Employee Owned

SCOTT

Est. 1864

Avoid M&A Blind Spots with Risk Management Due Diligence

Most businesses or firms involved in a merger or acquisition understand and value the traditional/financial due diligence process; however, many remain unaware of other types of risks that could impact the profitability of the deal.

At Scott, we offer a unique perspective through our analysis and assessment of M&A-related risk. With a focus on operations, human resources and culture, we can help uncover blind spots in a company's risk management, insurance and/or employee benefits programs.

Quality of Risk Case Study

Scott was hired to perform a Quality of Risk Analysis for a private equity firm that was considering the acquisition of a vacation rental, real estate sales and association management business that manages hundreds of properties across several concentrated coastal locations.

Our holistic analysis and evaluation of the target organization allowed us to uncover the following:

1. The business had a good culture with strong leadership that had implemented processes/procedures to mitigate their most common risks (employed vs. outsourced housekeepers, ownership of commercial laundry, in-house maintenance and renovation department, strong hiring/orientation processes, etc.).

2. Upon review of insurance policies, we discovered that the company didn't purchase D&O or business income coverage.

Due Diligence Recommendations & Outcome

We recommended that they purchase D&O and business income coverage and consider purchasing higher umbrella limits to protect their financial integrity and enterprise value as well as the properties that they manage. Given that this is a cash flow business managing other people's assets, the lack of protection of their income stream left them completely exposed in the event that a catastrophic event made the properties un-rentable.

• The D&O liability coverage was necessary to protect management and the private equity partners personal assets from allegations of mismanagement that lead to property owner losses, tenant injuries or declines in investment value

• Without properly structured business income coverage, the company was at risk of losing their income stream in the event of inclement weather (hurricanes, wind storms, floods, etc.) or other damage that resulted in properties becoming unfit for rental

• Considering their risk profile, the number of properties/associations managed, and the litigious nature of society, we recommended considering the purchase of greater umbrella limits to protect the financial integrity of the company

Based on our recommendation, the client purchased D&O and business income coverage. Although they didn't purchase increased umbrella limits, they walked away with better data to process and analyze during the decision making process. Our guidance helped the firm further mitigate risks and enhance the financial opportunity of the deal.

For more information about our due diligence risk services, including a listing of the various industries in which we have M&A experience, download our Due Diligence Information Sheet.

Written by Chris Neal

Chris is a Risk Advisor in Scott's Greensboro office. He specializes in property and casualty risk, helping businesses drive down their total cost of risk by bringing fresh ideas and perspectives to their existing risk management structure and culture.

Call Chris at **336-291-0381** if you have any questions or need additional assistance.