

## **WORKING PAPERS**

These working papers may be completed as part of a business plan application or a due diligence

## GENERAL INFORMATION

Information on applicant	Details
Name of company/cc	
Registration number	
VAT registration number	
Nature of business	
Main products and/or services	
Physical location	
Telephone	
Facsimile	
e-mail	
Website	
Contact person	
Contact number	
Shareholders and directors	Details
Shareholders, % shareholding, % BEE	
Directors	

# MARKETING

## 1. NATURE OF NEED SATISFACTION

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## 2. MACRO ENVIRONMENT

2.1 Economic Indicators						
Historic and forecast, both for macro and applicant's industry sector. (For example, GDP, PCE, CPI, PPI, exchange rate, other)						
INDICATOR	YEARS					
Discuss the significance of these in respect of your budget. Correlations.						

2.2 Cultural / Political & Social Influences

2.3 Technology Changes in:
<ul style="list-style-type: none"> <li>▪ Type of product/Product design</li> <li>▪ Materials</li> <li>▪ Production technology</li> </ul>

2.4 Controls
<b>Price</b>
<b>Tariffs: Import duties and other charges</b>
<b>Quality (SABS, Industry Standards)</b>
<b>Statutory</b>

### 3. PRODUCTS

#### 3.1 Analysis

Attach spreadsheet containing the analysis. If not applicable, complete table below, adapted to your needs. Spreadsheet to include price increases history.

PRODUCT	PRICE	% OF TURNOVER				
		YEAR-2	YEAR-1	CURRENT	YEAR+1	YEAR+2
Existing						
New						

#### 3.2 Discuss any significant relevant movements in above and give reasons for these

#### 3.3 Product/s and augmentation

#### 3.4 Product life cycle

#### 3.5 Discuss patents, technical know-how, innovations

### 4. DEMAND ANALYSIS

Include local and export markets

#### 4.1 Market segmentation

E.g. geographic, demographic, psychographic and behavioral

**4.2 Market size (Volumes and values)**

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**4.3 Market growth rates**

Historic, forecast and motivation

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**4.4 Drivers of demand**

Discuss any significant fluctuations in demand and reasons for these

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**5. SUPPLY ANALYSIS**

**5.1 Competitors (including brand names) and Market Shares (including imports and new entrants),**

Info per product group. Market shares in volumes and Rand.

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**5.2 Discuss any significant Trends**

Historic and forecast if possible

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**5.3 Competitors' possible reaction, if any, to client's expansion plans**

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**5.4 Comparative advantages**

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**5.5 Barriers to entry**

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**5.6 Product differentiation**

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**5.7 Organisation (i.e., strategic alliances, overhead structures etc)**

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**5.8 Cost advantages**

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**5.9 General evaluation**

- Intensity of competition
- Why are successful competitors successful?
- Any under-utilized capacity in the industry?
- Plans of competitors, like expansions, diversifications, promotional campaigns

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**5.10 Substitute products and the effect thereof**

Consider also those not on the market yet

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**5.11 Negotiating power (if any) of suppliers**

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**6. CUSTOMERS**

**6.1 Number of customers and changes over past 3 years and next 3 years**

Discuss changes in number, if relevant

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<b>6.2 Major Customers</b>					
Attach spreadsheet with the analysis. If not applicable, complete table below, adapted to your needs					
NAME	% OF TURNOVER				
	YEAR-2	YEAR-1	THIS YEAR	YEAR+1	YEAR+2

**6.3 Discuss any significant relevant movements above**

**6.4 Negotiating powers (if any) of customers**

**7. MARKETING FACTORS**

**7.1 Price analysis**  
 What drives prices (market, costs, imports, exchange rates, commodity cycle)

**7.2 Method of price determination**

- Cost-plus/Mark-up (Define method of calculation)
- Market related (Explain how prices were established)

**7.3 Discounts (Explain applicable discounts used by company)**

- Cost-plus/Mark-up (Define method of calculation)
- Market related (Explain how prices were established)

**7.4 Historic and future price increases (explanation of trends)**

**7.5 Credit terms, customer margin**

**7.6 Quality**

Discuss special design features such as product finish, durability, warranty, snob value, etc

**7.7 Service**

Discuss delivery lead times, punctuality, pre- and after-sales service, technical expertise, etc.

