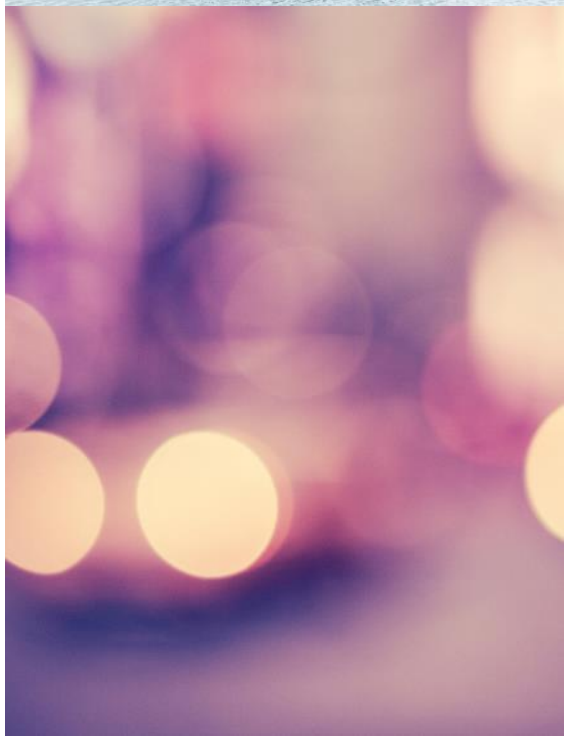


Preparation for Due Diligence

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2. Preparation for Due Diligence

🧭 Areas to Investigate (Part 1)

- Due diligence is a complex process that needs time, money and specialized resources.
- To use these resources efficiently, buyers first ask a few key questions.

❓ Strategic Pre-Check Questions

- Does the target align with our M&A strategy and long-term business goals?
- Is the target worth investing due diligence resources into at this stage?
- Which areas pose the highest risk or uncertainty for deal value?
- Do we have the right team, timeline and methodology for a thorough review?
- Can we access all required data, documents and key decision-makers?

🏭 Tailoring Due Diligence by Sector

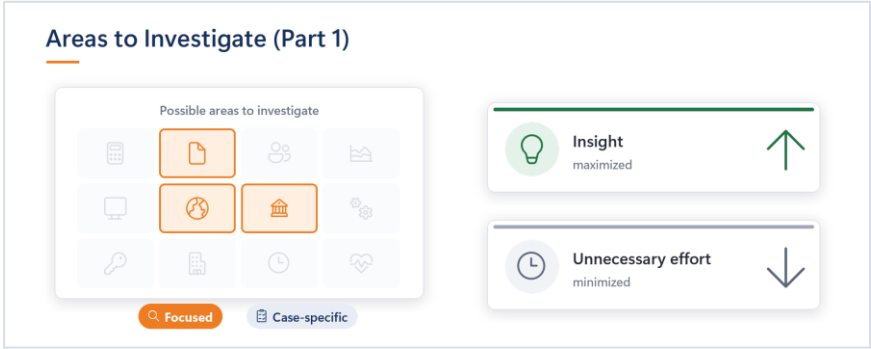
- Each industry's unique risk factors should guide the scope of investigation.
- Pharmaceuticals: R&D pipeline, IP rights, clinical trial stages, regulatory status.
- Recycling or waste management: operational efficiency, environmental compliance, technology used.
- Fintech: data security, licensing, user growth and platform stability.

📈 Tailoring Due Diligence by Company Stage

- Early-stage: product viability, market traction and founder capability.
- Growth-stage: scalability, unit economics and systems readiness.
- Distressed: short-term liquidity, restructuring potential and debt serviceability.
- A focused, case-specific approach maximizes insight and minimizes unnecessary effort.
- Planning the areas to investigate is as critical as the investigation itself.







2. Preparation for Due Diligence (Part 2)

🧭 Areas to Investigate (Part 2)

- The scope of due diligence depends heavily on the buyer's strategic goal.
- Each common M&A strategy has its own due diligence focus areas.

🤝 1. Horizontal M&A

- Acquiring a competitor in the same industry.
- Goal: higher market share and lower costs through economies of scale.
- Assess combined post-deal market share and check for antitrust concerns.
- Evaluate operational overlaps, employee roles and redundancy risk.
- Review the target's human capital, sales force and organizational culture.

