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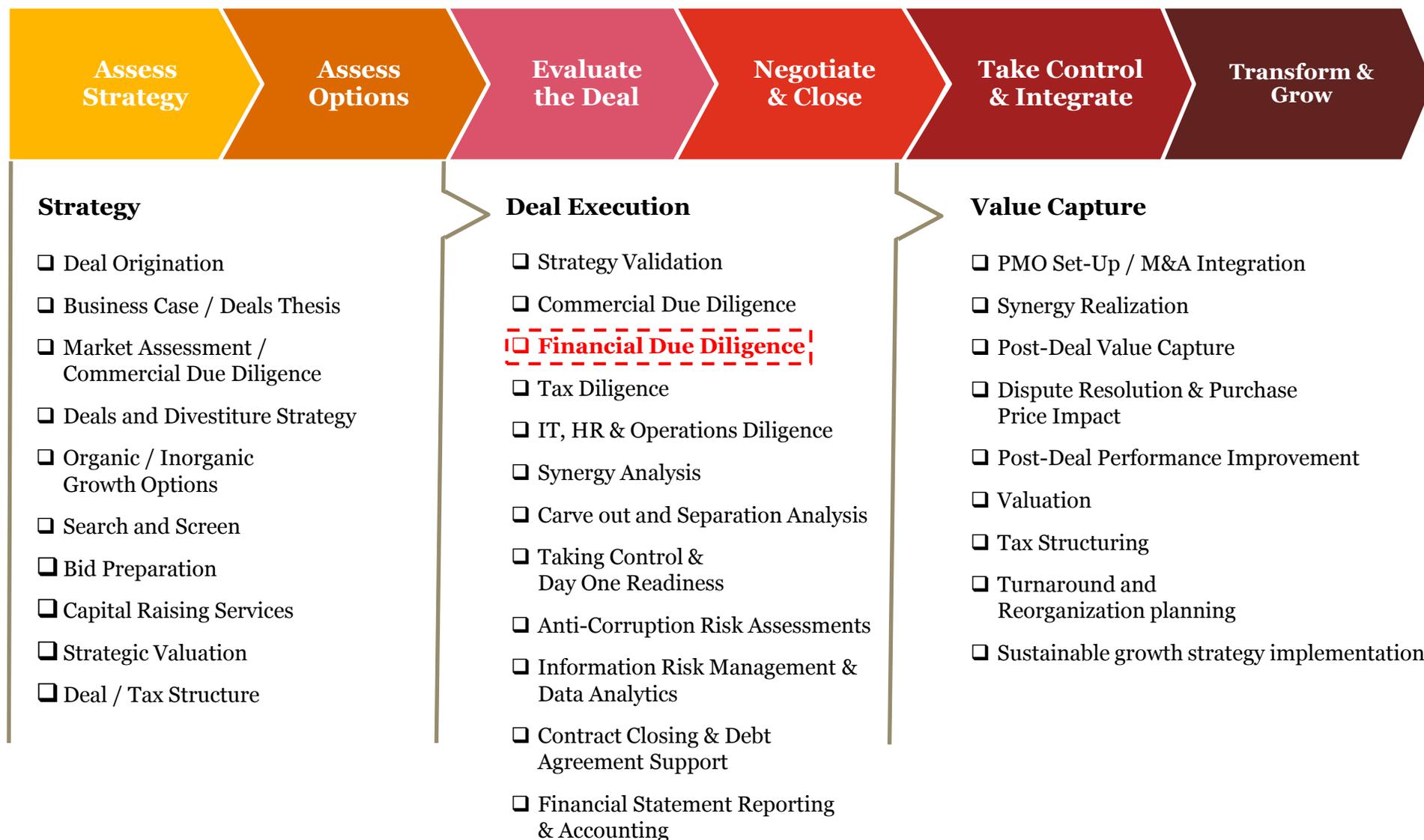
Financial Due Diligence Overview

February 2016



PwC Deals Practice Overview

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Buy-Side Diligence - What is buy-side diligence and what does PwC do on buy-side diligence engagements?

Buy-Side Diligence – How does due diligence assist the buyer?

- Attempts to balance the initial information disadvantage against the seller
- Assist in the decision process by confirming the existence of any “red flags” or “black holes”
- Assist with the valuation (enhancing the understanding of the target business; identify and understand critical success factors; underlying reality of historical track record; sustainability of profit and cash flow generation; assessing normalized EBITDA; providing opinions on the target company’s current status and prospects; and calculating key risks and sensitivities)
- Assist in the bridge of Enterprise Value to Equity Value
 - Net Working Capital
 - Net Debt
- Assist in formulating negotiations
- Assist in reviewing SPA documents (representations, warranties and indemnities, disclosure schedules, purchase price adjustment mechanisms)
- Provide opinions of the quality of the management team, and specifically the accounting and finance departments
- Consider focus of post acquisition integration

Buy-Side Diligence – Impact on Purchase Price

Enterprise value =

Multiple of EBITDA or similar measure as discounted cash flow, free cash flow, etc.