**7.8 Other Factors (e.g. ease of maintenance, fashion, etc)**

**8. DISTRIBUTION CHANNELS**

Discuss whether distribution is direct or via agents, wholesalers or distributors and the effect thereof on competitiveness/lack of competitiveness.

Are marketing channels established for exports? (Discuss)

**9. GEOGRAPHICAL DISTRIBUTION**

Regions, with % of turnover. Discuss any changes, historic or forecast.

## 10. MARKETING SYSTEM

### 10.1 Marketing objectives

Define in terms of quantity and time. If not explicitly expressed, attempt to define in your own words.  
Comment on reasonableness in view of company's capabilities

### 10.2 Marketing strategies

How does the company plan to achieve the above in terms of **the marketing mix?**

### 10.3 Marketing organisation

Marketing organisation structure and any changes thereof

#### Sales Force

% Sales by sales representatives, agents, etc.

#### Sales targets and how set

#### Basis of remuneration / Commission

**CV's** (Expand on these schedules or use your own schedules as may be necessary)

NAME			POSITION	
AGE			QUALIFICATION	
EXPERIENCE				
FROM	To	COMPANY	POSITION/RESPONSIBILITY	

<b>NAME</b>		<b>POSITION</b>	
<b>AGE</b>		<b>QUALIFICATION</b>	
<b>EXPERIENCE</b>			
<b>FROM</b>	<b>To</b>	<b>COMPANY</b>	<b>POSITION/RESPONSIBILITY</b>

<b>NAME</b>		<b>POSITION</b>	
<b>AGE</b>		<b>QUALIFICATION</b>	
<b>EXPERIENCE</b>			
<b>FROM</b>	<b>To</b>	<b>COMPANY</b>	<b>POSITION/RESPONSIBILITY</b>

**Comment fully on competence of specifically marketing management, giving motivation**

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## 11. KEY SUCCESS FACTORS

Give in order of importance. **NB** not to evaluate in isolation, but to compare to competitors.

<b>FACTOR</b>	<b>REASON</b>	<b>COMPANY VERSUS COMPETITORS</b>

Examples of KSF's: - price, quality, design, service, location, promotion, distribution, marketing/sales personnel, personal/company relations, warranties, technical expertise, credit terms, delivery lead times

## 12. SWOT ANALYSIS

(Opportunities and threats, and **other** strengths and weaknesses not covered under KSF's)

<b>Strengths</b>	
<b>Weaknesses</b>	
<b>Opportunities</b>	
<b>Threats</b>	

### 13. OUTSIDE ENQUIRIES

(This is a summary. The records of outside enquiries must be attached separately)

COMPANY	PERSON	POSITION	TEL No	REASON RELATIONSHIP

### 14. SUMMARY / CONCLUSION

Discuss main findings such as growth forecasts, market situation, competitive advantages, pricing, key issues, etc. Budget motivation is most NB and should be explained.


## 15. SELLING EXPENSES

These are guidelines. Attach your own spreadsheet or refer the reader to sales budget spreadsheet.

COST	PERIOD 1	PERIOD 2	PERIOD 3	PERIOD 4	PERIOD 5
Advertising and promotion					
Bad debts					
Commissions					
Debt collecting expenses					
Delivery expenses					
Discount allowed (Not on invoice e.g. Settlement)					
Entertainment					
Freight					
Motor vehicle expenses: Petrol					
Repairs					
Packaging					
Hired transport					
Rebates					
Royalties					
Samples					
Travel: Local					
Overseas					
R&D					
Other (specify)					

Discuss major items and reasons for budget.

## 16. BUDGETS

- Attach client's budget.
- Attach Budgets (sales & selling expenses).
- Budget must include ratio of /Applicant's budget.

