



Application scenario: Due diligence engagement using DatabookPro

Scenario:

You are the engagement Partner for a new financial due diligence engagement with a local Private Equity firm.

Your client wants to act quickly and is requesting that a financial due diligence is conducted over a tight three week period, with a “red flag” report due in three days, and a fulsome diligence report due two weeks thereafter.

Your client also wishes to receive the databooks that support your conclusions, containing all your financial analysis and each of the schedules, charts, and bridges contained in your Reports.

Deliverables

Based on your previous experience and the scope of work, you expect that the red flag report will comprise eight pages, the accompanying databook 12 tabs.

You also expect the full due diligence report to be forty (40) pages long, with its accompanying databook comprising approximately sixty (60) tabs.

Target information available

Target Management have supplied two pieces of financial information;

- **Trial Balance**, setting out the Target’s statement of financial performance (Profit & Loss) and financial position (Balance Sheet),
- A list of **Management Adjustments** to both EBITDA and NWC, and;
- A “**Sales Cube**” of detailed sales, volume and price data, for the last three years.

Deliverables	Estimated size of work product
Red flag report <i>Due in three days</i>	8 pages
Accompanying databook <i>Due in three days</i>	12 tabs
Due diligence report <i>Due in two weeks</i>	40 pages
Accompanying databook <i>Due in two weeks</i>	60 tabs

Red flag report

You instruct your team to create a summarised red flag report in the format set out in the adjacent table. Armed with DatabookPro’s automation technology, your staff get started with the engagement.

- Import financial data:** Firstly, your staff import the Trial Balance, Management Adjustments and the Sales Cube into DatabookPro.
- Conduct initial trial balance analysis:** Using DatabookPro’s user interface and the imported Trial Balance data, your staff are able to immediately produce hundreds of tables, schedules, bridges, and charts, both on a Reported and Management Adjusted basis, for the purposes of conducting detailed analysis.
- Conduct initial sales analysis:** Further, using DatabookPro and the imported Sales data your staff are able to immediately prepare sales, volume, and price schedules for each of the product categories, regions, countries, currencies, and SKUs.

Red flag report	
Contents	Pages
Front page	1 page
Summary of findings <ul style="list-style-type: none">- Adjusted EBITDA table- Adjusted EBITDA bridge- Lead P&L- Lead Balance Sheet- Lead Net Working Capital- Net debt and debt-like items- Sales analysis (Sales, Volume & Price)	6 pages
Back page	1 page

This quick data manipulation allows your team to start their due diligence immediately on day one, rather than waiting for the outsourcing office to prepare the databook manually over the course of a number of days.

- Generate report:** Once preliminary due diligence findings are developed by your team, your team is able to select key schedules, charts, and bridges for the purpose of preparing the initial Red Flag report template. These schedules are immediately and automatically reflected on a Management Adjusted (recast) basis, at the click of a button. A short eight page red flag report template is generated by DatabookPro in a matter of seconds, containing each of the key schedules, charts, graphs, and bridges selected.
- Generate accompanying databook:** Using DatabookPro, your staff are able to automatically generate the databook that accompanies your report, with identical schedules, charts, and graphs. This enables your client to dig deeper into the report information provided. This accompanying databook is also produced by DatabookPro in a matter of seconds.

Due to DatabookPro saving you considerable time in data manipulation, you are able to get your client your Red Flag report within the three day timeframe.



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Due diligence report

After delivering the Red Flag Report to the client, your team moves onto conducting the core due diligence work in the engagement, including the preparation of a due diligence report and the accompanying databook. Both of the products are due in two weeks time.

- Application of Diligence Adjustments:** As a part of your engagement, your client has asked you to identify potential Due Diligence Adjustments, and for you to adjust historical financial information using these adjustments (both adjustments to EBITDA and to NWC).

After identifying these adjustments, your staff are able to immediately and automatically push these adjustments through each of the schedules, tables, charts, and bridges using DatabookPro's functionality. These adjustments and the resulting adjusted figures are shown within the DatabookPro user interface.
- Generate Recast Figures for analysis:** Once these adjustments have been applied in DatabookPro, your staff are able to automatically produce an updated databook for the purposes of analysis, which contains recast financial information taking into account each of the adjustments.

Each of the key schedules contain reconciliations back to Reported figures, enabling your staff to check the adjusted figures and to have confidence in the accuracy of their analysis.
- Generate Report template:** Using DatabookPro, your staff are able to prepare a report template of approximately 50 pages, containing a *Quality of earnings*, *Quality of net assets*, and *Quality of cash flow* section. The report is generated automatically at the click of a button, and contains over 100 schedules and their accompanying charts, along with a numbered index, section breaks, and a front cover, all in your firm's design theme. Your team uses this report template for the drafting of the Due Diligence Report.
- Generate accompanying Databook:** Using DatabookPro, your staff are able to automatically generate a Databook that contains the exact same schedules, tables, charts, and bridges as was included in the Report template. This allows your client to "dig deeper" into the analysis contained in your Report.

By using DatabookPro, your staff were able to **completely eliminate the use of an outsourcing office** in the initial analysis and preparation of the databook, recasting of financial information, and in the preparation of the report template.

This saved approximately 42-82 hours of total labour time, 8-16 hours of which was local, and 36-72 hours of which was outsourcing labour, representing bottom line labour saving of between \$1,500 and \$3,000 for the engagement. Based on a \$100k fee and 67% initial gross margin, this represented approximately 1.5-3.0% of gross margin uplift.

More information regarding the saved time and cost is set out on the following page.

Due diligence report	
Contents	Pages
Front page	1 page
Summary of findings <ul style="list-style-type: none">Key findings	6 pages
Quality of earnings <ul style="list-style-type: none">Adjusted EBITDA tableAdjusted EBITDA bridgeLead P&LRevenue (3)Cost of sales (2)Operating expenses (2)Other income & expense (2)Sales analysisVolume analysisPrice analysis	15 pages
Quality of net assets <ul style="list-style-type: none">Lead Balance SheetCurrent assets (2)Non-current / Fixed assets (2)Current liabilities (2)Non-current liabilities (2)Net debt / debt-like items (2)	11 pages
Quality of cash flow <ul style="list-style-type: none">Adjusted NWC (2)Lead Net Working CapitalAdjusted NWC metricsSeasonality analysisOperating cash flow (2)	7 pages
Back page	1 page

~44-88

Estimated average hours saved per engagement

~\$2,250

Estimated average savings per engagement

1.5-3.0%

Estimated engagement gross margin uplift

~13-25%

Estimated reduction in labour hours per engagement



Example workflow after switching to DatabookPro

