Post-deal quick scan

Financial review to identify risks following an acquisition

Post-deal challenges in today's uncertain world

Responsibility
Acquirers may have to accept responsibility for any misconduct that occurred prior to acquisition.

Toxic acquisitions
Key decision-makers in acquisition processes may incur personal liability if they breach their fiduciary duties or are negligent in taking important action.

Market volatility
Economic fluctuation and the unpredictability of financial markets may pose challenges for forecasting returns and keeping the acquired assets stable in the post-deal period.

High frequency of corporate wrongdoing*
46% of organisations said that they had experienced some sort of fraud or other economic crime in 2022.

Balancing opportunity and risk
The appeal of smaller businesses often comes with higher risks, as their limited resources may mean that they are unaware of relevant regulations and fail to comply with them.

US Justice Department Safe Harbor Policy**
If investors discover potential fraud and do not voluntarily disclose it to the DOJ within 6 months following the acquisition, they will be held liable for non-compliance.

* PwC's Global Economic Crime and Fraud Survey, 2022. ** Office of Public Affairs, US Department of Justice, 2023.

Private equity companies are confronted with challenges that usually extend beyond the transaction phase. In the post-deal phase, access to extended financial data means that it is common for fraud to be discovered that could not be identified during due diligence. This underscores the need for rigorous oversight, and highlights the importance of adopting an effective post-deal strategy (e.g. reviewing financial data) for long-term success.

Conducting a post-deal quick scan enables the acquirer to address potential issues at an early stage, as well as getting detailed insights

Financial losses

Failure to uncover fraud and financial irregularities may result in direct financial losses due to misappropriation of assets, embezzlement or financial mismanagement.

Erosion of asset value

Undetected fraud may lead to the depletion of an acquired company's assets, reducing the overall value of the acquisition.

Reputational damage

Fraud discovered within an acquired entity can tarnish the reputation of the acquirer, potentially leading to a loss of trust and credibility.

Potential legal consequences

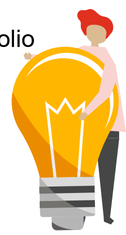
Ignoring or overlooking fraud may expose the acquiring company to legal liability, lawsuits and regulatory action, with associated legal costs and potential fines.

Strong integration

Good integration can boost operational efficiency and create synergies, cost savings and strategic cohesion in your portfolio, increasing your overall competitiveness and resilience.

Robust ERP systems

Assessing ERP system robustness in your portfolio ensures stability and efficiency, boosting overall operational effectiveness and competitiveness.



Effective processes

Understanding portfolio company processes improves resource allocation and strategic decisions, enhancing overall competitiveness.

Productive sales

Examining a portfolio company's sales strengths and weaknesses offers valuable insights for refining strategies, optimising resource allocation and boosting profitability.

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How do we use our forensic analytics platform to look for evidence of fraud?

Assessing the extended data of a recent acquisition often presents a challenge: it's usually complex, and there's a lot of it. **Understanding the content can be difficult, making it easy to overlook crucial details related to fraud and other economic crime.**

At PwC, we can analyse **large volumes of complex data** thanks to data visualisation tools and ready-to-use analyses. Our capabilities in data analysis enable us to **identify anomalies and potential red flags associated with fraudulent behaviour**.

Our approach to data processing allows us **to safeguard any investment** in a target company by providing you with a comprehensive understanding of the data ecosystem, identifying irregularities and providing information to **mitigate risks** associated with any fraudulent activities uncovered.

Data processing is crucial for getting a **clear understanding of the risks associated with your acquired company.**

Data processing cycle

Initial assessment

We start by reviewing the **characteristics and the business model of the target company** in order to identify common red flags warning of financial interference.

Collect

We then request disclosure of all the **necessary documentation and data** from the acquired company, such as:

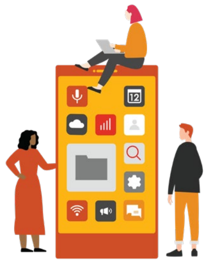
- Balance sheet
- Profit and loss statement
- SAP data extracts

Process

Next, we **scan the acquired company's portfolio data** and structure the data provided. We then import it into our **forensic analysis platform,** allowing us to **identify discrepancies and irregularities.**

Analyse

We now analyse the data and, if applicable, **request supporting documentation for any discrepancies** identified (e.g. fictitious receivables, assets and revenues). We examine **liquidity positions**, review **pre-deal asset shifts** and assess any potential **exposure to financial sanctions**. Our scan also includes identifying **unusual expenses** (e.g. repeated consulting costs).



Share

Finally, we **share our findings with you.** If any irregularities have come to light, we can then provide **support with determining the facts** and drawing up an appropriate **remediation plan.**

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In depth: data analysis

During the analysis phase, we **scan the financial data of the acquired company**. We conduct thorough research to identify irregularities and evidence of typical fraud patterns.

For example, we check for fictitious receivables, assets and revenues. We also examine liquidity positions, review pre-deal asset shifts and assess any potential exposure to financial sanctions. Our scan also includes identifying unusual expenses (e.g. repeated consulting costs).

The results are compiled into an independent report, summarising any issues identified.

As the acquiring company, this will enable you to move forward with confidence, **ensuring successful development of your newly acquired company and advocating responsible corporate behaviour.**

Example areas for analysis to uncover typical fraud patterns

Balance sheet – assets

Current assets
- Assets written off in connection with expense accounts
- Aging structure of receivables
- Booking pattern with receivables accounts in credit

Fixed assets
- Increases in IP/analysis of contra accounts
- Assets written off in connection with expense accounts
- Unusual posting patterns on bank accounts
- Development of cash equivalents and their age structure

Balance sheet – liabilities

Current liabilities
- Breakdown of vendors/business partners in critical countries
- One-time and fake creditors (incl. CpD accounts)
- Discrepancies regarding bank countries/payees/IBANs
- Duplicate bank details
- Age structure of liabilities

Profit and loss – revenue

Sales
- Breakdown of sales volume by customer country
- Sales postings that are not booked against receivables
- Users with unusually high sales postings
- Outlier sales postings
- Analysis using Benford's Law

Profit and loss – operating expenses

Material expenditure
- Top 10 consulting vendors
- Repeated posting of similar amounts
- Analysis using Benford's Law

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Dashboard

Our interactive dashboard offers both standardised and flexible pathways to walk you through the extracted data, helping you to gain an overview of the business and identify potential risks.

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