# 1 TECHNICAL

1. Production process
Obtain process flow chart or draw simplified version of process used to produce products and/or services marketed. Describe what happens in each step of the process and get a good understanding of what the process involves in terms of the following.  Type of process
Operating hours/shifts/days worked
Overtime hours worked
Level of technology used
Energy requirements of the process
Level of skills and expertise required
Raw material input
Raw material wastage levels
Quality standards for products and/or services
Quality control procedures
Storage and control of stock levels (raw material, work-in-progress, finished goods)
Procedure for receiving raw material
Procedure for dispatching products and/or services
Production process bottlenecks

Production capacity
Production capacity utilization
Health and safety standards
Treatment of effluent and waste by-products
Layout of facility, flow of production and general housekeeping
Royalties payable in terms of franchise rights, licence rights, patent rights, process expertise, trademarks granted
Method for payment of royalties
Rights and obligations of the company in respect of royalty agreements:
Rights and obligations of the company in respect of franchise agreements
Rights and obligations of the company in respect of contractual agreements

<b>2. Capital goods</b>
Land and buildings  Suitability of premises is very important to any business. The cost, location of the property, standard of the building and suitability must be assessed according to the activities of the business.
Rented premises (existing or new)
Suitability of location in relation to activities of business
Size of building and suitability in relation to activities of business
General condition of building

Rental agreement in place
Duration of rental agreement
Renewal option of rental agreement
Cession of rental agreement
Rental rate and escalation rate
Leasehold improvements
Owned premises (existing, new purchase or to be built) Existing Name of property owner/s
Bond fully paid/outstanding
Name of Bond holder/s
Market value of property
Availability for capital security
Insurance payments
Property rates and taxes
Property repairs and maintenance
Property safety and security measures

Scope for future expansions
New purchase
Area zoned for business purposes
Conditions in title deed
Suitability of location in relation to activities of business
Size of building and suitability in relation to activities of business
General condition of building
Purchase price includes all costs
Name of purchaser
Bond fully paid/outstanding
Name of bond holder/s
Market value of property
Availability for capital security
Insurance
Property rates and taxes
Property repairs and maintenance

Property safety and security measures
Scope for future expansions
To be built and owned Area zoned for business purposes
Conditions in title deed
Suitability of location in relation to activities of business
Basic services available
Purchase price of land takes all costs into account
Transfer of land to purchaser
Building plans approved and meets all legal requirements
Approvals from local authorities obtained
Size of building and suitability in relation to activities of business
Detail building costs (including preparation of land) and agreed payment terms
Provision for interest during construction, professional fees, escalation during construction, retention monies, time and other contingencies
Subcontractor or owner built (previous experience)
Availability for capital security
Insurance

Property rates and taxes
Property repairs and maintenance
Property safety and security measures
Scope for future expansions
Plant and equipment Existing plant and equipment Asset register of plant and equipment
Type of plant and equipment
Asset register of plant and equipment
Terms of equipment lease agreements
Current condition
Repairs and maintenance policy
Current level of repairs and maintenance
Planned obsolescence and replacement policy
Insurance
Suitability for production process
Comparison with latest available technology

Production capacity (multiple production lines)
Depreciation rates
Availability for capital security
New plant and equipment Obtain detailed list and total cost of plant and equipment to be purchased (including transport costs), contingencies, payment terms, delivery period, installation and commissioning schedule.
Detail list and total cost of plant and equipment to be leased and terms of lease agreements
Second hand (not obsolete)
Detail list and total cost of plant and equipment to be self-manufactured
Import permits
Training to be provided by suppliers
Performance guarantees and technical support by suppliers
Installation in compliance with any Acts
Comparison with latest available technology
Insurance
Suitability for production process
Comparison with latest available technology

Production capacity (multiple production lines)
Depreciation rates
Availability for capital security:
Other fixed assets Other fixed assets include office furniture and equipment, ICT equipment, motor vehicles, delivery vehicles. New purchases of these assets must be included in the capital expenditure budget.
Draw up capital expenditure budget, installation schedule and payment schedule
Agree on items and amount to be financed by

<b>3. Raw materials</b>
List products to be budgeted including new products to be phased-in and timing thereof (consult and agree with marketing analyst). New products to be phased-in at realistic rate.
Determine raw material cost per product (or product category) at current supplier prices (check supplier invoices). Take wastage, packaging, transport-in into account.
Obtain historical and budgeted sales (products, volumes, unit selling prices, sales value) from marketing analyst.
Obtain historical total raw material cost from financial analyst.
Estimate historical increases in raw material prices (check supplier invoices).
Estimate future increases in raw material prices (check with suppliers, PPI indicator) and timing thereof.
Apply historical and future price increases to current raw material cost per product to obtain unit cost over corresponding historical and budgeted periods.
Apply historical and future raw material cost per product to sales volumes budgeted over corresponding historical and budgeted periods to obtain total raw material cost per period.