Due diligence input – Q of E or run-rate EBITDA of business without one-time expenses

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Net Debt:

Identify liabilities that could be considered as debt, as these could be a reduction in purchase price if assumed by the buyer.

Our input – Debt-like items analysis

+/-

Change in Working Capital:

The parties will agree on a level of working capital to be delivered at Closing (Working Capital Target). Often there is a dollar for dollar adjustment between the actual working capital delivered and the target.

Our input – working capital analysis

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Total purchase price calculation in the Agreement

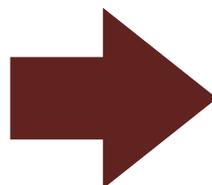
NOTE: QUALITY OF EARNINGS, DEBT-LIKE ITEMS AND NET WORKING CAPITAL ANALYSES ARE APPLICABLE TO BOTH BUY-SIDE AND SELL-SIDE DILIGENCE ENGAGEMENTS.

Quality of Earnings Overview (1 of 3)

The primary purpose of the Quality of Earnings (“Q of E”) is to normalize EBITDA to assist clients with valuation, financing and establishing the purchase price

PwC’s Quality of Earnings Analysis

- Reconcile EBITDA to audited income statement and interim results
- Understand and evaluate appropriateness of management adjustments to reported EBITDA
- Identify items impacting valuation and financing:
 - Non-recurring transactions
 - Correction of an error or timing issues
 - Non-cash transactions
 - Pro forma adjustments



Client’s use of Q of E for Acquisitions

- Establish baseline EBITDA to help model and value the business
- Assessment of EBITDA levels appropriate for financing purposes, as applicable
- Depending on the type of deal, Q of E could impact ultimate purchase price

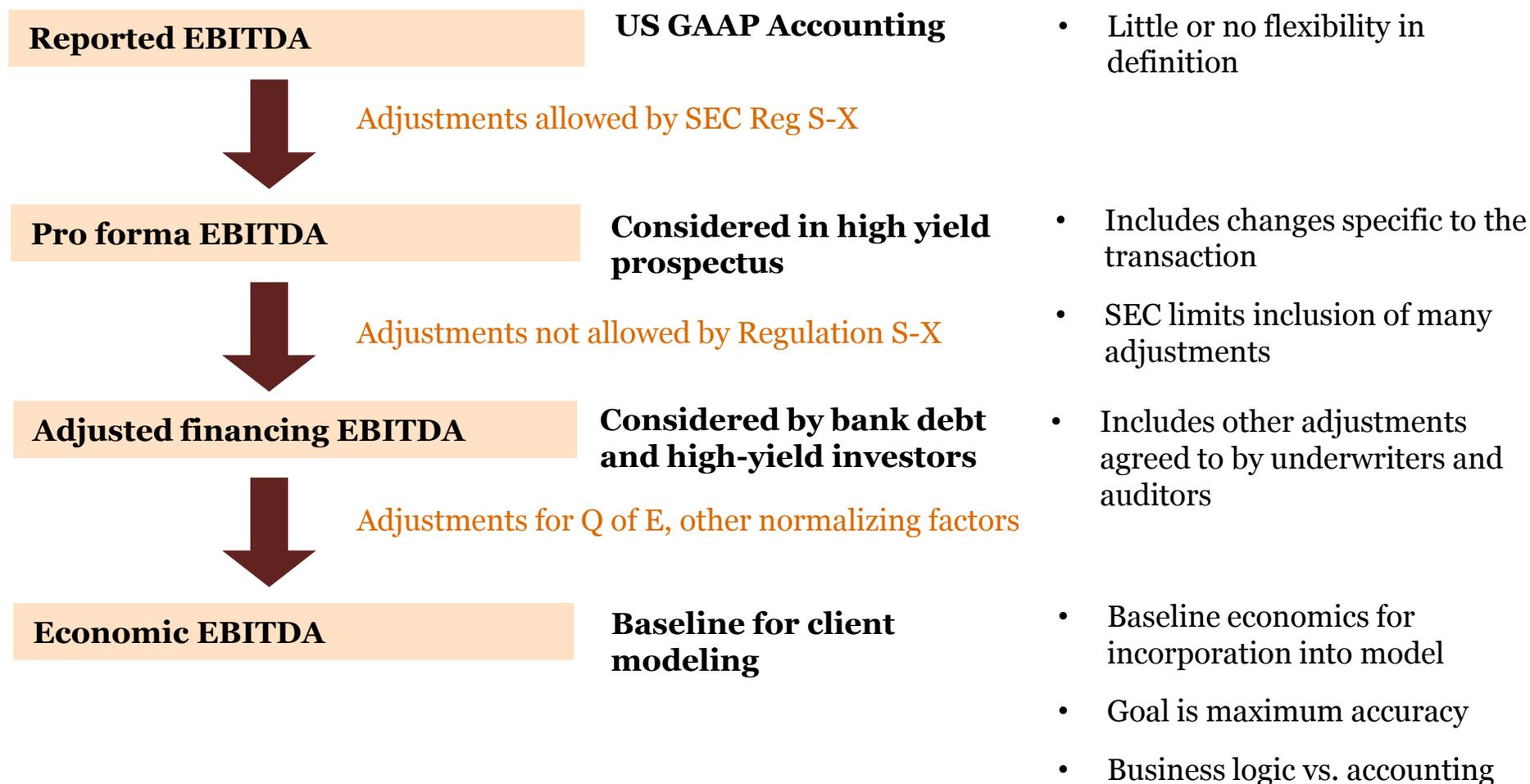
Quality of Earnings Overview (2 of 3)

