

CASE STUDY: IMPROVED RETURN ON ACQUISITIONS

PRIVATE EQUITY FIRM EXCEEDS FIRST YEAR EBITDA PROJECTIONS BY OVER 50%

Asking the Hard Questions

A private equity firm was considering the purchase of a manufacturer. The manufacturer had a poor perpetual inventory system and lacked the ability to cost complex bills of materials. EKS&H was engaged to perform financial due diligence services, as well as evaluate the people, processes and systems of the company for potential future growth capacity. Should the private equity firm purchase the manufacturer?

Giving Honest Answers

Our due diligence team – consisting of individuals with both manufacturing industry and public accounting audit experience – performed a detailed investigation and identified several areas of weakness in the company's inventory accounting and costing processes, procedures and personnel. Our expertise and use of data-mining technology aided our financial analysis, and we were able to pinpoint the inventory SKUs that were grossly misstated in the target company's financials. We worked closely with our private equity client to identify and address specific areas of concern, including financial discrepancies that affected both the target working capital calculation and the ultimate purchase price, as well as organizational changes needed to improve the effectiveness and efficiency of the financial reporting processes and systems.

Providing Actionable Solutions

With this information, we assisted our client in negotiating a \$450,000 reduction in purchase price and provided them with a clear plan for the most appropriate accounting and reporting landscape post-acquisition. They implemented our recommendations to hire a CFO and other key personnel to supplement the existing management team, and the post-transaction entity exceeded its EBITDA projections in the first year by over 50%. The acquisition has been a success and enabled the private equity owner to expand facilities and customers faster than expected.

EKS&H

Talk to an EKS&H Business Consultant today: **303.740.9400**

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