



# Bridging Theory with Practice: Basics of Financial Due Diligence

*Lesson #1: FDD at a glance. Base financial data and reclassification*

**10 April 2025**

# Bridging Theory with Practice: Basics of Financial Due Diligence

## Full Program

**10<sup>th</sup> April 2025**

### **1.FDD at a glance. Base financial data and reclassification**

- *The deal continuum;*
- *The Financial Due Diligence*
- *Vendor vs Buy Side Due Diligence;*
- *Our clients;*
- *Integrity, validation and comprehension of financial data;*
- *Balance sheet and income statement reclassification;*
- *DD Report structure*
- *Groups formation for conducting a real FDD.*

**11<sup>th</sup> April 2025**

### **2. Balance sheet and net debt analysis**

- *Focus on balance sheet;*
- *Focus on working capital;*
- *Net Debt and adjusted net financial position;*
- *Case study.*

**8<sup>th</sup> May 2025**

### **3.Income statement and Cash flow**

- *Historical performance analysis;*
- *Volume/Price effect and other analysis;*
- *Quality of Earnings;*
- *Overview of cash flow;*
- *Case study.*

**22<sup>nd</sup> May 2025**

### **4. Project works presentation and final remarks**

# Main Lecturer



*Claudia Armenise*

*Claudia is a Director at Deloitte Financial Advisory - Transaction Support Group.*

*She has been working as an auditor at PwC (2007-2014), where she has been in charge of procedures regarding auditing of Italian GAAP, IFRS/IAS e US GAAP annual reports and SOX testing.*

*Since 2014 she is fully dedicated to transaction services. She developed professional experience in financial due diligence services (both sell-side and buy-side) across a wide range of industries (energy, public utilities, telecommunications, retail, luxury, defense, manufacturing, gaming) for major national and international investors and private equity firms.*

*Her clients are, amongst others, Enel Green Power, F2i, Fondo Italiano di Investimento, Capvest, HIG, Investindustrial, Telespazio, Cementir, Angel Group, Aspi, Toyota, Armonia, A2A, Sisal, Goldbet, Green Network, Vianini Group, Chiquita, Wind, Ferrovie dello Stato Italiane, Marguerite.*

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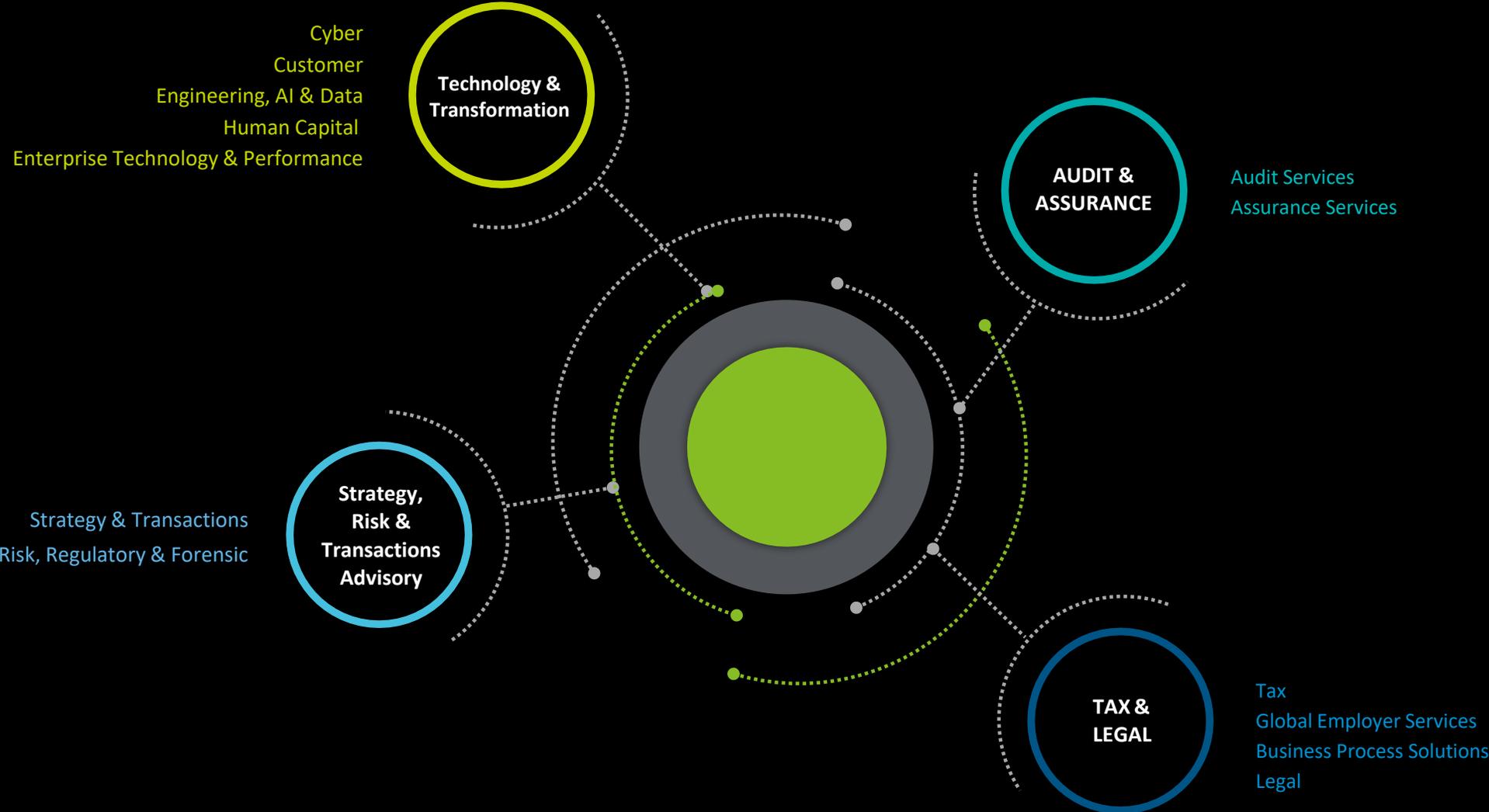
**Financial Due Diligence report structure**