📦 2. Product or Business Portfolio Expansion

- Aims to diversify or strengthen product lines or business offerings.
- Analyze the target's product performance and customer segments in depth.
- Identify product-level synergies and cross-selling opportunities.
- Plan the integration of production, logistics and HR functions.

🌍 3. Geographic Expansion

- Acquiring a company in a new country or region.
- Investigate local market dynamics, consumer behavior and regulatory environments.
- Commercial due diligence includes competitive benchmarking in the foreign market.
- Evaluate supply chains, local talent pools and management capabilities.

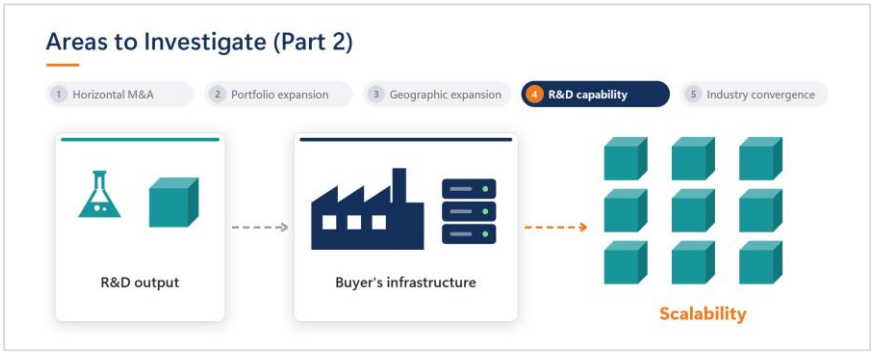
🔬 4. R&D Capability Acquisition

- Buying strong R&D assets to enter new industries or enhance innovation.
- Review technology readiness, IP rights and ongoing development pipelines.
- Identify key technical personnel and set up retention strategies.
- Evaluate how R&D output scales through the buyer's infrastructure.

🔗 5. Industry Convergence

- Targets companies in new or converging industries, such as AI in healthcare.
- Perform extensive technical and commercial feasibility studies.
- Validate the value proposition, technology edge and market entry timing.
- Develop a talent retention and knowledge transfer plan early.
- In all strategies, aligning scope with strategic goals reduces post-deal surprises.







2. Preparation for Due Diligence (Part 3)

📏 Determining the Level of Due Diligence

- Scope and depth should reflect the deal's nature and complexity.
- A one-size-fits-all approach does not work in M&A.
- Buyers calibrate their investigation based on key deal factors.

🎚️ Key Factors Affecting Due Diligence Depth

- Deal size: larger deals justify deeper, more resource-intensive due diligence.
- Deal complexity: multi-entity structures, joint ventures or regulatory hurdles need broader review.
- Industry sensitivity: healthcare, defense, fintech and energy demand heightened scrutiny.
- Financial health: a distressed target needs checks on cash flow, liabilities, off-balance-sheet risks.
- Technology exposure: IP-heavy companies need IP audits, cybersecurity and IT system reviews.

⏱️ Limiting Factors in Competitive or Time-Constrained Deals

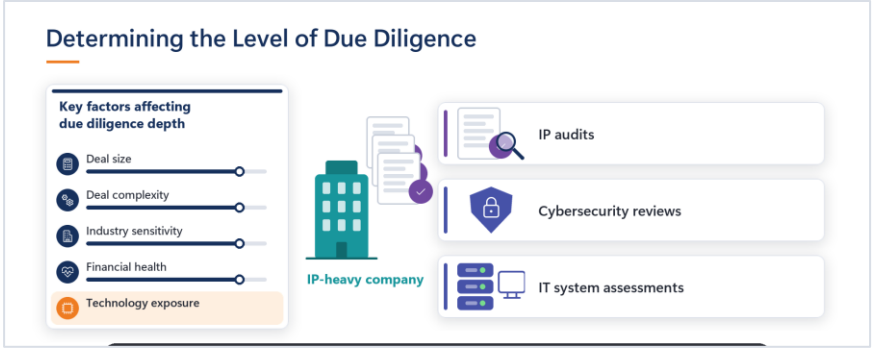
- In public auctions or hot markets, time is limited and data access may be restricted.
- Competing bidders can submit offers while you are still conducting diligence.
- Strict deadlines force buyers to prioritize critical issues over full coverage.

