

Acquisition Due Diligence Case: Large global industrial manufacturer diversifies its presence in the U.S. automotive industry

Acquisition Due Diligence

The Problem

Our Client provides several products directly to automotive OEMs and their network of tiered suppliers. From this platform, the acquisition of a manufacturer of a component of diesel engines used in certain truck classes was under evaluation. At the letter of intent stage, legal, environmental and accounting due diligence were undertaken internally and by third parties.

Although subject matter experts were consulted to assess the viability and compatibility of the acquisition candidate's technology and products, critical insight relating to Total Available Market and customer receptivity was lacking. In specific, the acquirer needed to validate quantitative and qualitative market analyses provided by the seller and other sources along with customer revenue projections.

The Solution

The initial phase of our acquisition due diligence program involved in-depth discussions with the acquirer to fully understand the value proposition that was presented to them by the seller. From this we learned that the acquisition candidate was claiming a cost advantage due to its operation of less expensive older equipment and geographic proximity to large OEMs and engine manufacturers.

A critical component of our analyses then became to identify the types of engines by manufacturer that could benefit from these capabilities. The research and analysis approach incorporated in-depth interviews with truck OEMs, diesel engine manufacturers and the acquisition candidate's direct competitors. Amongst others, the following issues were assessed in our due diligence initiatives.

Candidate / Market Issues	Results	Effect on Candidate Attractiveness
Current Equipment Capabilities	▪ Cost advantage validated for production runs under 80,000 units	Positive
	▪ Limits TAV in production runs over 80,000 in absence of significant CAPEX	Negative
	▪ OEM Consolidation of engine types across multiple lines creates higher runs of less engine types	Negative
Market Growth	▪ Mixed forecast by engine types ▪ OEM's planning gas-to-diesel conversion in some lines	Neutral Positive
Individual Customer Revenue Projections	▪ Some projections validated while others refuted ▪ Potential with specific prospective engine programs remained uncertain	Negative
Performance and Reputation of Candidate	▪ Candidate well respected especially for smaller runs	Very Positive
Competitor Response	▪ Most major competitors geared for higher runs and do not aggressively bid in candidate's space	Positive

Client Response

The acquisition candidate held a strong and fairly well protected position in its smaller production run niche. While validating many of the seller's claims, nxtMOVE's analysis also seriously challenged the validity of future volume projections with specific customers. As a result, nxtMOVE's client restructured its offer to incorporate an earn-out. The parties ultimately went on to explore joint venture opportunities.