Express total raw material cost as a percentage of sales value per period. Give reasons for trend in the raw material % over the historical and budget period.
Nature of raw material stock
Method of storage
Stock levels and method of costing
Reputation and reliability of suppliers (local and overseas)
Supplier agreements and credit terms
Alternative suppliers
Draw up raw material budget
Give reasons for trend in historical and budgeted raw material % of sales

<b>4. Human resources</b>
Obtain company organogram
Assess management in terms of composition, age, qualifications, experience, management style, relations with workers/suppliers/customers/shareholders, incentive schemes, succession planning, corporate governance practices.
Obtain historical total salaries and wages cost from financial analyst.
Split cost into salaried and waged earners.
Check payroll for historical and current headcount and gross remuneration levels (take all costs into account). For large number of workers categorise according to similar job positions and use average costs. Check compliance with minimum wage and industry standards.
Estimate historical and future increases (CPI indicator, discuss with management) and timing thereof.
Phase -in additional workers over budget period for new expansions if necessary.

Apply historical and future price increases to current remuneration levels per job category to obtain unit cost per category over corresponding historical and budgeted periods.
Apply historical and future salary and wages cost per job category to headcount budgeted over corresponding historical and budgeted periods to obtain total salaries and wages per period.
Express total salaries and wages cost as a percentage of sales value per period. Give reasons for trend in the salaries and wages % over the historical and budget period.
Union involvement
Recruitment, placement, training, development policy
Labour relations issues
Compliance with labour legislations
Draw up salaries and wages budget
Give reasons for trend in historical and budgeted salaries and wages % of sales

<b>5. Production overheads</b>
Obtain historical production overhead cost from financial analyst.
Split costs into fixed and variable costs.
Analyse the major fixed and variable cost components. Budget any additional fixed and variable costs that may arise due to new expansions (utilities, insurance, rent, repairs and maintenance).
Estimate historical and future increases in fixed and costs (CPI indicator) and timing thereof.
Estimate historical variable costs % of sales (or raw material usage)

Apply future increases to fixed costs and project over the budget period
Apply historical variable costs % to sales and project over the budget period
Express total production overhead cost as a percentage of sales value per period. Give reasons for trend in the production overheads % over the historical and budget period.
Draw up production overheads budget
Give reasons for trend in historical and budgeted production overheads % of sales

<b>6. Production capacity</b>
Determine theoretical operating hours of production facility per annum (hours per day, days per annum).
Determine practical operating hours of production facility per annum (adjust theoretical operating hours by considering planned shutdowns, break downs, ad hoc repairs and maintenance, downtime, changeover time, etc).
Determine production capacity (units/hour, units/day, etc) at bottleneck in each production line (refer to technical specification, rating plate, production records, production manager).
Determine practical production per annum (practical operating hours multiplied by bottleneck production capacity)
Determine stock levels required.
Compile production budget using budgeted sales volumes and required stock levels.
Calculate capacity utilisation over the budget period (budgeted production over practical production). Adjust sales budget if necessary (or increase operating hours if practical).
Draw up production budget and capacity utilisation schedule
If sales budget exceeds production budget, then adjust sales budget in line with production budget

If sales budget is adjusted, then remember to adjust the raw material budget accordingly

#### 7. Environmental, health and safety assessment

EHS policy

EHS management programme

Compliance with EHS standards and legislation (local and international)

Approval for environmental management program

Previous or current investigations against the company

Potential environmental impacts, hazards or risks

Basic risk assessment and rating

Opinion of environmental specialist

EIA/HAZOP study

Attach report of environmental specialist (if applicable)

#### 8. Capital security

Discuss and confirm the various forms of capital security the applicant is willing to offer. Take into consideration the existing securities that other lenders may lay claim to, including that for any of 's existing exposure in the applicant. Try to obtain sufficient security to cover the 's exposure without unnecessarily hampering the applicant's current or future borrowing abilities. Consult with legal adviser if there is any uncertainty.

Bank guarantee

Mortgage bond

Suspensive sale
General notarial bond
Special notarial bond
Personal guarantee or suretyship
Pledge of shares
Cession of shareholders loan account
Cession of key man life insurance policy
Other
Calculate capital security cover for each form (where applicable) and overall cover for 's total exposure in the applicant.