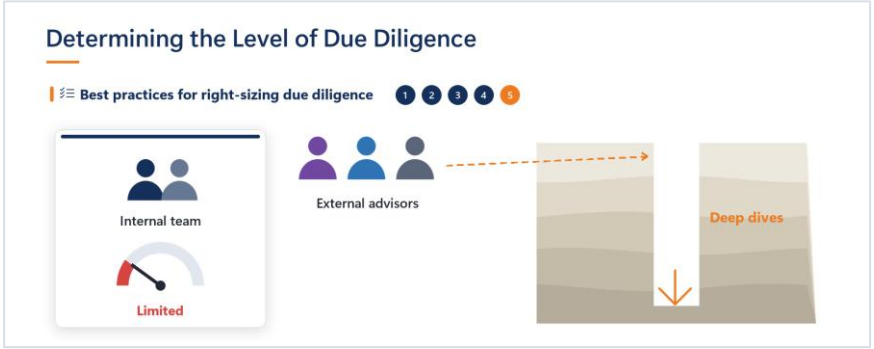
✅ Best Practices for Right-Sizing Due Diligence

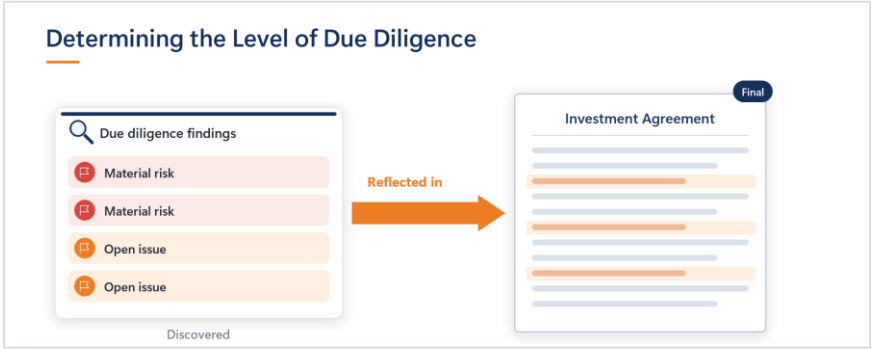
- Tiered approach: focus first on deal breakers such as legal, financial, operational red flags.
- Use a prioritized checklist to investigate high-impact areas early.
- With tight deadlines, use time-boxed reviews and put effort on high-risk areas.
- Involve cross-functional experts for legal, tax, HR, tech and ESG coverage.
- Use external advisors for deep dives when internal resources are limited.

📄 From Findings to the Investment Agreement

- Material risks and open issues belong in the final investment agreement.
- Use specific clauses: warranties, indemnities or post-closing obligations.







2. Preparation for Due Diligence (Part 4)

🎬 Case Study: Disney's Investigation of Marvel

- In 2009, Disney announced its acquisition of Marvel Entertainment for $4 billion.
- The goal: acquire Marvel's library of over 5,000 characters.
- Disney aimed to capture the young male demographic.
- The IP would be leveraged across Disney's global ecosystem.
- This objective dictated the focus of the investigation.

🔍 Intellectual Property (IP) Audit

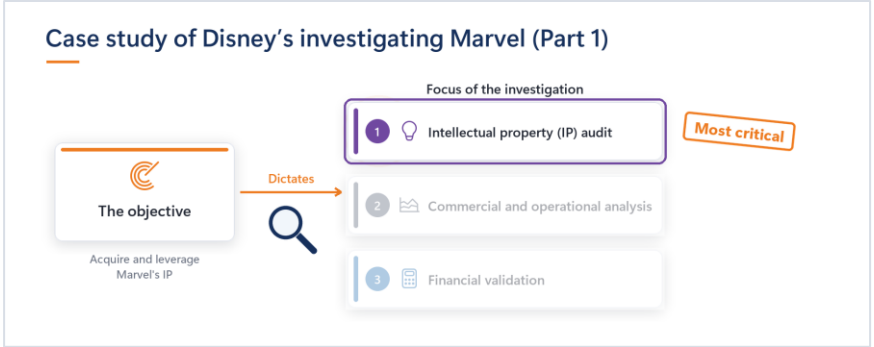
- The IP audit was the most critical area of the investigation.
- Disney's legal team conducted a deep audit of Marvel's IP portfolio.
- They verified the ownership and status of every major character.
- Some rights were already licensed: Spider-Man to Sony, the X-Men to Fox.
- This shaped the valuation and the limits on a unified cinematic universe.