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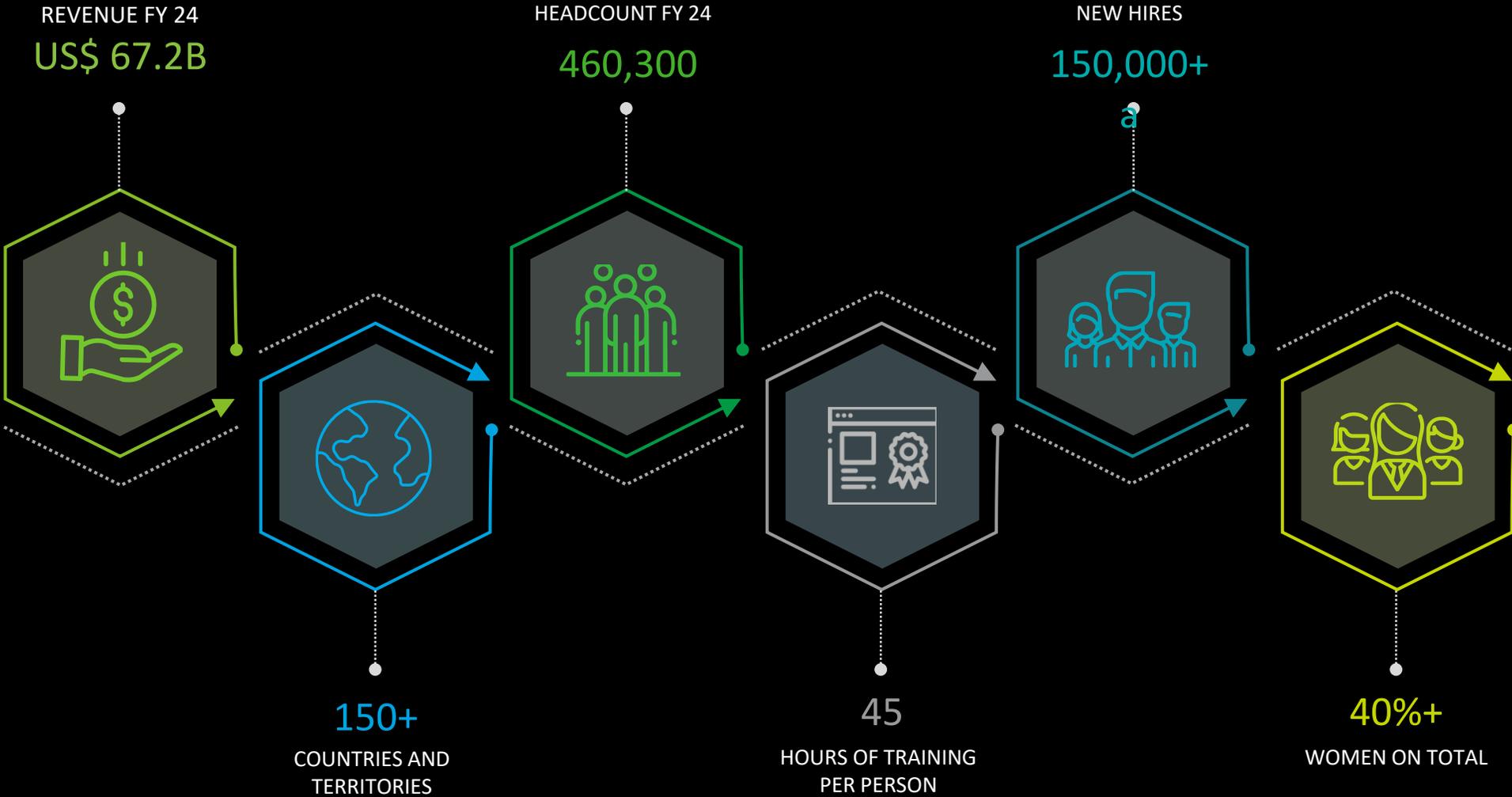
# Our organisation

**Deloitte worldwide**

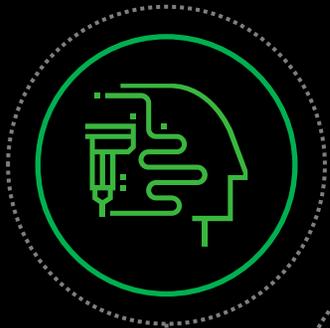
# Our service areas



# Our network in digits



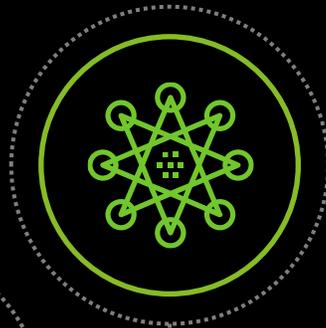
# Industries we serve



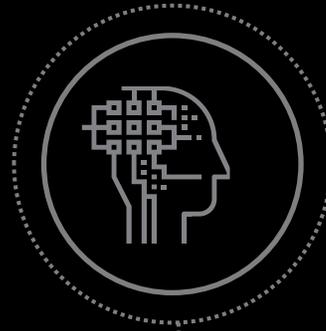
CONSUMER



FINANCIAL SERVICES



GOVERNMENT &  
PUBLIC SERVICES



TECHNOLOGY, MEDIA &  
TELECOMMUNICATIONS



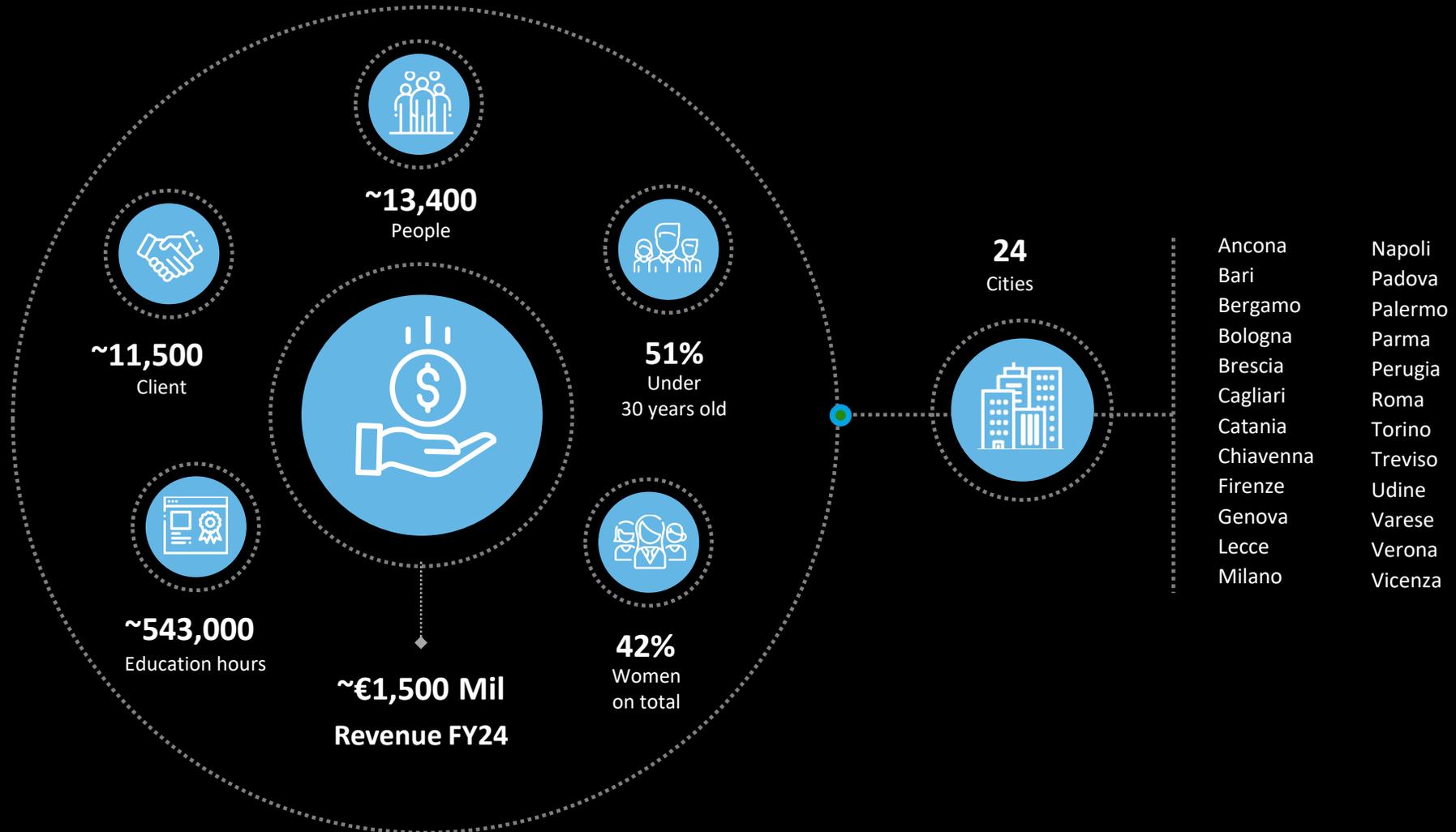
LIFE SCIENCES &  
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ENERGY, RESOURCES &  
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# Deloitte in Italy