## 2 FINANCIAL

(Use Templates.xls)

<b>1. Group structure</b>
Obtain a group structure organogram showing all shareholdings in various companies. Describe the activities of each company and any inter-company transactions. Determine which companies to combine in the budgeted financial statements or which to analyse and report on separately.
<b>2. Legal agreements</b>
Obtain a list of all legal agreements the target has entered. Place the list in the working papers file. Determine which agreements are important to scrutinize. Scrutinize these agreements and note the important aspects. Determine whether the legal due diligence analyst should review any agreements for a legal opinion or for consideration when the terms of the funding are negotiated.
<b>3. Minutes of meetings</b>
Obtain minutes of all company meetings especially directors and shareholders meetings. Review the minutes and make notes here of important findings. Reading of minutes is an excellent way to determine how the board and other management meetings are conducted, if items are followed up and generally of what is happening in the business from month to month. It will also become clear who the most important management members are.
<b>4. Statutory</b>
Review the company statutory records including shareholder agreements. Record details such as borrowing powers of directors, authority to issue and buy back shares, limitations on the sale and transfer of shares, minority protection, limitations on the power of management.
<b>5. Annual financial statements</b>
Obtain copies of the past 5 years audited financial statements. Note any qualifications, review any material changes in accounting policies.
<b>6. Auditors management letters and audit committee</b>
Review the past 5 years audit management letters and note any significant items. Follow up with management whether and how the issues were addressed.
Review audit committee minutes for the past year to determine whether there are any issues and whether the committee is functioning effectively.
<b>7. Internal audit reports</b>
Scrutinize these reports (if in existence) for the past 5 years or have a discussion with the internal auditors and note any significant findings.

<b>8. Income statement overall</b>
Comment on any significant trends. Calculate and interpret ratios.
<b>8.1 Income statement items</b>
Analyse and budget for administration costs, interest, sundry income, depreciation, tax, dividends.
<b>8.2 Quality of earnings</b>
Perform a quality of earnings analysis based on any adjustments required per the due diligence. Describe the motivation for adjustments.

<b>9. Taxation</b>
Obtain tax returns and assessments for the past 5 years, note any material items for budgeting purposes. Consider any tax risks identified. Enquire whether all other taxes are up to date, whether there have been any tax audits and the outcome.  Reconcile the past year's turnover per VAT returns to the AFS.  List the nature of the taxes (corporation tax, VAT, sales taxes, local taxes, stamp duty, capital duty, registration tax, withholding taxes, payroll taxes, customs duties) under review.  Summarize the nature of information, documents and evidence available in performing due diligence work.  Specify materiality amounts. Comment on the tax compliance position (returns filed properly and in time).  Comment on the tax policy (prudent, aggressive).  Identify the amount of reserves which can be distributed and the tax cost if any of such a distribution (dividend tax, withholding tax, etc).  List tax planning ideas identified during the due diligence that can be implemented shortly.  List structuring opportunities that can generate significant tax savings.  Explain tax planning opportunities to structure the acquisition of the company.  Report on the most recent tax inspections and settlement arrangements and implementation thereof.  Report on any disputes with SARS.  Evaluate all material matters raised on the taxes payable for the open years.  List the years still open to inspection by the tax authorities.  Describe and analyze the tax risk areas/matters representing tax exposures identified during the due diligence.  Quantify potential exposures identified.

<p>Quantify the risk (low, medium, significant).</p> <p>Conclude on potential tax exposures and the adequacy of tax provisions if any.</p> <p>Specify the risk environment (frequency of tax audits, volume of international transactions, etc).</p> <p>Note any special matters that should be warned for.</p>

<b>10. Balance sheet overall</b>
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<p>Present historical balance sheets</p> <p>Comment on any significant trends.</p> <p>Consider any change in accounting policy, any asset with a book value significantly different from market value.</p> <p>Consider any major off-balance sheet issues, including contingencies and commitments, warranties.</p> <p>Consider any non-trading items, basis of valuation in the accounts and alternative market value (if available).</p> <p>Calculate and interpret ratios.</p>

