



## Case Study – IMPORTANCE OF DUE DILIGENCE

### *The Company*

A SUBSIDIARY OF A WELL KNOWN MULTINATIONAL OIL COMPANY SOUGHT TO ESTABLISH A LEADING POSITION IN A SPECIALIST NICHE MARKET THROUGH ACQUISITION OF A RIVAL

### *The Business Problem*



The company was facing significant competitive pressure from a rival, who offered excellent product technology, technical advice and support, all at incredibly low prices, which had led the rival to capture 60% of niche market. In order to combat this the company initiated acquisition discussions as a way of shortcutting market share gains and capturing growth synergies through the

transfer of acquired product technology to other markets. An outline deal was agreed with the management and principal shareholders of the rival company.

### *The Solution*

Avangarde Consulting was engaged to test the viability of the deal, perform initial commercial due diligence and develop a business case to the Board of the Multinational. Avangarde put together a small team consisting of commercial, financial, legal and HSE specialists. Under the terms of the confidentiality agreement, Avangarde was able to gain access to the acquisition target's manufacturing plant, shareholding details, sales records and customer contract details. Market information was also acquired. A business model was developed, which included detailed cash-flow valuation estimates, which demonstrated modest returns. However the due diligence uncovered the threat of a major lawsuit by a former business partner that had been awarded substantial damages by a U.S. court. This threat cast considerable doubt on the future viability of the target company, which could potentially render the target insolvent. Also there were issues around the infringement of the product IP rights of the former business partner. As a result the acquisition was not recommended.

### *The Benefits*

Had the acquisition gone ahead the exposure to potential legal liability would have been substantial, and would have outweighed the benefits of shortcoming market share gains. Some of the rival's nervous customers have already approached the client about continuity of product supply. Avangarde is keeping a watching brief on behalf of the client on the legal situation.

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