# Our numbers



# The Deal continuum

# Buying a house...



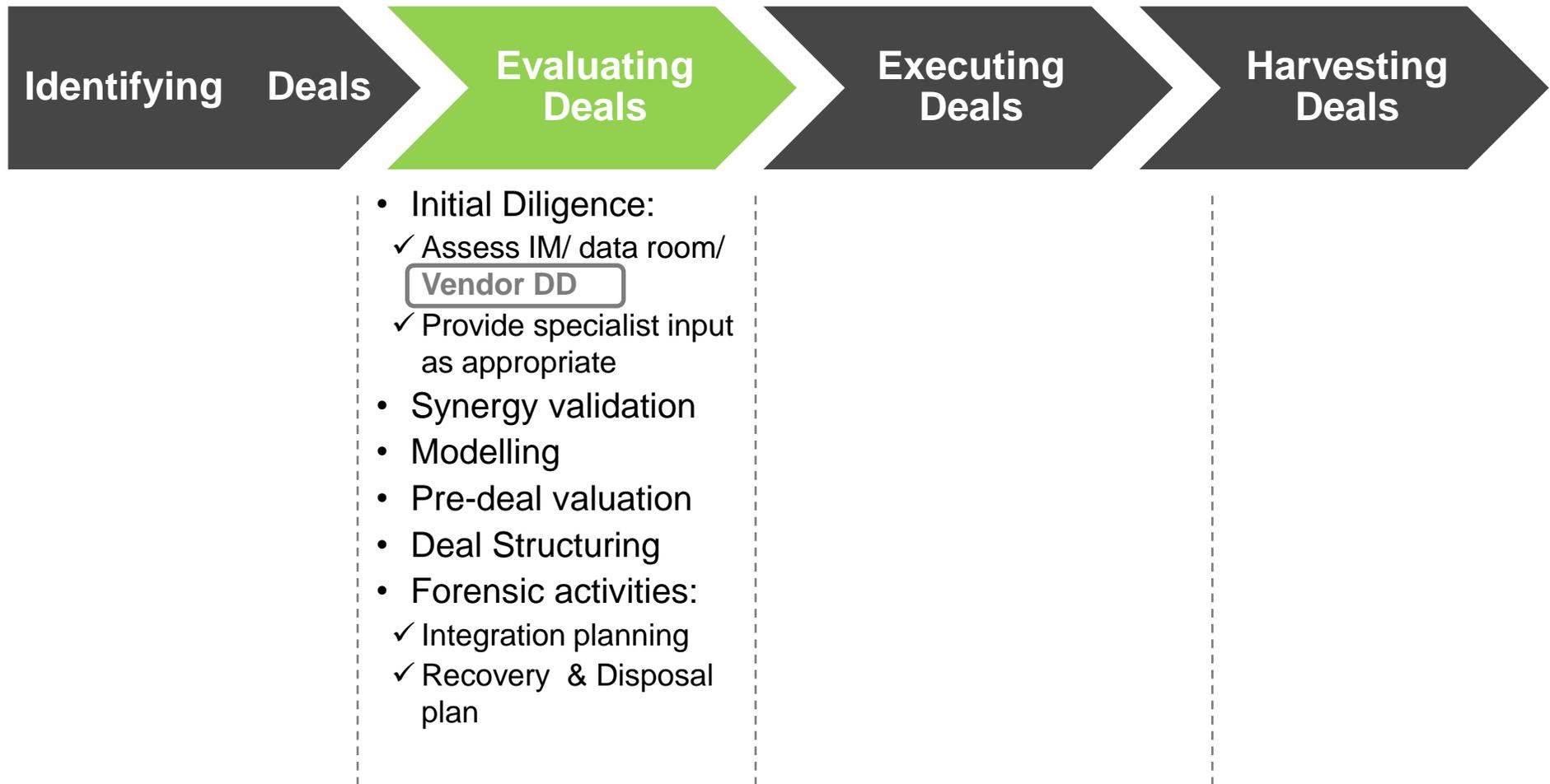
# Buying a business...



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# The Deal Continuum – Evaluating deals



# The Deal Continuum - Executing Deals



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# The Deal Continuum



# The Financial Due Diligence

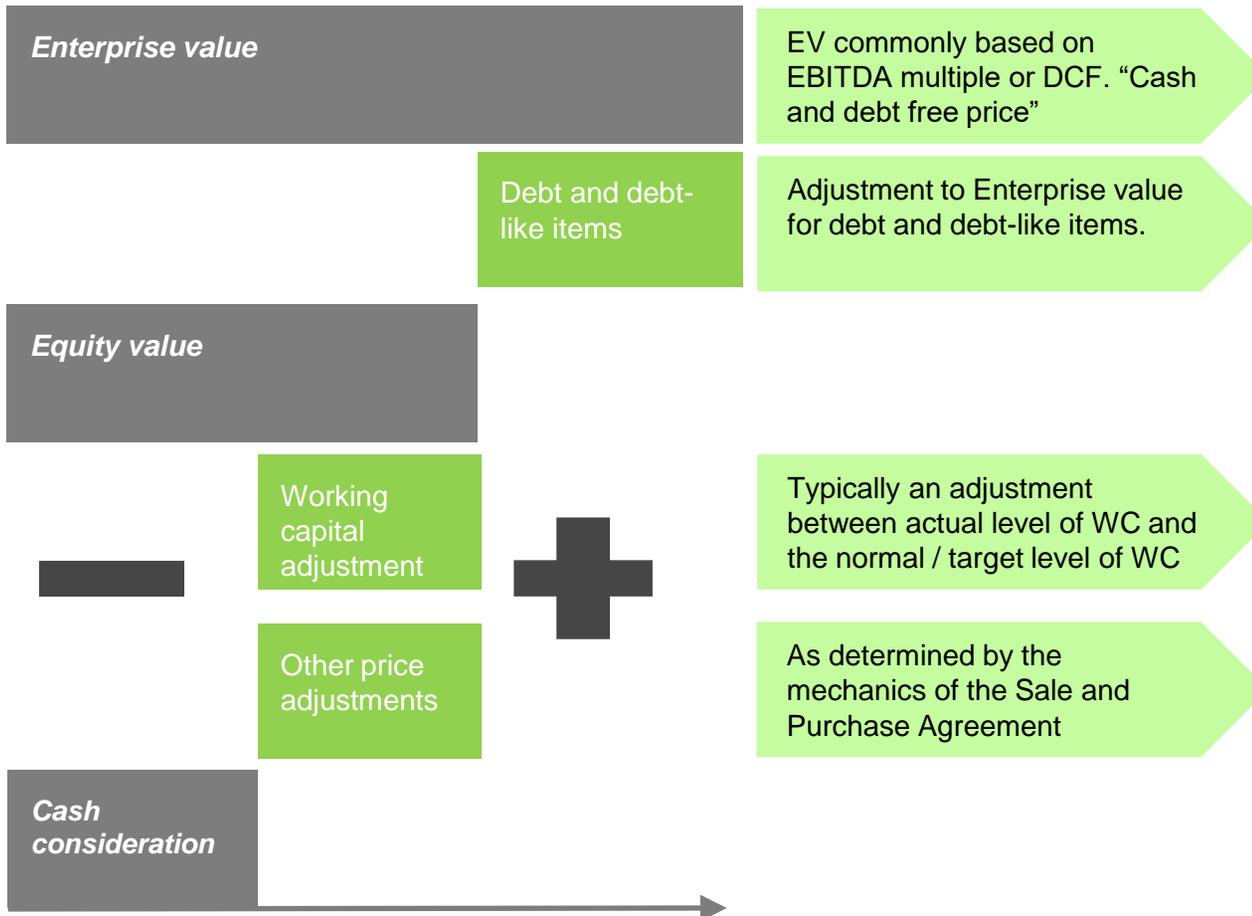
# What is a Financial Due Diligence?