Common types of Quality of Earnings adjustments include the following:

Type	Example
Non-recurring transactions	<ul style="list-style-type: none"> • “One-time” transactions such as legal settlements, unusual transactions, etc. • Major restructuring initiatives • Facility closures / moving costs
Correction of an error or timing issue	<ul style="list-style-type: none"> • Inappropriate revenue recognition • Inadequate reserves (normalized “run-rate” expense) • Improper cut-off and “roll-over” impact of accounting for transactions • Inappropriate GAAP or accounting policies
Non-cash transactions	<ul style="list-style-type: none"> • Equity-based compensation (stock options) • Equity income from affiliates and joint ventures / minority investor expense • GAAP pension and post retirement benefit charges • Capitalized internal labor, straight line rent, etc. – replace with cash costs • Release of reserves (bad debt)
Pro forma adjustments	<ul style="list-style-type: none"> • Acquisitions and / or dispositions completed in the review period • Stand-alone costs and carve-out issues • Recent transactions with cost savings opportunities, changes in key contracts, etc. • Synergies resulting from proposed transactions

Quality of Earnings Analysis Overview (3 of 3)

There are various definitions of EBITDA depending upon the audience and purpose.

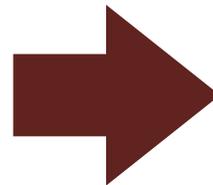


Debt-Like Items Overview (1 of 2)

The debt-like items assessment helps to highlight potential reductions to enterprise value and cash flows

PwC's Assessment of Debt-like Items

- Attempt to measure the value of future non-operating cash flow
- Schedule out the reported debt at the most recent balance sheet date
- Provide timing of future cash commitments over future periods



Client's use of Debt-like Items for Acquisitions

- Source of negotiation points with the Seller
- Consider debt-like concepts in the definition of "Indebtedness" in the purchase agreement
- Highlight additional cash flows that impact client's model

Debt-Like Items Overview (2 of 2)

Common types of Debt-Like considerations include the following:

Type	Example
Adjustments to reported debt	<ul style="list-style-type: none">• Prepayment penalties• Accrued interest• Discounts on issued debt• Capital lease obligations• Trapped cash / foreign cash
Obligations to pay cash with no additional benefit to the Company	<ul style="list-style-type: none">• Litigation, environmental claims• Target's transaction related costs and fees• Contingent consideration from previous acquisitions• Deferred compensation• Restructuring liabilities
Obligations that may not result in cash outflows during client's investment horizon	<ul style="list-style-type: none">• Unfunded pension, post-retirement and self-insured liabilities• Contingent liabilities (e.g., tax exposures)• Deferred revenues
Commitments and Contingencies	<ul style="list-style-type: none">• Operating lease obligations• Employment / consulting / supply agreements (e.g., change-in-control provisions)• Minimum purchase agreement• Letters of credit

Net Working Capital Overview (1 of 2)

If less than a normal level of working capital is delivered upon close of a transaction, additional cash may be required from the buyer to finance operations

PwC's Assessment of Working Capital

- Summarize historic working capital fluctuations / patterns / seasonality
- Identify min / max / swing and periods when target may be under “cash crunch”
- Removes non-working capital balances contained in current assets and current liabilities (e.g., debt-like items)
- Identifies benchmark working capital levels



