



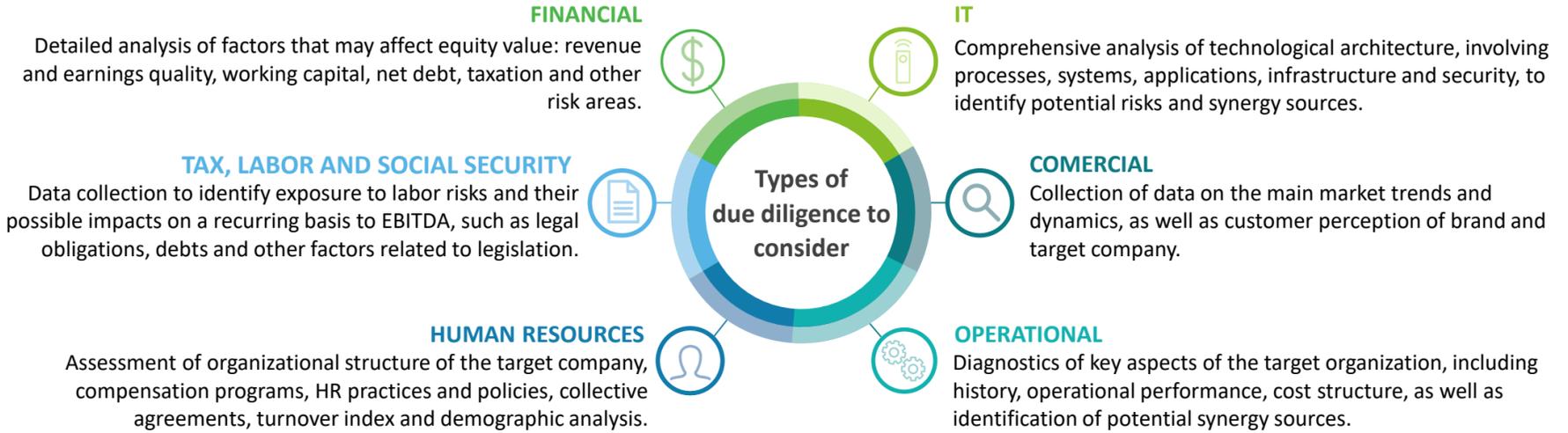
In our previous **5 minute reading series** article, we presented some best practices for conducting a M&A process in a virtual environment. Today we discuss how the Covid-19 outbreak impacted due diligences and also share some tips for guiding your deal during the quarantine period.

5 minute reading series
Deloitte M&A LatAm

Covid-19: Impacts on the due diligence process and best practices

WHAT IS AT STAKE WHEN WE TALK ABOUT DUE DILLIGENCE ?

Due diligence is wider then the sole financial and tax aspects that are often prioritized



BUT HOW DOES THE COVID-19 PANDEMIC IMPACT DUE DILIGENCE PROCESSES?

It is already possible to anticipate some effects caused by the pandemic that will impact the performance of due diligences:

	HISTORICAL RESULTS	THE "NEW NORMAL"	PRESENTIAL VISITS	GOVERNMENTAL ECONOMIC MEASURES
EVENTS CAUSED BY THE CRISIS	The financial impacts registered during the pandemic period are not recurring, which means they do not reflect business in perpetuity. Establishing premises to calculate what the results would be without the impact of the crisis may not be the best way because of the associated subjectivity. Use standardized bases for your analyzes (example: EBITDA for the last 2 or 3 years) excluding periods that do not describe the recurring reality of the business.	Although the financial impacts of the crisis are not perpetual, we expect changes in consumption habits in the post-crisis, which should become permanent business drivers for companies. For some industries in particular, during the due diligence process, it will be necessary to consider aspects of the "new normal", which means differentiating which factors do not represent perpetuity from those "came to stay" and will permanently impact the company.	Visiting the target company can be essential for some transactions, as it may impact the level of depth, clarity, and accuracy of some analyzes in a due diligence process. Given the period of social isolation, we must be cautious during this stage, which may be postponed or adapted to maintain the safety of all professionals involved.	Governmental measures adopted by target company must be deeply understood as they may impact the equity value. For example, measures to make labor laws more flexible and reduce working hours with wage reduction are relevant for HR, labor, and social security analysis. Measures to extend the payment of taxes and contributions, for example, have a significant impact on financial and tax due diligence.
IMPACTED DD	<ul style="list-style-type: none"> Financial Tax, labor and social security Commercial 	<ul style="list-style-type: none"> Financial Commercial Operational 	<ul style="list-style-type: none"> Operational Financial Tax, labor and social security 	<ul style="list-style-type: none"> Tax, labor and social security HR Financial

HOW TO START OR CONTINUE DUE DILIGENCE PROCESSES DURING THE PERIOD OF SOCIAL ISOLATION?

We have listed some key good practices based on the experience of our professionals to help companies:

- 1 It is important to remember confidentiality issues:** Due Diligence processes are sensitive and require confidential data handling. Confidentiality policies and rules must be clear to everyone in the team. In addition, it is important to understand the context of the deal and the level of information disseminated so as avoid miscommunications.
- 2 Effective coordination ensures agility and engagement:** DDs are carried out in a short period of time (4 to 5 weeks in average), so it is important to look for tools that guarantee the good performance and engagement of the teams. A preliminary alignment on activities, definition of roles and responsibilities, as well as a cadence of meetings and communications are essential. Identified risks and progress updates are recurring topics that should be on the agenda.
- 3 Engage and access the right people:** Information that comes quick and in a good quality is essential to ensure agility during the analysis and for a consistent Due Diligence final report. Therefore, it is important to ensure the involvement of the right people, especially in the assessment phase and during Q&A interviews. When possible, respecting confidentiality and sensitivity issues, make direct conversations with target leaders.
- 4 Virtual environment:** Even though being a common practice to perform parts of DD process virtually, keep in mind that during the lockdown period, it is likely that everyone in the team is working from home. Therefore ensure that everyone has access to their specific documents. Using Virtual Data Rooms is a good option for this moment as it allows for data protection and access control features.



Deloitte has developed a global methodology to support our clients in being resilient and dealing with the Covid-19 crisis. Visit our [site](#) with exclusive content about the pandemic and for more insights on M&A, please visit our [webpage](#).

Coming up next week: **A look at the post outbreak M&A scenario**



Venus Kennedy
LatAm & Brazil M&A Leader
M&A Consulting Services
vkennedy@deloitte.com



Luiz Barosa
Partner
Human Capital Consulting
luizoliveira@deloitte.com



João Rabelo
Partner
Financial Advisory
jrabelo@deloitte.com

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