- The financial due diligence is an analysis of financial information and management accounts of the target, for the purpose of a comprehensive valuation of the company.
- It is not an audit.
- The data analyzed are
  - ✓ ***Historical income statements***
  - ✓ ***Historical balance sheets***
  - ✓ ***Historical cash flows***
  - ✓ ***Budgets and business plans (Prospective Financial Information)***

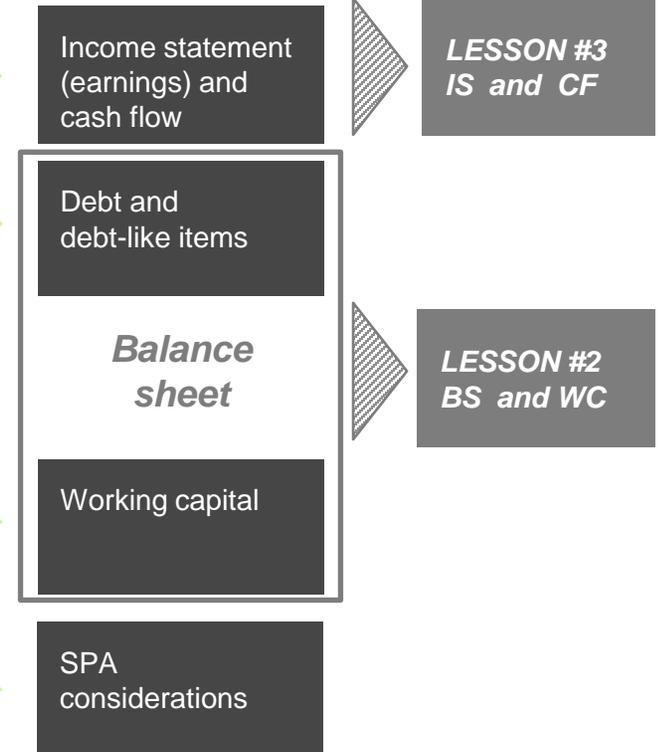
*All information is analyzed both from a past/present and future point of view, in order to normalize financial ratios and their impact on the company value.*

# What's our focus?

## Typical purchase price components



## Coverage in Due Diligence



# Vendor vs Buy-side/Acquisition Due Diligence

# Vendor due diligence

## What is it and what are the benefits?

**The aim of a FDD is, amongst other,**

Reduce asymmetry of financial information;

- Quality of information available is critical for a **buyer** to ensure the deal delivers what is implied
- **Vendors** need to present financial information to potential buyers as transparently as possible

### *What is it?*

- **Independent review** of the business.
- Report commissioned by the vendor, addressed to a purchaser, to anticipate its questions/requirements
- Integrated perspective covering all aspects of the business.
- No significant scope or access limitations.

### *Benefits to mgmt*

- Minimises disruption to the business and its management.
- Ability to address issues raised upfront.
- Allows ownership of the business plan by management.
- Speeds up the overall process.

### *Benefits to vendor*

- Identifies the value issues early (i.e. no surprises).
- Maintains control of any potential sales process.
- Identifies upsides and clearly articulates the value.

### *Benefits to purchaser*

- Comprehensive independent review of the business.
- Minimises 'additional' due diligence work.
- Saves time/cost/aggravation.

# Buy-side due diligence

## What is it and what are the benefits?

### *What is it?*

- Review of Vendor Due Diligence if available.
- Report commissioned by the purchaser.
- Investigation of potential VDD limitations.
- Limitation of access to Target management/information.

### *Benefits to buyer*

- Attempts to balance the initial information disadvantage against the vendor
- DD analysis are tailored on buyers nature (**corporate vs private equity**).

### *Benefits to management*

- Assist in the decision process by confirming the existence of any deal breakers or “black holes”
- Assist with the valuation (enhancing the understanding of the target business; identify and understand critical success factors; underlying reality of historical track record; sustainability of profit and cash; calculating normalised free cash flow; opinions on the target company’s current status and prospects; calculate key risks and sensitivities)

# Our clients

# Our Clients

## The Financial Buyer



Cash is king

## The Corporate Buyer

$$2 + 2 = 5$$

(in theory)

# Our Clients

Financial Buyers	Corporate Buyers
<ul style="list-style-type: none"><li>• Shorter term view (3 to 5 year return)</li><li>• Focus on cash and debt service</li><li>• Reliance on management team - buyer sits on Board of Directors, but not involved in day-to-day operations</li><li>• Less knowledge of the marketplace (not always!)</li><li>• Greater propensity to take risk, but calculated</li><li>• Deal specialist - more demanding</li></ul>	<ul style="list-style-type: none"><li>• Strategic focus</li><li>• Longer term plans</li><li>• More industry experience</li><li>• Enter new markets / increase market share</li><li>• Acquire technological know-how / intellectual property</li><li>• Complement existing business</li><li>• Diversify product or business portfolio</li><li>• Benefit from synergies</li></ul>

# Key Differences and the consultant's role

<b>Financial / PE Buyers</b>	<b>Corporate Buyers</b>
<ul style="list-style-type: none"><li>• Deal specialist</li><li>• Shorter term view</li><li>• Focus on cash and debt service</li><li>• Reliance on management</li><li>• Multiple clients / interests</li><li>• Devil in the detail</li><li>• Numbers</li></ul>	<ul style="list-style-type: none"><li>• Strategy focused</li><li>• Longer term view</li><li>• Focus on earnings</li><li>• Interest in fit and synergies</li><li>• Clearer cut client responsibility</li><li>• Freer wheeling</li><li>• Words</li></ul>
<b>The consultant's Role</b>	
<p>To help clients maximise the return on the deal through:</p> <ul style="list-style-type: none"><li>• Assessment of transaction structure; utilisation of alternative structures to maximise earnings</li><li>• Assessment of risks and opportunities; sustainability of historical earnings, working capital requirements, assessment of incumbent management</li><li>• Assessment of investment model; and quality of link between historical results and projections assumptions, appropriate application of sensitivities</li></ul>	<ul style="list-style-type: none"><li>• Assessment of organic value (through review of underlying EBITDA): Sustainability of historical earnings, identification of key risks</li><li>• Identification and quantification of synergies: Review of client's/ target's projected synergies and cost reductions, application of sensitivities and vulnerabilities</li></ul>

Integrity, validation, comprehension

# Integrity and comprehension of financial data (1/2)

- **Clients care about data**, so we have to be sure that numbers and information are **correct** before starting our analysis.
- We need to check data and in particular the key numbers (e.g. revenues, EBITDA, Net result, Equity) and verify if the same figures included in different documents are **internally consistent**.
- Hence it is important to follow the following steps (using excel and recalculating numbers where necessary):
  - ✓ Check that numbers are arithmetically correct;
  - ✓ Check total and subtotal of sources (i.e. documents provided by the Target);
  - ✓ Total assets = Total liabilities + Equity?
  - ✓ Net result within the IS = Net result within the Equity?
  - ✓ Check consistency between different documents (e.g. between total fixed assets in the balance statement and the detail/roll forward of fixed assets).
- We should analyse the business of the Target **in the same way that Management controls it** (e.g. business units, product lines, regional clusters, etc.).
- In this respect it is fundamental to verify in advance the availability and consistency of the base of financial data. Financial information have to be **available** and **allow meaningful historical analysis** to be performed.

# Integrity and comprehension of financial data (2/2)

- As an example common issues to be considered are:
  - ✓ Business reorganisation (e.g. Management account organized by product line rather than previous regional clusters);
  - ✓ Accounting IT infrastructure (e.g. recent new ERP implementation with limited access to previous reporting systems);
  - ✓ GAAP (e.g. transition to IFRS with historical data only available in local GAAP);
  - ✓ Accounting policies (e.g. the Target and Bidder may have different accounting policies).

The integrity of the base of financial data should also be tested through **a reconciliation between the different sources** (i.e. Audited financial statements, Trial balances, management accounts, Information Memorandum, Data Room, Vendor Due Diligence report).

## *Comprehension*

- Stand back and **bring out the essence** of what you are analysing:
  - ✓ be focused on the key issues;
  - ✓ leave the details only for backup;
  - ✓ link key drivers to the “So What”: it is not enough to just describe → if they are key drivers, they should be telling us something!

# Balance sheet reclassification

# The aim of BS reclassification

- Balance Sheet reclassification:
  - ✓ Means aggregating different captions/lines of the financial statement in order to **have a better understanding of the business**, compared to the statutory financial statement which is prepared according to local accounting rules;
  - ✓ Reduces financial statement lines for a lean and faster understanding of the **whole picture**;
  - ✓ Highlights ratios/margins, that can **better represent the business performances**, and can be comparable over the periods under analysis.