Client's use of Working Capital

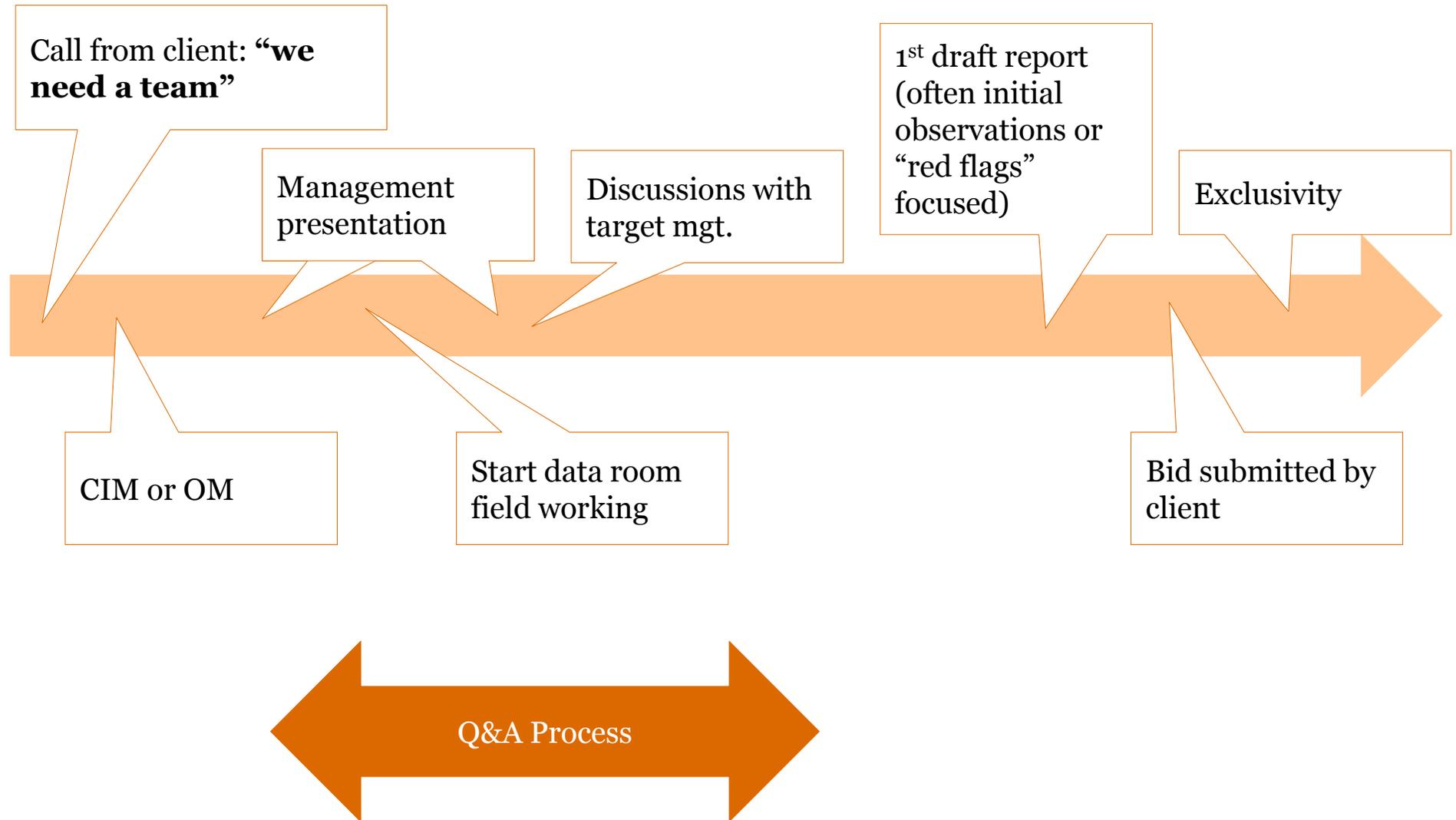
- Establish a “peg” amount and other concepts in the purchase agreement working capital mechanism
- Establish the revolver and other temporary financing needs of the business
- Gain an understanding of when additional line of credit borrowings might be required

Net Working Capital Overview (2 of 2)

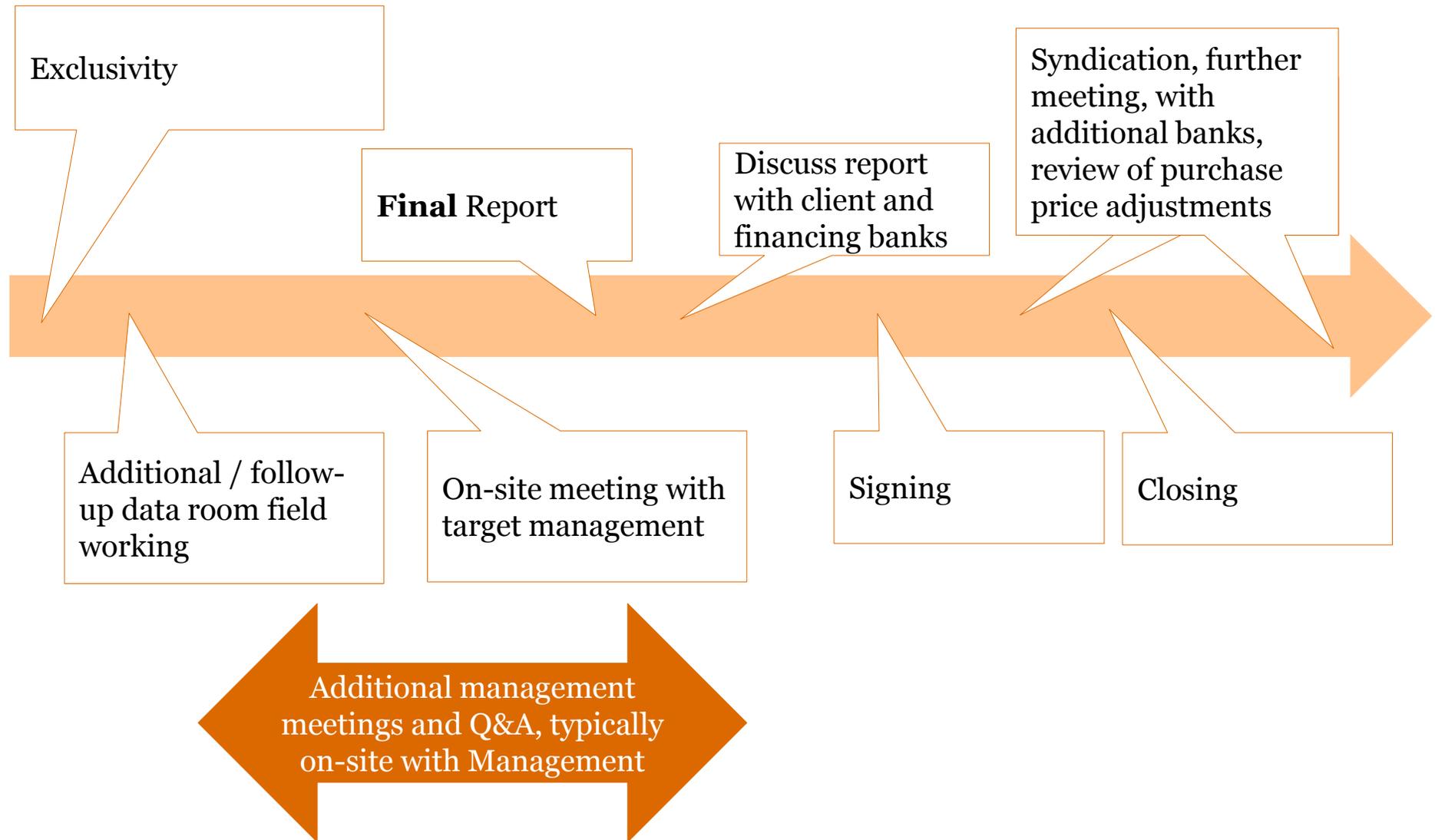
The buyer and seller have competing objectives with respect to establishing the NWC “target”