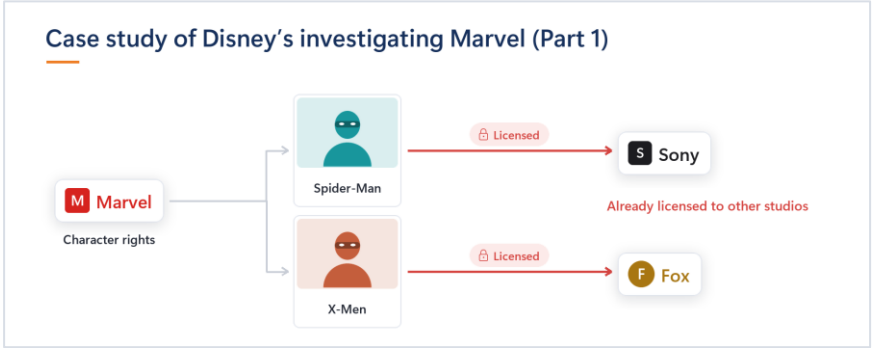
📈 Commercial and Operational Analysis

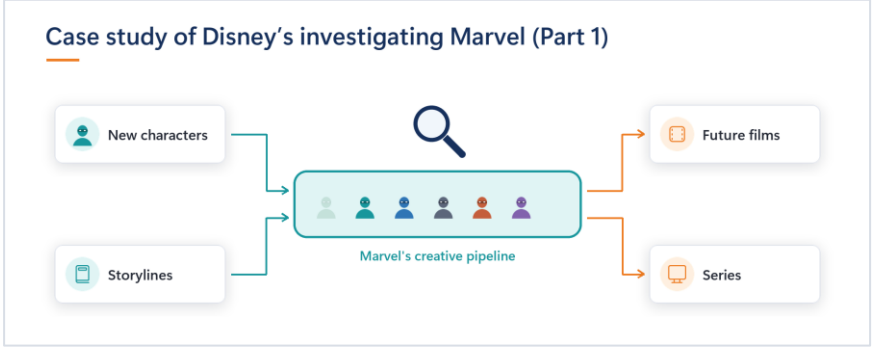
- The analysis focused on the value and potential of the IP.
- Revenue streams reviewed: comics, merchandise and film royalties.
- Global popularity and brand strength of Iron Man and Captain America were assessed.
- Marvel's creative pipeline for new characters, films and series was evaluated.

💰 Financial Validation

- Financial validation underpinned the entire deal.
- Financial experts validated Marvel's historical earnings by business segment.
- Detailed models projected future cash flows based on planned synergies.
- Forecasts included new revenue from theme parks, consumer products and a Disney-led film slate.







2. Preparation for Due Diligence (Part 5)

🎤 Case Study: Interviewing Marvel's Key Executives

- Interviews validated the assumptions made during the document review.
- Disney's team needed to interview Marvel's key executives.
- Questions aimed to uncover insights that data rooms alone could not provide.

⚙️ Questions for the Operations & Creative Teams

- These questions aimed to understand the engine of value creation.
- Walk us through your creative development process.
- Who are the key decision-makers, like Kevin Feige, essential to Marvel's success?
- Which franchises are underdeveloped, and what is their commercial potential?
- What are the biggest operational risks to the production schedule and character pipeline?

⚖️ Questions for the Legal Team

- These focused on constraints and risks around the core IP assets.
- Provide a complete schedule of all third-party licensing agreements.
- What are the exact restrictions on characters licensed to Sony and Fox?
- Are there ongoing or threatened disputes over character ownership or creator rights?

🤝 Questions for the HR and Management Teams

- These were critical for talent retention and cultural integration.
- Which creative and business leaders must be retained to ensure continuity?
- What is the unique Marvel culture, and what are the risks of integrating it with Disney?
- Have any key leaders expressed opposition to the acquisition?

