Purchasing a distressed business

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The COVID-19 pandemic and the consequences of the measures taken to counter it, brought about a dramatic change in the economic outlook. Many companies are looking to improve cash flow and considering their best options in response to immediate calls for liquidity. The sale of (non-core) assets, divisions or the entire business may be a viable path forward for some.

Today, those businesses that are distressed or struggling to survive provide opportunities for companies and investors in a better financial position. But what do such companies and investors need to consider when they are going to purchase an asset or business in today's market environment, specifically a distressed one?

Key points to consider when purchasing a distressed business

Before proceeding with an offer, distressed purchases must be thoroughly evaluated. Proper analysis and due diligence is paramount. Key topics are:

- Prepare an in-depth market analysis in order to assess the sustainability of the general market environment and expected future development
- Obtain a clear understanding of the reasons for the financial difficulties of the asset or business to be purchased and the improvement measures to be taken
- Be prepared to make quick entrepreneurial decisions with limited information
- Develop a clear idea of the future business case. Do not waste time with the past!
- Secure a financing structure with headroom for uncertainty (e.g. sufficient working capital)
- Develop a clear view on which assets, people and contracts you need (i.e. "cherry picking")
- Price in every risk. There are no representations and warranties!
- Ensure availability of experienced management team with respective turnaround management skills
- Engage experienced financial and legal advisors to navigate with speed through the complex deal

KPMG's Deal Advisory team can counsel you as an integrated team of specialists through the multiple options available to grow your business in today's markets.

How can we help? Our multidisciplinary service offering

M&A lead advisory and deal structuring	Due diligence and asset valuation considerations	Business and turnaround planning	Deal strategy and execution
• Provide assistance and coordination throughout the whole transaction process • Evaluate strategic options • Search for a fitting target • Provide support in deal structuring, including preparing structuring paper and drafting legal agreements • Prepare detailed planning of out-of-court asset deal or pre-packed in-court transaction structure • Support in communication with the seller and other stakeholders • Support in negotiations	• Assess key elements of the business, such as assets, employees, third-party contracts, supply chain and distributor network, and contingent liabilities and guarantees • Perform business and asset valuation considerations, including valuation of intangible assets to assess price offering as well as liquidation values (e.g. for property, plant and equipment, financial instruments or inventory)	• Draft an understanding of the company's current strategy and business model • Conduct a root-cause analysis of the current crisis • Develop turnaround strategy, target operating models and scenario-based financial modeling • Assess working capital, financing requirements and price to be paid to seller • Identify and negotiate support with key personnel, suppliers, distributors, landlords, etc. in order to secure business transition	• Develop and confirm deal strategy, synergies and operating model implications to maximize post-deal value delivery • Prepare to take control and ensure Day 1 readiness • Execute post-closing implementation plans, minimizing business disruptions, delivering quick-wins while integrating fast and effectively • Identify further value enhancement areas across the business and operating model

Your benefits

- ✓ Peace of mind that all your transaction needs are covered – no matter how complex the deal
- ✓ Assurance you are being supported by the right professionals for your transaction with a proven track record
- ✓ Confidence, thanks to our strict process management, so you are never in the dark as to what is going on

Find additional KPMG COVID-19 resources here
https://home.kpmg/ch/en/home/insights/2020/03/coronavirus-business-continuity-plan.html

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