Buyer	Seller
<ul style="list-style-type: none">• Maintain or possibly reduce purchase price• Most concerned with getting normal or appropriate level of working capital• GAAP generally more advantageous than consistency• Bias: Target as high as possible, based on GAAP	<ul style="list-style-type: none">• Maintain or possibly increase purchase price• Most concerned with no downward purchase price surprises• Consistency generally more advantageous than GAAP• Bias: Target as low as possible, based on consistent accounting policies

Buy-Side Diligence –Phase I pre-exclusivity



Buy-Side Diligence –Phase I post-exclusivity



Appendix

PwC Deals Practice – Boston Office

The PwC Deals team in Boston is the second largest in the PwC network, behind only New York Metro, consisting of 28 partners and a total staff of 173. It is also the largest of the major accounting firms in Boston.

Services

- Financial
- Capital Markets & Accounting Advisory
- M&A tax
- Valuation
- Commercial / strategy
- IT and Operational
- Regulatory Compliance
- Risk Management
- Divestiture Services

Goals

- Execute effective and integrated due diligence to identify issues and opportunities and maximize deal value.
- Equip clients with added insight to negotiate Sale and Purchase Agreements.
- Develop day-one readiness and near term actions needed to start adding value to target companies.

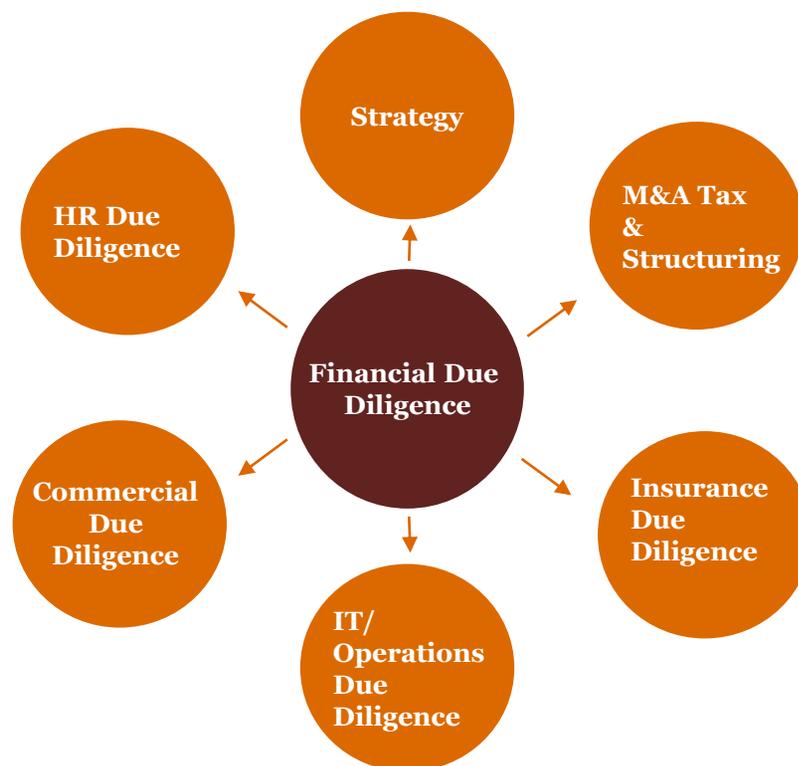
Staff level	Financial	Cap markets & accounting	Tax	Valuation	HR	M&A Advisory	Total
<i>Partner</i>	9	5	5	3	1	5	28
<i>Director</i>	8	5	4	2	2	8	29
<i>Manager</i>	10	7	2	6	1	16	42
<i>Senior Associates</i>	15	11	9	14	2	23	74
Total	42	28	20	25	6	52	173

Financial Due Diligence Overview

What is Financial Due Diligence?