# Balance Sheet under IFRS

## B.3. Statement of Financial Position

<i>In Euro thousands</i>	<i>Note</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Property, plant & equipment	B.6.5.17	101,399	102,854
Goodwill	B.6.5.18	39,340	39,273
Other intangible assets	B.6.5.19	28,276	27,146
Rights-of-use as per IFRS 16	B.6.2.3.1	12,679	-
Investments in associates	B.6.5.20	770	1,396
Other assets	B.6.5.21	393	352
Deferred tax assets	B.6.5.28	19,925	18,339
<b>Total non-current assets</b>		<b>202,783</b>	<b>189,360</b>
Trade receivables	B.6.5.22	55,022	51,192
Inventories	B.6.5.23	72,890	76,196
Other assets	B.6.5.24	5,374	6,589
Tax assets	B.6.5.25	14,966	17,275
Assets for derivative financial instruments	B.6.5.33.3	498	513
Cash and cash equivalents	B.6.5.33.1	35,613	35,612
<b>Current assets</b>		<b>184,363</b>	<b>187,377</b>
<b>Assets of discontinued operations</b>		<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>387,146</b>	<b>376,736</b>
Liabilities for post-employment benefits	B.6.5.26	10,737	10,465
Provisions for risks and charges	B.6.5.27	12,377	10,647
Deferred tax liabilities	B.6.5.28	3,496	2,992
Finance leases and loans and borrowings from other lenders as per IFRS 16	B.6.2.3.1	8,233	-
Bank loans and borrowings	B.6.5.33.2	55,451	54,102
Other liabilities	B.6.5.29	-	64
Tax liabilities	B.6.5.29	-	53
Liabilities for derivative financial instruments	B.6.5.33.3	198	120
<b>Non-current liabilities</b>		<b>90,492</b>	<b>78,443</b>
Provisions for risks and charges	B.6.5.27	6,487	9,318
Finance leases and loans and borrowings from other lenders as per IFRS 16	B.6.2.3.1	3,525	-
Bank loans and borrowings	B.6.5.33.2	27,317	37,792
Trade payables	B.6.5.32	110,100	109,916
Other liabilities	B.6.5.30	15,749	14,503
Tax liabilities	B.6.5.31	7,775	10,844
Liabilities for derivative financial instruments	B.6.5.33.3	386	1,737
<b>Current liabilities</b>		<b>171,339</b>	<b>184,110</b>
<b>Liabilities directly related to discontinued operations</b>		<b>-</b>	<b>-</b>
Share capital	B.6.5.34.1	12,665	12,665
Capital reserves	B.6.5.34.2	71,123	71,123
Hedging and translation reserve	B.6.5.34.3	(11,759)	(15,096)
Actuarial reserve	B.6.5.26	(3,345)	(2,802)
Treasury shares	B.6.5.34.4	-	(3,551)
Retained earnings	B.6.5.34.5	39,395	41,535
Profit/(loss) attributable to the owners of the Parent		3,063	(961)
<b>Equity attributable to the owners of the Parent</b>		<b>111,142</b>	<b>102,913</b>
Capital and reserves attributable to non-controlling interests	B.6.5.35	9,857	7,995
Profit attributable to non-controlling interests		4,316	3,275
<b>Equity of non-controlling interests</b>		<b>14,173</b>	<b>11,270</b>
<b>Total equity</b>		<b>125,315</b>	<b>114,183</b>
<b>Total liabilities and equity</b>		<b>387,146</b>	<b>376,736</b>

# Reclassified Balance Sheet

Two alternative approaches can be used for the BS reclassification:

1. the “**Functional approach**”:

- Assets and liabilities are classified depending on their **destination and connection with operating activities**.
- Based on the core business of the Company, assets/liabilities can be divided into two main categories:
  - ✓ Operating assets/liabilities → Operating fixed assets + NWC = **Operating Capital Employed**
  - ✓ Non-operating assets/liabilities → Can be dismissed without prejudice for the core business of the company (e.g. real estate assets, non strategic participations, etc.) = **Non Operating Capital Employed**. The total capital employed can be financed by: (i) **Net Debt** ; (ii) **Equity**.

2. the “**Financial approach**”:

- Assets and liabilities are classified based on their level of liquidity/collectability, between:
  - ✓ **Current assets and liabilities** → are expected to be transformed into cash in / cash out flows respectively within a time period of one year;
  - ✓ **Non current assets and liabilities** → are expected to be transformed into cash in / cash out flows respectively in more than one year.
- This approach aims at answering the question: “Is the financial position balanced? Will the company be able to meet its obligations?”

# The Functional approach

## Balance sheet

€ in millions	Dec20 Act	Dec21 Act	Sep22 Act
Intangible assets	813,7	778,8	723,6
Tangible assets	630,1	636,6	589,6
Financial assets	12,9	20,7	23,2
<b>Operating Fixed assets</b>	<b>1.456,6</b>	<b>1.436,0</b>	<b>1.336,3</b>
Inventory	325,8	325,6	340,1
Trade receivables	231,3	225,6	212,9
Trade payables	(159,7)	(156,5)	(114,7)
<b>Trade working capital</b>	<b>397,3</b>	<b>394,7</b>	<b>438,3</b>
Other assets	182,7	48,5	55,4
Other liabilities	(204,5)	(136,9)	(154,2)
<b>Net Working Capital</b>	<b>375,6</b>	<b>306,3</b>	<b>339,5</b>
<b>Non operating assets/Liabilities:</b>			
DTA/DTL	(53,4)	(50,3)	(44,1)
Current tax (net)	11,3	(13,3)	(15,4)
Employee benefit liabilities	(199,2)	(173,4)	(174,5)
Provisions	(22,0)	(36,8)	(28,7)
Financial assets and deriva	n.a.	8,8	5,9
<b>Capital Employed</b>	<b>1.568,9</b>	<b>1.477,3</b>	<b>1.419,0</b>
Current debt	(560,4)	(1.224,8)	(1.419,2)
Non-current debt	(197,0)	0,0	(0,0)
Leasing liabilities and other	n.a.	(17,0)	(14,5)
Other financial payables and	n.a.	(55,3)	(44,4)
ST loans and advances	n.a.	187,8	126,5
Cash and cash equivalents	158,7	205,2	156,2
<b>Net debt</b>	<b>(598,8)</b>	<b>(904,2)</b>	<b>(1.195,3)</b>
<b>Net equity</b>	<b>(970)</b>	<b>(573)</b>	<b>(224)</b>
<b>Source of financing</b>	<b>(1.568,9)</b>	<b>(1.477,3)</b>	<b>(1.419,0)</b>
<b>KPIs</b>			
TWC / Net sales	22,6%	22,9%	25,5%
NWC / Net sales	21,3%	17,8%	19,7%
ND / EBITDA	-2,0x	-3,0x	-4,0x
ND / Equity	-0,6x	-1,5x	-5,1x

Source: VDR information

# The Financial approach

## Balance sheet

€ in millions	Dec20	Dec21	Sep22
	Act	Act	Act
Intangible assets	264,4	238,6	210,2
Goodwill	549,3	540,2	513,4
Property, plant and equipment	630,1	636,6	589,6
Other non-current assets	12,9	20,7	23,2
Deferred tax assets	9,8	7,9	19,8
Non-current income tax receivables	12,8	-	-
<b>Non-current assets</b>	<b>1.479,1</b>	<b>1.443,9</b>	<b>1.356,1</b>
Inventories	325,8	325,6	340,1
Trade receivables	231,3	225,6	212,9
Current tax receivables	20,7	3,3	1,6
Other rec., prepaid exp., acc	170,0	245,0	187,9
Cash and cash equivalents	158,7	205,2	156,2
<b>Current assets</b>	<b>906,3</b>	<b>1.004,8</b>	<b>898,7</b>
<b>Total assets</b>	<b>2.385,5</b>	<b>2.448,6</b>	<b>2.254,8</b>

