PLATINUM GROUP

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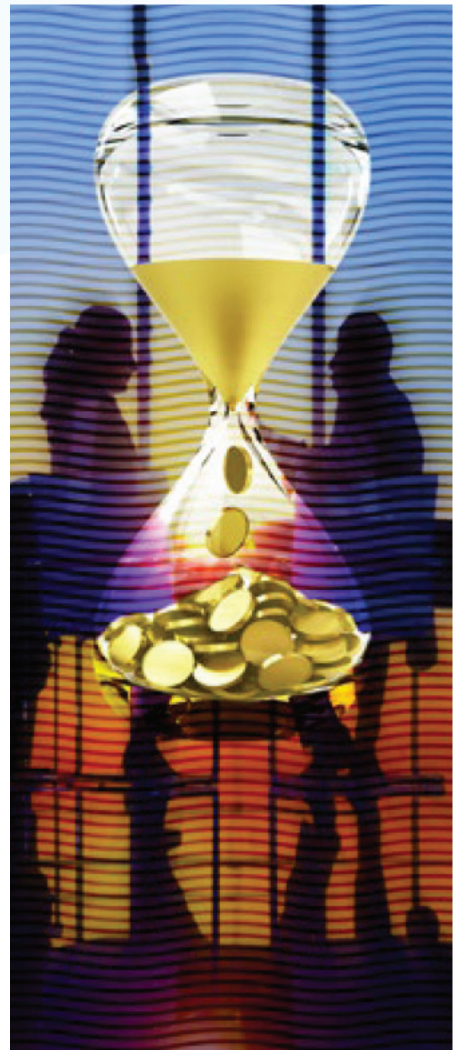
CASE STUDY

Profitable Company Needed Fast Advisory Help for Acquisition Due Diligence

How Platinum partnered with manufacturer to make "go/no-go decision" under significant time constraint



SITUATION

A successful manufacturer with worldwide industrial customers buying its specialized processing equipment was considering a potential acquisition that, on paper, looked like a strategic fit. The opportunity presented itself when it learned that a company in the same general industry had filed for bankruptcy and was going to be sold in three weeks in a Section 363 Sale (where there is already an opening and approved, but not final, bid). The target company was well established, international, enjoyed a good reputation, and derived significant revenue from change and wear parts. Importantly, there was no customer overlap and the target company's products, while sharing technical over-lap, competed in a different segment.

Platinum was invited to bring its due-diligence and advisory experience to bear on an expedited timetable and to provide a big picture, neutral perspective to a purchase and pricing decision.

CHALLENGES

- A "go/no-go" recommendation — with cash flow projections, breakeven analysis, and liquidation estimates — was needed quickly due to the impending sale of the target company.
- The manufacturer wanted to avoid the "all-hands-on-deck" disruption that would be caused if it put its own management team on the case.

RESPONSE

Two Platinum strategists analyzed financial information in the bankruptcy "data room." They conducted a two-day site visit to verify the data, inspect facilities and manufacturing process, and interview management. Information reviewed: bankruptcy documents; historic financial statements and schedules; the company's sales, customer history, and backlog; and accounting, manufacturing and technology systems. Key issues addressed based on available data: (1) target company worth; (2) successful bid price, plus amount of new investment that might be required to cover known matters and a cash flow deficiency forecast; (3) likelihood of significant negative surprises; (4) liquidation cushion; and, (5) capability of current management and staff to lead the required changes.

RESULTS – Within this time frame, Platinum's review of the situation and report included key financials to address the above issues. In a meeting with the manufacturer's president, who had separately spent one day on a site visit, Platinum made the case for a "no go" decision. It concluded that the manufacturer would have to commit double a prospective bid price to cover the target company's deficiencies and would unlikely see the operating margins it enjoyed in its own business. The president agreed. For a modest fee, Platinum's experience was accessed to help with an important management decision with no interruption to its own operations.

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