What do we do?

- Help corporate and private equity clients navigate transactions, both acquisitions and divestitures, to increase value and returns.
- Assist on a range of transactions from small and mid-sized deals to the most complex transactions, including domestic and cross-border acquisitions, divestitures and spin-offs, capital events such as IPOs and debt offerings, and bankruptcies and other business reorganizations.
- Allow our clients to expedite deals, reduce risks, and capture and deliver value to stakeholders, while quickly returning to business as usual.
- Reduce risk by identifying issues early.



PwC approach to Due Diligence

Our approach to due diligence is collaborative to keep clients informed of real-time issues, issue-focused to remain efficient, and flexible to adapt to the transaction-specific circumstances at hand.

While every transaction is unique, a typical due diligence engagement involves:

- Review of data room materials and compilation of a supplemental request list;
- On-site diligence team with management to interview and collect information;
- Reading audit work papers and holding discussions with the audit team;
- Reading and analyzing key source data, including audited financial statements, confidential information memorandum, significant contracts, management reporting packages, trial balance detail, revenue, cost and price-volume detail, balance sheet detail, reserve roll-forwards, debt documents and cash flow statements, among others;
- Reviewing employee census data and trends, labor contracts, etc.;
- Analysis of key drivers as defined by management or client, key contract wins and related projections;
- Analysis of the quality of earnings and assessment of management's proposed adjustments to reported EBITDA;
- Identification of debt-like items and off-balance sheet commitments, including potential tax exposures;
- Analysis of historical net working capital trends and recommendations for establishing the "peg" for the Sale and Purchase Agreement working capital mechanism; and
- Reading and commenting on the Sale and Purchase Agreement.

Why do our clients use PwC for Financial Due Diligence? (1 of 2)

What is the objective of financial due diligence for our clients?

- Ensure financial information is as accurate as possible
 - Quality of information available is critical for a buyer to ensure the deal delivers what is implied
 - From a sell-side perspective, help ensure that financial information presented to potential buyers by management is as transparent as possible
- Identify and focus attention on business factors critical to the target company's future success
- Ensure governance and risk management objectives are met

Why do diligence?

- Sellers will present the Company in the best possible way to increase value.
- Often acquisitions are valued as a multiple of EBITDA. Management may adjust EBITDA presented to buyers to exclude certain expenses or may reverse accruals (increase to EBITDA) in anticipation of a sale.
- Diligence is designed to uncover unusual trends and non-core transactions to arrive at “normalized” or “run-rate” EBITDA. Such items are often removed from EBITDA by buyers and may reduce purchase price.
- Diligence procedures help to identify significant issues, risks and opportunities, such as:
 - Concentration of revenue, margins and earnings in certain geographies, customers, product lines, etc.
 - Purchase supply agreements with parent or other related parties
 - Change of control issues

Why do our clients use PwC for Financial Due Diligence? (2 of 2)

Why do Diligence? (continued)

- Diligence procedures help to identify significant issues, risks and opportunities, such as (continued):
 - Non-operating income (e.g., reserve reversals, pension “income”, earn-outs)
 - Reliance on certain suppliers or customers
 - Potential synergies and/or carve out issues
 - Sarbanes-Oxley considerations
 - Debt-like items, future cash requirements and working capital requirements
- Audits are generally balance sheet focused while diligence focuses more on earnings and cash flow.
- Certain adjustments (i.e., accrual releases, non-core transactions) may be acceptable for an audit, but may inflate earnings and the purchase price.
- Interim internal financial information (specifically for private companies) may not include significant year-end audit adjustments and may make monthly trends misleading.
- The sellers usually present buyers with projections. These projections may be aggressive and not consistent with historical results and trends (i.e. the “hockey stick” trend).
- Diligence helps bridge historical results with projected forecasted results.

Sell-Side Diligence - What is sell-side diligence and what does PwC do on sell-side diligence engagements?

Sell-Side Diligence - What is sell-side due diligence?