€ in millions	Dec20	Dec21	Sep22
	Act	Act	Act
<b>Equity</b>	<b>970,2</b>	<b>573,1</b>	<b>223,7</b>
Deferred tax liabilities	63,1	58,1	63,9
Non-current provisions	19,6	26,6	21,3
Other non-current liabilities	7,0	17,0	14,5
Employee benefit liabilities	199,2	173,4	174,5
Non-current debt	197,0	(0,0)	0,0
<b>Liabilities &amp; provisions</b>	<b>486,0</b>	<b>275,1</b>	<b>274,2</b>
Trade payables	159,7	156,5	114,7
Current provisions	2,4	10,2	7,3
Other current liabilities	197,4	192,1	198,7
Current debt	560,4	1.224,8	1.419,2
Current tax payables	9,3	16,7	17,0
<b>Current liabilities &amp; deferred tax</b>	<b>929,3</b>	<b>1.600,4</b>	<b>1.756,9</b>
<b>Total liabilities and equity</b>	<b>2.385,5</b>	<b>2.448,6</b>	<b>2.254,8</b>

# Reclassified BS according to the Functional approach

Balance sheet items are classified as follows:

- Fixed assets
- Trade Working Capital
- Net Working Capital
- Provisions and Employees leaving indemnity
- Net debt
- Net equity

## Balance sheet

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<b>Net equity</b>	<b>(970)</b>	<b>(573)</b>	<b>(224)</b>
<b>Source of financing</b>	<b>(1.568,9)</b>	<b>(1.477,3)</b>	<b>(1.419,0)</b>

# Income statement reclassification

# The aim of IS reclassification

- Income Statement reclassification:
  - ✓ helps to identify how net result is generated, through intermediate results;
  - ✓ shows the contribution of every functional area (i.e. operating vs non operating results)
  - ✓ includes KPIs useful to understand and explain underlying IS trends.
- Income statement items are typically aggregated by category as follows:
  - ✓ **Operating income and expenses;**
  - ✓ **Non-operating income and expenses:**
    - Financial results;
    - Extraordinary results;
    - Tax results.

# Income Statement margins

- There are several approaches to reclassify the IS, primarily depending on the Company's business;
- Nevertheless, the following intermediate results/margins are the most common to be used:
  - ✓ Revenues, net → e.g. revenues net of returns and rebates;
  - ✓ First margin/ Contribution margin → revenues - variable costs (direct and indirect);
  - ✓ Industrial margin → revenues - COGS (i.e. costs directly referred to the production process: e.g. distribution and commercial costs are not included)
  - ✓ EBITDA → Earnings before interests, taxes, depreciations and amortizations;
  - ✓ EBIT → Earnings before interests and taxes
  - ✓ EBT → Earnings before taxes.

# Income statement under IFRS

## B.1. Consolidated Income Statement

<i>In Euro thousands</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
Revenue	B.6.5.1	479,986	472,387
Other operating income	B.6.5.2	3,110	2,991
Change in inventories finished/semi-finished products	B.6.5.4	(622)	184
Increase in internal work capitalised	B.6.5.3	3,528	3,687
Raw materials and consumables	B.6.5.4	(255,138)	(251,535)
Services	B.6.5.5	(84,717)	(83,333)
Personnel expense	B.6.5.6	(93,899)	(87,606)
Amortisation and depreciation	B.6.5.7	(25,415)	(20,202)
Other operating expenses and accruals	B.6.5.8	(8,489)	(26,957)
Restructuring charges	B.6.5.9	(1,292)	-
Impairment of Goodwill/Brands	B.6.5.36	-	(1,077)
<b>Operating profit</b>		<b>17,052</b>	<b>8,539</b>
Share of loss of associates	B.6.5.20	(617)	(6)
Financial income	B.6.5.10	387	968
Financial expense	B.6.5.11	(3,918)	(3,485)
Exchange rate gains/(losses)	B.6.5.12	(971)	(1,530)
<b>Profit before taxes</b>		<b>11,933</b>	<b>4,486</b>
Income taxes	B.6.5.13	(4,554)	(2,172)
<b>Profit from continuing operations</b>		<b>7,379</b>	<b>2,314</b>
<b>Profit from discontinued operations</b>		<b>-</b>	<b>-</b>
<b>Profit for the year</b>		<b>7,379</b>	<b>2,314</b>
of which:			
Attributable to non-controlling interests	B.6.5.14	4,316	3,275
Attributable to the owners of the Parent		3,063	(961)
<i>Basic earnings (loss) per share (Euro/cents)</i>	B.6.5.15	4.89	(1.55)
<i>Diluted earnings (loss) per share (Euro/cents)</i>		4.89	(1.55)

# Some examples (1/3) – Furniture production

## P&L

€000	as % of Revenues			YoY change					
	FY20	FY21	LTM-Jun22	FY21	LTM-Jun22				
Revenues	105.472	136.650	113.285	100,0%	100,0%	100,0%	29,6%	(17,1%)	
Internal capitalized costs	235	399	355	0,2%	0,3%	0,3%	69,9%	(11,0%)	
PV revenues	852	1.009	560	0,8%	0,7%	0,5%	18,5%	(44,5%)	
Other revenues	2.920	801	3.810	2,8%	0,6%	3,4%	(72,6%)	375,8%	
<b>Value of production</b>	<b>109.478</b>	<b>138.860</b>	<b>118.011</b>	<b>103,8%</b>	<b>101,6%</b>	<b>104,2%</b>	<b>26,8%</b>	<b>(15,0%)</b>	
Purchases	(60.985)	(85.846)	(67.866)	(57,8%)	(62,8%)	(59,9%)	40,8%	(20,9%)	
Change in inventory	(1.644)	6.648	12.802	(1,6%)	4,9%	11,3%	n.a.	92,6%	
COGS	(62.628)	(79.198)	(55.063)	(59,4%)	(58,0%)	(48,6%)	26,5%	(30,5%)	
Services	(16.639)	(21.929)	(24.085)	(15,8%)	(16,0%)	(21,3%)	31,8%	9,8%	
Personnel cost	(13.983)	(17.362)	(18.093)	(13,3%)	(12,7%)	(16,0%)	24,2%	4,2%	
External processing	(6.333)	(7.207)	(8.039)	(6,0%)	(5,3%)	(7,1%)	13,8%	11,5%	
Rent and leasing	(769)	(772)	(1.095)	(0,7%)	(0,6%)	(1,0%)	0,4%	41,8%	
<b>EBITDA</b>	<b>9.125</b>	<b>12.391</b>	<b>11.636</b>	<b>8,7%</b>	<b>9,1%</b>	<b>10,3%</b>	<b>35,8%</b>	<b>(6,1%)</b>	
Bad debt accrual	(404)	(153)	(118)	(0,4%)	(0,1%)	(0,1%)	(62,3%)	(22,4%)	
Receivables w rite-off	(8)	(58)	3	(0,0%)	(0,0%)	0,0%	616,2%	(106,0%)	
Fixed assets w rite-off	0	(788)	(628)	0,0%	(0,6%)	(0,6%)	n.a.	(20,3%)	
D&A	(2.681)	(3.054)	(2.933)	(2,5%)	(2,2%)	(2,6%)	13,9%	(4,0%)	
<b>EBIT</b>	<b>6.032</b>	<b>8.339</b>	<b>7.960</b>	<b>5,7%</b>	<b>6,1%</b>	<b>7,0%</b>	<b>38,2%</b>	<b>(4,5%)</b>	
Financial income/(expenses)	(664)	(762)	(509)	(0,6%)	(0,6%)	(0,4%)	14,7%	(33,2%)	
Gains/losses on FX	(39)	35	33	(0,0%)	0,0%	0,0%	(188,2%)	(5,2%)	
<b>EBT</b>	<b>5.328</b>	<b>7.612</b>	<b>7.484</b>	<b>5,1%</b>	<b>5,6%</b>	<b>6,6%</b>	<b>42,9%</b>	<b>(1,7%)</b>	
Taxes	(1.219)	(2.302)	(2.139)	(1,2%)	(1,7%)	(1,9%)	88,8%	(7,1%)	
<b>Net income</b>	<b>4.109</b>	<b>5.310</b>	<b>5.345</b>	<b>3,9%</b>	<b>3,9%</b>	<b>4,7%</b>	<b>29,2%</b>	<b>0,7%</b>	
<i>As % of revenues</i>									
COGS	(59,4%)	(58,0%)	(48,6%)						
Services	(15,8%)	(16,0%)	(21,3%)						
Personnel cost	(13,3%)	(12,7%)	(16,0%)						
External processing	(6,0%)	(5,3%)	(7,1%)						
Rent and leasing	(0,7%)	(0,6%)	(1,0%)						
EBITDA Margin %	8,7%	9,1%	10,3%						