<b>11. Fixed assets</b>
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<p>Fixed assets are largely covered in the TDD working papers above.</p>
<p>Consider presenting a summary of fixed assets by type of asset / location.</p> <p>Comment on significant trends and issues arising.</p> <p>Basis of valuation and any related issues.</p> <p>Depreciation rates.</p> <p>Any issues related to profit / loss on disposal of fixed assets.</p> <p>If relevant indicate accounting policy for capitalising interest and expenditure on repairs &amp; renewals, extent to which own labour is used for capital work.</p> <p>Note extent of physical verification of the fixed asset register.</p> <p>Consider any comments on intangible assets (goodwill, patents, copyrights, brands, capitalised R&amp;D, valuation, amortisation policy).</p> <p>Indicate any issue concerning capitalised internal costs.</p> <p>Note any assets leased and consider whether they should be recorded in the balance sheet together with the associated liability.</p>

<b>12. Other assets and liabilities</b>
<p>Summary of other assets and other liabilities.</p> <p>Highlight the key issue arising from the review of other assets and other liabilities.</p> <p>Review for unusual items.</p> <p>Highlight potential quality of earnings issues.</p> <p>Conclusions should be consistent with the income statement findings.</p> <p>Comment on significant changes.</p>
<b>13. Stock</b>
<p>Calculate days stock on hand based on next period base</p> <p>Highlight any significant trends</p> <p>Obtain ABC analysis to determine need for a provision for obsolescence</p> <p>Budget based on selected historical levels</p> <p>How regularly is stock taken? What are the results?</p> <p>Are stocks encumbered?</p>
<b>14. Debtors</b>
<p>Obtain analysis of composition of debtors balance, and perform the following:</p> <p>Trade debtors must balance to age analysis</p> <p>Provide narrative on Other Debit balances if material</p> <p>Have discounted or factored debts and bills been included in debtors and discounting or factoring facility shown as liability?</p> <p>Enquire about number of credit notes issued per annum. Is it material versus number of invoices per annum?</p>
<p>Obtain age analysis and perform the following:</p> <p>Have the debtors ageing deteriorated or improved?</p> <p>Is the ageing normal for the industry or is debtors management lacking?</p> <p>Consider implications for forecast working capital needs.</p>
<p>Analyse ageing by major customer and note the following:</p> <p>What are the official payment terms?</p> <p>Analyze material overdue receivables.</p>

<p>Identify reason why customers have materially overdue accounts.</p> <p>Relate to sales by customer analysis - are the largest customers also the largest debtors.</p> <p>Are there any conclusions from the comparison to the prior year end analysis?</p>
<p>Calculate debtors' days outstanding, note the following:</p>
<p>Describe the key issue arising from the review of Days Sales Outstanding.</p> <p>Compute DSO using adjacent table.</p> <p>Comment upon trends.</p> <ul style="list-style-type: none"> <li>-Collection policies</li> <li>-Any customer/product issues</li> </ul>
<p>Analyze movement on bad debts provision:</p>
<p>Review roll-forward for any one-time events that could affect the quality of earnings</p> <p>Impact of factoring arrangements.</p> <p>Consider any credit assurance arrangements.</p> <p>Are the provision adequate vs past write-offs?</p>
<p><b>15. Creditors</b></p>
<p>Obtain analysis of composition of creditors balance, and perform the following:</p>
<p>Obtain age analysis and perform the following:</p>
<p>Consider general condition of purchases (terms of sales, credit taken, discounts, other)</p> <p>Review trends in DPO</p> <p>Review interim and last year end ageing and obtain explanations for material overdue accounts or reason for general delays in settlement</p> <p>Consider key vendor terms and conditions</p> <p>Understand any issues relevant to forecast working capital needs</p>
<p>Perform an analysis of major suppliers noting facility (credit limit), creditors balance, purchases, calculate days outstanding and consider versus terms, payment terms, items sources from supplier, local or imported, escalations. Also note the following:</p>
<p>Be aware of seasonality when calculating days outstanding.</p> <p>Main suppliers; alternative sources of supply; monopoly; purchase contracts and commitments; currency of purchases;</p> <p>Are any creditors considering lower facilities?</p>