- Independent, objective and neutral financial due diligence commissioned by the seller
- Objective is to advise seller throughout the divestiture process (early involvement is essential)
- Areas of focus
 - Assist management with collation of robust financial information
 - Assess and advise on potential issues that a buyer may raise
 - Provide process support
- Product is not defined – can result in a full due diligence report, a financial fact book in Excel, or Excel documents to be populated in a data room
- Well established mechanism to facilitate the divestment process (cooperation with banks and other advisors)

Sell-Side Diligence benefits all parties and adds value to the transaction

Advantages for clients

- Reduces value erosion and optimizes negotiating position
- Keep control of the process
- Objective and independent view to balance Offering Memorandum
- Balanced findings - upsides and downsides, maximizes client's value on exit
- Shortens timeline of divestiture
- Factual accuracy is resolved before issuance of Offering Memorandum
- Maintain confidentiality of information



Advantages for the business

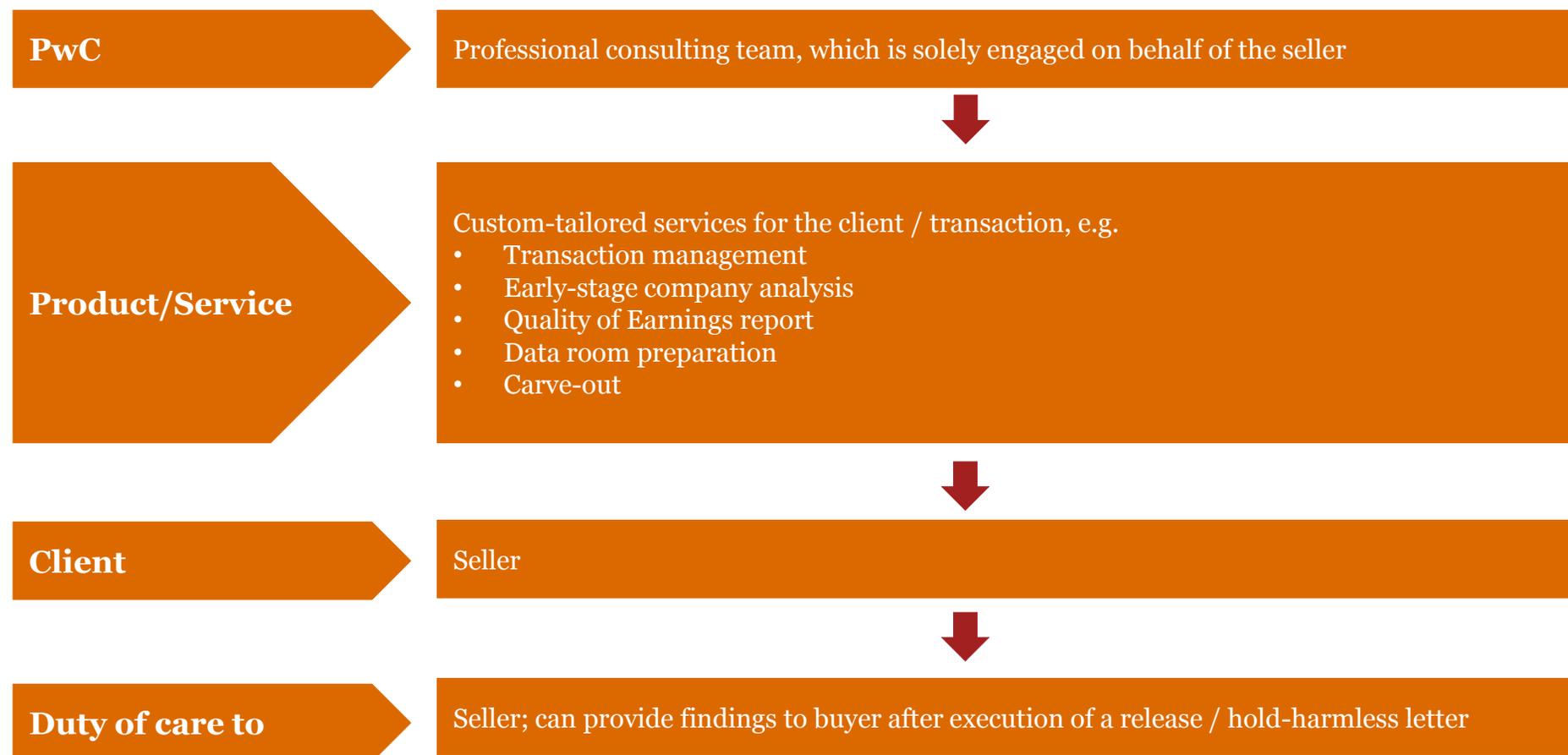
- Minimizes disruption – only need to discuss things once
- Management is well prepared
- All parties talk about numbers that management understands
- No surprises – early identification of issues allows management to develop responses
- Allows management early ownership of the process

Advantages for acquirers

- Confidence in basis for offers – underpins financing
- Saves time, cost and aggravation
- Better use of time in exclusivity phase
- Can discuss the business with specialists
- Better product based on full access and confirmed facts
- Limits broken deals due to surprises (also limits investment by advisors)

Sell-Side Diligence Breakdown

Sell-side Due Diligence



Sell-Side Due Diligence – What We Do (1 of 2)

Apply buyer’s perspective to identify value drivers and potential deal issues prior to the buyer due diligence

- We prepare detailed analyses of Quality of Earnings, Risks and Opportunities to the Forecast, and Normalized Working Capital on a consolidated, legal entity, and product line basis, as applicable.