Source: Management information

# Some examples (2/3) – Energy production

## Aggregated Restated P&L

€000	FY19	FY20	FY21	% on revenue		
	Aggr. Res	Aggr. Res	Aggr. Res	FY19	FY20	FY21
Revenues from electricity generation	344.570	199.705	412.419	73,1%	53,9%	74,6%
Capacity payments	10.178	7.205	8.337	2,2%	1,9%	1,5%
MSD net result	97.230	143.873	109.729	20,6%	38,9%	19,9%
MOMA Revenues ASPI	19.043	19.249	19.486	4,0%	5,2%	3,5%
MSA Income	203	181	178	0,0%	0,0%	0,0%
Other income	(50)	5	10	(0,0%)	0,0%	0,0%
LTMA and related services - ASPI	-	-	2.449	-	-	0,4%
xxx Revenues	19.196	19.436	22.124	4,1%	5,2%	4,0%
<b>Aggregated Revenue</b>	<b>471.174</b>	<b>370.219</b>	<b>552.608</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Gas costs	(239.553)	(118.102)	(294.694)	(50,8%)	(31,9%)	(53,3%)
CO2 costs	(53.657)	(40.880)	(78.820)	(11,4%)	(11,0%)	(14,3%)
Variable maintenance costs	(3.897)	(4.309)	(1.069)	(0,8%)	(1,2%)	(0,2%)
xxxx Maintenance costs	(6.794)	(6.526)	(8.803)	(1,4%)	(1,8%)	(1,6%)
<b>Aggregated variable costs</b>	<b>(303.901)</b>	<b>(169.817)</b>	<b>(383.386)</b>	<b>(64,5%)</b>	<b>(45,9%)</b>	<b>(69,4%)</b>
<b>Aggr. restated gross margin</b>	<b>167.273</b>	<b>200.402</b>	<b>169.222</b>	<b>35,5%</b>	<b>54,1%</b>	<b>30,6%</b>
MOMA costs	(19.043)	(19.249)	(19.944)	(4,0%)	(5,2%)	(3,6%)
Other fixed maintenance	(3.603)	(4.951)	(6.362)	(0,8%)	(1,3%)	(1,2%)
Other operation and O&M costs	(8.065)	(9.559)	(15.942)	(1,7%)	(2,6%)	(2,9%)
<b>Fixed O&amp;M costs</b>	<b>(30.711)</b>	<b>(33.760)</b>	<b>(42.248)</b>	<b>(6,5%)</b>	<b>(9,1%)</b>	<b>(7,6%)</b>
Gas fixed fee (SRG)	(16.464)	(16.849)	(14.883)	(3,5%)	(4,6%)	(2,7%)
Imbalance costs	(4.207)	(3.126)	(4.367)	(0,9%)	(0,8%)	(0,8%)
Personnel expenses	(7.123)	(7.316)	(7.293)	(1,5%)	(2,0%)	(1,3%)
Other	(2.666)	(2.586)	(2.621)	(0,6%)	(0,7%)	(0,5%)
<b>Restated EBITDA</b>	<b>106.102</b>	<b>136.766</b>	<b>97.809</b>	<b>22,5%</b>	<b>36,9%</b>	<b>17,7%</b>
D&A	(33.220)	(33.361)	(33.514)	(7,1%)	(9,0%)	(6,1%)
<b>Restated EBIT</b>	<b>72.882</b>	<b>103.405</b>	<b>64.295</b>	<b>15,5%</b>	<b>27,9%</b>	<b>11,6%</b>
Financial items, net	(3.019)	(2.604)	-	(0,6%)	(0,7%)	-
<b>EBT</b>	<b>69.863</b>	<b>100.801</b>	<b>64.295</b>	<b>14,8%</b>	<b>27,2%</b>	<b>11,6%</b>
Gross Margin from electricity generation	47.462	36.414	37.836			
Gross Margin from MSD	97.230	143.873	109.729			
Capacity payments	10.178	7.205	8.337			
<b>KPIs</b>						
Production volumes for electr. gener (G	5.836	4.288	4.779			
Production volumes (GWh)	5.971	4.585	4.965			
Operation Hours (average)	9.899	7.856	8.703			

Source: VDD Report

# Some examples (3/3) – Food

## P&L Overview

€000	FY19	FY20	FY21	FY21
	Act.	Act.	Draft	Act
Revenues	66.023	79.074	78.675	78.675
Promotions	(423)	(405)	(426)	(426)
Year end discounts	(499)	(566)	(768)	(768)
Listing fees	(116)	(143)	(267)	(267)
<b>Net revenues</b>	<b>64.986</b>	<b>77.961</b>	<b>77.214</b>	<b>77.214</b>
Raw materials	(27.211)	(38.017)	(38.621)	(38.610)
Change in inventory	(967)	3.191	2.064	1.920
COGS	(28.178)	(34.827)	(36.557)	(36.690)
<b>Gross margin</b>	<b>36.808</b>	<b>43.134</b>	<b>40.657</b>	<b>40.524</b>
Other revenues	1.387	1.363	2.113	1.856
Cost for services	(17.780)	(18.423)	(20.015)	(20.078)
Rents & leases	(585)	(665)	(702)	(704)
Personnel costs	(8.440)	(11.245)	(13.181)	(13.216)
Other charges	(1.712)	(2.517)	(2.784)	(2.692)
Bad debt provision accruals	(195)	(60)	(301)	(291)
Other operating items	(37)	(655)	(11)	243
NA margin	-	-	35	35
<b>EBITDA, reported</b>	<b>9.447</b>	<b>10.932</b>	<b>5.811</b>	<b>5.676</b>
D&A (intangibles)	(180)	(202)	(1.079)	(1.210)
D&A (tangibles)	(4.283)	(4.814)	(5.361)	(2.822)
D&A	(4.463)	(5.016)	(6.440)	(4.031)
<b>EBIT</b>	<b>4.984</b>	<b>5.915</b>	<b>(629)</b>	<b>1.645</b>
Financial items	(1.001)	(983)	(1.065)	(1.017)
Financial securities impairment	(83)	(5)	-	33
<b>EBT</b>	<b>3.900</b>	<b>4.928</b>	<b>(1.693)</b>	<b>661</b>
Current taxes	(875)	(1.467)	-	(514)
Taxes relating to previous year	(3)	55	(40)	5
Deferred and prepaid taxes	(154)	83	42	205
Taxes	(1.032)	(1.330)	2	(305)
<b>Net income</b>	<b>2.868</b>	<b>3.598</b>	<b>(1.691)</b>	<b>356</b>
<b>KPIs</b>				
Volumes (in tons)	27.573	31.559	30.895	30.895
ASP (€/kg)	2,39	2,51	2,55	2,55
GM (€/kg)	1,33	1,37	1,32	1,31
<b>As% of net revenues</b>				
Gross to net items (*)	(1,6%)	(1,4%)	(1,9%)	(1,9%)
GM%	56,6%	55,3%	52,7%	52,5%
<b>EBITDA %</b>	<b>14,5%</b>	<b>14,0%</b>	<b>7,5%</b>	<b>7,4%</b>