<p>Any issues with reliability of supply</p> <p>Analyze and note any issues associated with procurement of principal products</p> <p>Consider</p> <ul style="list-style-type: none"> <li>– Single source issues</li> <li>– Purchase terms and conditions</li> </ul> <p>Any creditors holding security?</p>
<p>Analyze accruals, provisions and other credit balances:</p> <p>Comment on significant balances if material</p> <p>Consider quality of earnings adjustments from provisions</p> <p>Budget each line item separately</p>
<p><b>16. Interest bearing debt and cash balances</b></p>
<p>Summarize cash and interest-bearing debt balances, note the following:</p> <p>Facility, interest rate, repayment terms, security.</p> <p>Valuable rights held (conversions, appointment of director, etc).</p> <p>Details of any restrictive agreements.</p> <p>Are all terms of existing loans in writing?</p> <p>If existing loans are to be increased or terms altered or new loans to be raised have these been confirmed in writing?</p> <p>Were loans made in cash? If not, give full details of consideration.</p> <p>Obtain official bank overdraft facility in writing.</p> <p>When does official facility expire?</p> <p>What is average overdraft being used</p>
<p><b>17. Shareholders funds</b></p>
<p>Provide an analysis of the components of shareholders' funds, note the following:</p> <p>Shareholder loans: record terms, interest rate, security, whether subordinated, is interest drawn in cash?</p> <p>Can loans be ceded to or back ranked to the loan?</p> <p>Valuable rights (conversions, directors, etc).</p> <p>Are all terms of existing loans in writing?</p> <p>If existing loans are to be increased or terms altered or new loans to be advanced, has this been confirmed in writing?</p>

In case of increased or new loans, is financial position of lenders good enough to ensure that the cash will be available when required?
Share capital: Provide analysis of authorised, issued shares per type of share. Note any special rights. Are directors authorised to issue shares? Details of options on shares. Was share capital paid up in cash? If not, what was consideration? If additional share capital is to be issued, have written undertakings from subscribers been received?

<b>18. Visit to banker</b>
Visit the bank manager and determine the following:
Name of bank(s)? Was the bank visited? If yes, when and what is the name of the Manager? Has the company/s account be satisfactory? Has overdraft limited often been exceeded? Is there any problem foreseen in maintaining the existing facility? If additional facilities are required is any problem foreseen in granting and maintaining these? Will bank confirm existing and additional facilities in writing? Is the bank satisfied with its existing securities (if any) or does it require more? Can the manager disclose anything of importance about the directors and/or stakeholders?
<b>19. Visit to auditor</b>
Visit the auditor and determine the following:
Were the auditors visited? Were they visited before completing the investigation? When were they visited? Name of partner spoken to? Was the clerk responsible for the audit also spoken to? Does the auditor attend stock takings? How do they verify stock values? Do the auditors have satisfactory working papers?

Can auditors disclose anything of importance about the directors and/or shareholders?

Legal

<b>1. Legal agreements</b>
Obtain a list of all legal agreements the target has entered. Place the list in the working papers file. Determine which agreements are important to scrutinize. Scrutinize these agreements and note the important aspects. Determine whether the legal due diligence analyst should review any agreements for a legal opinion or for consideration when the terms of the funding are negotiated.
Consider performing the following:
<p>Some of these areas may also be covered in the FDD, MDD and TDD manuals. The individual analysts should liaise with the legal analyst to eliminate duplication of work. The other analysts must also identify agreements that must also be scrutinised by the legal analyst.</p> <p>Review the regulatory environment including all applicable legislation affecting the company.</p> <p>Review the Memorandum and Articles of Association including:</p> <ul style="list-style-type: none"> <li>objects (restrictions);</li> <li>borrowings powers;</li> <li>rights of members and debenture holders (any pre-emptive rights);</li> <li>special provisions regarding directors.</li> </ul> <p>Confirm that the acquiring company has:</p> <ul style="list-style-type: none"> <li>the necessary authorised share capital (if a share issue is involved);</li> <li>adequate funds (if cash consideration is involved);</li> <li>the necessary borrowing powers;</li> <li>memorandum which enables it to make the proposed investment;</li> <li>no restrictive obligations; and</li> <li>exchange control approvals.</li> </ul> <p>Please supply, in relation to each group company, copies or details of:</p> <ul style="list-style-type: none"> <li>a. any agreement, arrangement or obligation which was entered otherwise than by way of bargain at arm's length;</li> <li>b. any agreement or arrangement whereby any group company is a member of a joint venture, consortium, partnership or incorporated or unincorporated association (other than bona fide trade associations);</li> <li>c. all agreements relating to the acquisition or disposal of shares in any group company, its business or major assets since incorporation of the group company;</li> <li>d. all agreements or arrangements which will be (or are capable of being) terminated or varied upon change of control of any group company;</li> <li>e. any licenses, approvals or consents necessary for each group company to carry on its business,</li> </ul>

