

STARTUPS

DUE DILIGENCE & COVID-19

Impact of Covid'19

Across all industries and sectors, businesses are experiencing the effects of **COVID-19** on their day-to-day operations. With prolonged stay-at-home orders in place and mounting travel restrictions, many employees now find themselves working from home and adjusting to their new normal. While it is not yet clear the total **impact** the pandemic will have on business operations, companies are beginning to understand the effects of COVID-19 on various functions and workstreams. This is especially true of the M&A landscape, where **deal timelines** have been pushed and key risks are shifting. As a result, the way that companies must now approach a **prospective deal** is changing.

Being aware of the **risks** involved in any new deal and the procedures to mitigate them will assist in preventing further delays as companies navigate the challenges ahead. Here are a few key things companies should take into account when considering **transactions** during this uncertain time.

Due Diligence is Going Remote

Travel restrictions are preventing companies from conducting **onsite diligence**, which was traditionally used for diligence teams to have face-to-face conversations with management teams to better understand key aspects of the business and assess the capabilities of the team. As a result, **deal timelines** are lengthening. In this **unprecedented environment**, companies have no choice but to turn to remote diligence in order to move forward with the deal. Becoming more comfortable in a remote setting will lead to more **effective** diligence.

Challenges of Remote Due Diligence

The specific challenges to conducting due diligence in a mostly virtual environment generally relate to trust, credibility and the ability to verify information:

Inability to obtain original documents: Many companies are currently unable to ensure that their employees personally view key original documents.

Inability to conduct on-site visits: Travel restrictions are preventing companies from conducting onsite diligence, which was traditionally used for diligence teams to have face-to-face conversations with management teams to better understand key aspects of the business and assess the capabilities of the team.

Inability to meet in person: Even where long-distance travel is not required, in-person meetings of any type, including interviews and background or reference checks, cannot safely be conducted under current circumstances.

Risk of abuse by third parties: In addition to managing their usual workloads—not to mention troubleshooting home network outages, wrangling kids, and replenishing food stocks—compliance professionals must guard against efforts by unscrupulous customers or third parties to take advantage of the pandemic. In particular, some might dishonestly claim an inability to access identification papers, corporate documents, signed contracts, and other information—possibly in furtherance of a scheme to engage in bribery, fraud, or other misconduct, or to hide the proceeds of their illegal activities.

Response to the challenges

The organization may need to adopt in response to the challenges listed above:

Develop protocols for digital documents: If firms are unable to review certain original physical copies of documents, they will need a process to review secure and authentic digital versions.

Develop protocols for locally-staffed or digital site visits: While restrictions on international travel continue, companies planning site visits should consider whether local conditions may permit meetings to continue, either with local staff, or by partnering with a local, reputable provider of compliance or legal services. In some cases, video or telephonic meetings may be an adequate substitute.

Replace in-person meetings with virtual meeting:. In many cases, even local meetings may need to be conducted by phone or video call.

Prevent fraud and abuse: Some individuals or entities may attempt to manipulate new remote diligence protocols to enable fraud and abuse. Companies should be mindful of this risk and adopt appropriate mitigation measures.

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Change in **scope of diligence**

When conducting diligence during this period of uncertainty, active buyers and sellers should develop a scope that identifies key risks and allows for remote procedures. Scoping has always been an integral part of diligence to ensure risk areas are adequately addressed. In this time of uncertainty, companies must ask different questions to address the potential for increased risk in transactions, such as:

- How will the outbreak impact **customers** and their ability to pay invoices and product pricing?
- Do **customer** or **vendor contracts** have any performance obligations or future commitments?
- What changes to **current operations** have occurred (supply chain interruptions, business shutdowns, layoffs)?
- What other diligence **work streams** should be turned on in the **current environment** (supply chain, IT, insurance, human resources)?
- What are **additional** areas for **potential risk**?

After understanding the answers to these questions, a scope can be customized for the appropriate level of diligence. Once the scope has been finalized, a plan can be developed and tailored for a remote setting.



About Us

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Team Nucleus is comprised of people from Big4s and reputed consulting firms with combined experience of 30+ years.

Team is distinguished by their functional and technical expertise combined with their hands-on experience, thereby ensuring that our clients receive the most professional service.



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