(\*) As % of gross revenues

## As % of net revenues

FY19	FY20	FY21	FY21
101,6%	101,4%	101,9%	101,9%
(0,7%)	(0,5%)	(0,6%)	(0,6%)
(0,8%)	(0,7%)	(1,0%)	(1,0%)
(0,2%)	(0,2%)	(0,3%)	(0,3%)
<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
(41,9%)	(48,8%)	(50,0%)	(50,0%)
(1,5%)	4,1%	2,7%	2,5%
(43,4%)	(44,7%)	(47,3%)	(47,5%)
<b>56,6%</b>	<b>55,3%</b>	<b>52,7%</b>	<b>52,5%</b>
2,1%	1,7%	2,7%	2,4%
(27,4%)	(23,6%)	(25,9%)	(26,0%)
(0,9%)	(0,9%)	(0,9%)	(0,9%)
(13,0%)	(14,4%)	(17,1%)	(17,1%)
(2,6%)	(3,2%)	(3,6%)	(3,5%)
(0,3%)	(0,1%)	(0,4%)	(0,4%)
(0,1%)	(0,8%)	(0,0%)	0,3%
-	-	0,0%	0,0%
<b>14,5%</b>	<b>14,0%</b>	<b>7,5%</b>	<b>7,4%</b>
(0,3%)	(0,3%)	(1,4%)	(1,6%)
(6,6%)	(6,2%)	(6,9%)	(3,7%)
(6,9%)	(6,4%)	(8,3%)	(5,2%)
7,7%	7,6%	(0,8%)	2,1%
(1,5%)	(1,3%)	(1,4%)	(1,3%)
(0,1%)	(0,0%)	-	0,0%
6,0%	6,3%	(2,2%)	0,9%
(1,3%)	(1,9%)	-	(0,7%)
(0,0%)	0,1%	(0,1%)	0,0%
(0,2%)	0,1%	0,1%	0,3%
(1,6%)	(1,7%)	0,0%	(0,4%)
<b>4,4%</b>	<b>4,6%</b>	<b>(2,2%)</b>	<b>0,5%</b>

# Reclassification exercise

You have 20 minutes to reclassify the provided Income statement and balance sheet.

Provide a reclassification in the pink column in tab “SFS\_Source (Reclassified)” and the tabs “Income Statement\_reclass” and “Balance Sheet\_reclass” will automatically populate (see sumif formulas)

# Reclassification exercise

## Balance Sheet

€ in thousands	31Dic22	31Dic23
Intangible assets	3.723	-
Tangible assets	7	3
Financial assets	-	-
<b>Fixed assets</b>	<b>3.730</b>	<b>3</b>
Inventory	-	-
Trade receivables	9.602	6.314
I/C Trade receivables	-	2.364
Trade payables	(163)	(154)
I/C Trade payables	(2.705)	(1.558)
<b>TWC</b>	<b>6.735</b>	<b>6.966</b>
Other assets	4.047	5.049
Other liabilities	(1.784)	(1.426)
<b>NWC</b>	<b>8.998</b>	<b>10.588</b>
Provisions for risks and charges	(46)	(17)
Severance indemnity	(421)	(463)
<b>Capital employed</b>	<b>12.261</b>	<b>10.112</b>
Cash and cash equivalents	107	47
Financial debts	-	-
<b>Net Financial Position</b>	<b>107</b>	<b>47</b>
<b>Net Equity</b>	<b>12.368</b>	<b>10.159</b>

Source: Statutory Financial Statement

## Income Statement

€ in thousands	FY22 Act	FY23 Act	Chg. % FY23-FY22
Revenues	11.808	10.333	(12,5%)
Other revenues	2	2	15,5%
<b>Total revenues</b>	<b>11.809</b>	<b>10.335</b>	<b>(12,5%)</b>
Raw materials	(5.745)	(5.572)	(3,0%)
Personnel costs	(2.908)	(2.452)	(15,7%)
Services	(1.211)	(888)	(26,7%)
Rental costs	(564)	(489)	(13,2%)
Bad debt expenses	(572)	(219)	(61,7%)
Other costs	(18)	(15)	(18,7%)
<b>Total operating costs</b>	<b>(11.017)</b>	<b>(9.635)</b>	<b>(12,5%)</b>
<b>EBITDA</b>	<b>792</b>	<b>700</b>	<b>(11,6%)</b>
D&A	(4.073)	(3.727)	(8,5%)
<b>EBIT</b>	<b>(3.281)</b>	<b>(3.027)</b>	<b>(7,7%)</b>
Financial items, net	128	1	(99,4%)
Extraordinary items, net	(3)	87	<-100,0%
<b>EBT</b>	<b>(3.156)</b>	<b>(2.940)</b>	<b>(6,8%)</b>
Income taxes	809	730	(9,8%)
<b>Net Income</b>	<b>(2.346)</b>	<b>(2.209)</b>	<b>(5,8%)</b>

Source: Statutory Financial Statement

# Financial Due Diligence report structure

# DD report structure

## Key highlights/financials

- Quality of Earnings (normalisation)
- Reported and adjusted Net Financial Position (or Net Debt)
- A “one page issues” to summarize the main issue arisen during the DD; addressed to Top management and potential investors

## Executive report

It includes the main areas/analysis and the Advisor’s view to highlight our conclusions;

### Income statement analysis

- Revenues
- Margins
- PFI

### Balance sheet analysis

- Fixed assets
- Net Working Capital
- NWC adjustment
- PFI

### Cash flow analysis

- Operating cash flow
- Net cash flow
- PFI

## Appendixes

Include further details/analysis that can be useful for the bidders to assess the value of the Target

- IS and BS details
- Engagement letter
- Scope details and limitations

# Project works

## Project works (1/2)

- You are required to create **working groups** to perform your financial due diligence exercise
- Your final report will be presented to your colleagues during the last lesson.
- It has to cover 2 FYs, including a **QoE** and **Adjusted Net Debt** exercise based on what we study during our lessons.
- You are free to choose the company you will analyse. We suggest to choose a **listed company**, in order to have a certain quality and quantity of available information.
- You can search for a company on the **Italian stock exchange** website
- You can find the financial reports on the “investor relation” section of the company website. **Download and work on the latest available full year consolidated financial statement.**

# Project works (2/2)

- Some examples :
- (<https://www.borsaitaliana.it/homepage/homepage.htm>; Stocks -> Stock search-> choose a company)

The screenshot shows the top navigation bar of the Borsa Italiana website. It includes the logo, a search bar, and a menu with categories like STOCKS, ETFS, ETCS & ETNS, FUNDS, DERIVATIVES, CW & CERTIFICATES, BONDS, and SUSTAINABLE FINANCING. Below this is a dark sidebar with various navigation options such as HOME, STOCK SEARCH, EuroTLX, Euronext Growth Milan, LISTING ON BORSA ITALIANA, and MARKETS. The main content area lists categories like ALL INDICES, MIB ESG, RISERS AND FALLERS, NEW ISSUES, and RATES, along with a DOCUMENTS section containing links to Documents, Corporate Calendar, Shareholders Meetings, Studies, Internal Dealing, and Mifid 2 Market Makers.

The screenshot shows the 'A-Z List' page on the Borsa Italiana website. The page header includes the logo and a search bar. The main navigation bar lists various market categories. The breadcrumb trail indicates the user is in 'Home page > Stocks > Stock search > A-Z List'. The page title is 'A-Z List'. Below the title is a grid of letters from A to Z, with 'A' selected. The 'A' section displays a table of stocks starting with 'A'. The table has columns for NAME, LAST, %, TIME, LOW, HIGH, and OPENING. The first three rows are:

NAME	LAST	%	TIME	LOW	HIGH	OPENING
<a href="#">A.B.P. NOCIVELLI</a> Euronext Growth Milan						
<a href="#">A.S. ROMA</a> Euronext Milan	0.337	-2.32	12:09:23 PM	0.3315	0.345	0.3445
<a href="#">A2A</a> Euronext Milan	1.6195	-1.19	12:14:10 PM	1.6055	1.6305	1.6305

THANK YOU!