Prepare Clients for buyer due diligence process – strategically and organizationally

- We leverage our knowledge of the business to help prepare clients’ “go to market” strategy.
- Provide coaching in what data potential buyers will request and what internal schedules would be acceptable to address these asks.

Advise and Assist management and investment bank with preparation of the offering memorandum and management presentation

- As we compile requested documents for the data room, the information needed for the offering memorandum will also be compiled.

Advise and Assist in assessing information to be included in the data room and improving data integrity and consistency

- Advise and assist with accumulating data and reconciling schedules to help ensure potential buyers understand how the data holds together (speeds the process as updating files and researching reconciliation issues does not occur during the buyer diligence process).

Sell-Side Due Diligence – What We Do (2 of 2)

Advise and Assist in responding to buyer questions throughout their diligence process to help ensure continuity and reduce management distractions

- Leverage our knowledge obtained during diligence in order to take the preliminary pass at addressing potential buyer questions and have the Client team review versus having to spend time drafting responses already known to us. This helps free up management to run the business and focus on more substantial aspects of the process.

Advise on transaction structure, vital sales agreements and negotiation issues

- Assist in identifying negotiating positions on items such as working capital targets. This helps ensure positions are fully understood and vetted to increase the likelihood of achieving an advantageous result in negotiations.

Advise and Assist management in its organization and review of relevant materials to be included in the data room

- Develop a tailored data room index covering financial, tax, and employee benefits.

Common Misconceptions about Sell-Side Due Diligence

Divestiture Services are duplicative in nature with Investment Banking

- Compliments banking services. We work collaboratively with management and the banking team to help verify and support the key value propositions outlined.

Divestiture Services is only needed for a carve-out

- Sale of an entire business also includes complexities which may reduce deal value.

Divestiture Services are not needed if there is an audit

- Audited financials do not reflect the true “deal financials” upon which buyers will base valuation.

A “Quality of Earnings” report alone will satisfy buyer diligence and streamline the process

- A Quality of Earnings report is helpful, however, there are many other things buyers look at during diligence. Being a prepared seller is critical.

Divestiture assistance is “One size fits all”, expensive, burdensome and slows down the process

- Can be scaled from a brief (and economical) assessment of “Are we ready for the divestiture process and diligence?” to a full end-to-end solution. It minimizes surprises and value erosion throughout the process.

Measurable Client Benefits from Sell-Side Due Diligence

Sell-side due diligence assists clients in the following ways:

- Facilitate a speedy and efficient divestiture process with reduced disruption to the business;
- Obtain an understanding of the issues to avoid surprises during buyer due diligence and negotiations;
- Prepare a thorough and effective data room; and
- Save significant time, gain efficiency, and increase transaction value.

Sell-side due diligence helps clients reduce:

- Distractions during the divestiture process, which may negatively impact ongoing operations and the ultimate selling price;
- Delays in the selling process, which may lead to reduced transaction value and negotiating leverage; and
- Negative surprises from buyer due diligence which may be used as leverage to reduce price.

Sell-side due diligence helps clients obtain:

- Higher overall sales price because revenue and EBITDA are proactively defended from discounting;
- A more supportable business plan as key assumptions are identified and more strongly supported;
- Better preparation for meetings with prospective buyers, allowing management to tell a more convincing and robust story; and
- Stronger evidence in the data room to support key management assumptions and assertions, which may also reduce the data requests / questioning for management, saving management time.

Team Bios

Seth Nicholson
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Seth is a Boston based director in PricewaterhouseCoopers Transaction Services group specializing in acquisition and divestiture services. He has over 13 years of experience, including over eight years in the Transaction Services group, and has significant experience in providing technical accounting and business advice to both private equity and corporate entities focusing on financial due diligence, transaction structuring, and post-deal integration services.

Seth has broad M&A experience in a variety of industries including industrial products, healthcare, technology, and consumer products, with transaction sizes ranging from \$10 million to \$5 billion. Seth also has experience with cross-border transactions, purchase price mechanisms, and carve-out issues in a deal environment.

Seth graduated from Bentley University with a B.S. in Accounting and is a Certified Public Accountant in the state of Massachusetts.



Brian Carroll *Partner* **Financial Due Diligence**

Brian is a Partner in PwC's M&A group in Boston. After starting his career in the audit practice, for the past 16 years Brian has specialized in providing acquisition and divestiture advisory services to corporate and private equity clients. Brian has been involved in numerous transactions ranging in size from \$10 million to over \$30 billion, spanning a range of diverse industries including manufacturing, industrial products, aerospace & defense, healthcare, retail, services and technology.

Brian has worked in the PwC Boston and New York City offices. He spent two years serving as the Chief-of-Staff to PwC's Vice-Chairman responsible for its East region markets.

Brian received a B.S. degree from Babson College, is a Certified Public Accountant and a member of the AICPA and Massachusetts Society of CPAs.

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