transactions that might indicate fraud.

2. **Evaluation of internal controls**
   A proof of cash can also shed light on the effectiveness of a company's internal controls related to cash transactions. If there are numerous reconciling items or discrepancies, it might indicate weak internal controls.

3. **Assessment of cash flow**
   For a potential buyer or investor, understanding the cash flow is crucial. Proof of cash provides a detailed view of cash receipts and disbursements, helping assess the company's liquidity and operational efficiency.

Check	0	0	0	0	0
Cash flow statement for year of 2023	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Net income	1,618	1,315	1,365	1,669	1,963
Depreciation and amortization	195	375	415	465	495
Impairment of receivables	11	12	13	15	16
Impairment of inventories	11	12	13	15	16
Losses (gains) from sale of non-current assets, net	100	150	250	20	0
(Increase) or decrease of other current assets	(639)	(122)	(136)	(152)	(170)
(Increase) or decrease in account receivables	31	(24)	(26)	(29)	(32)
(Increase) or decrease in inventories	(516)	(98)	(110)	(122)	(136)
Increase (decrease) in trade payables	(107)	26	29	32	36
Increase (decrease) in other liabilities	37	50	27	30	29
CF from operating activities	**742**	**1,696**	**1,842**	**1,943**	**2,218**
(Purchase) or sales of capital assets	(750)	(1,050)	(450)	(150)	(150)
CF from investing activities	**(750)**	**(1,050)**	**(450)**	**(150)**	**(150)**
Increase of share capital	150	250	350	450	550
Increase (decrease) in financial liabilities	100	100	100	100	100
Dividends paid	(500)	(500)	(300)	(750)	(900)
CF from financing activities	**(250)**	**(150)**	**150**	**(200)**	**(250)**
Total cash flow	(258)	496	1,542	1,593	1,818
Cash at the beginning of period	1,290	1,032	1,528	3,070	4,663
Cash at the end of period	**1,032**	**1,528**	**3,070**	**4,663**	**6,481**

Starting position: ending cash from last reported period prior to acquisition.

For each period, preform own calculation of cash flow based on indirect method

Make reconciliation > Books vs Bank vs Model outcome
Review differences and identify inaccuracy if any.

HOW TO CONDUCT ?

1. Decide period for review and break down per months or quarters
2. Make Proof of Cash Model
3. Gather necessary documentations (bank statements , GL accounts transactions, trial balances
4. Verification of cash transactions
5. Match company data with model
6. Explain differences