- f. any agreement or arrangement (whether written or unwritten or intended to be legally enforceable or not) restricting the trading activities of any group company, including the prices or conditions under which any goods of the group company are to be sold or to be acquired, or any services are rendered or acquired by the group company;
- g. any agency, management or distribution agreement or arrangement entered by any group company, whether written or oral. Examine inter-group charges;
- h. any standard terms and conditions of sale of business of any group company;
- i. all other material or long term or non-routine onerous or unusual agreements, arrangements or obligations;
- j. any power of attorney given by any group company;
- k. material supply agreement between group companies or with former group companies;
- l. obtain and review copies of agreements with principal contractors;
- m. Shareholders agreements
- n. Material sale contracts

what contracts and agreements are outstanding which require further examination? Examine the minute book as guide in this connection; and

if some of the existing contracts were not renewed, what would be the effect on the company's trading?

Review details of any intellectual property rights owned or used by any group company and copies of all licensing, distribution or royalty agreements relating to any intellectual property rights.

List of insurance policies taken out by or for the benefit of each group company and receipts for the last premiums on all insurance policies. Are there any claims outstanding?

Litigation and arbitration

Information technology

1. IT

The financial analyst should evaluate whether this is a critical function within the target company and perform due diligence as appropriate. During the performance of the various DDs, the analysts will develop an understanding and feeling for whether there are risks in the target's IT environment. Typically, this would suffice, together with a discussion with the auditor, review of audit management letters or any other IT audit reports that the company may have procured.

The following may also be considered:

Details of use of computers or computer bureaux and annual costs.

Identify short and long-term software and hardware plans; information technology (IT) strategy, security and risks; ascertain how much has been spent on information systems in the past and expected to be spent in the future.

Organisation of EDP/IT function; hardware and software.

Ascertain how the EDP/IT function may be integrated with that of the potential acquirer.

Comment, if appropriate, on information systems and controls and other accounting systems and internal control; assessment of whether systems would be able to satisfy the potential acquirer's management

needs; extent of enhancements required to meet potential acquirer's financial reporting requirements (IT specialists should be involved in this review if required).

Details of computer contingency and business continuity planning.

Management

1. MANAGEMENT		
<p>The analyst may perform the following if not performed under any other section of the working papers:</p> <p>Summarise the CV of key management and complete a concise motivation of how he/she will assist (complement) the entrepreneur in the day to day operations of the business.</p> <p>Key management members</p>		
PERIOD	EMPLOYER	POSITION

Credit checks

Business :

Entrepreneur :

The entrepreneur and other management

Entrepreneur: Mr. /Ms.

ID No. :

Personal details

Marital status :

Educational qualifications :

Current position in the business :

Employment history :

PERIOD	EMPLOYER	POSITION

Evaluation of the entrepreneur

- Doing skills :
- Relevant experience :
- Leadership qualities :
- People skills :
- Financial acumen :
- Integrity and credit worthiness :
- Entrepreneurial flair
- (Business acumen) :
- Reference checking :
- Comments on net asset value :

Contingency plan: What will the client do if he is not available for a period to run his business?

NB: If we identified any weaknesses/challenges in the above assessment, how can we overcome these challenges – this should trigger off the need for specific intervention by mentorship (also critical from a post investment management point of view and ultimately making the proposal a success story for the ).

Statement of Assets and Liabilities: (Name)

Assets		Liabilities	
Land & Building			
Vehicles			
Furniture			
Investments			
Investment in this business		Net asset Value	0
<b>TOTAL</b>	<b>0</b>	<b>TOTAL</b>	<b>0</b>

Analysts must verify the client’s immoveable property via a deeds search and confirm this under this table.

If a client owns property via a trust, state this fact under this table.

Investment in other businesses – do not accept the client’s valuation of their other business interests (often this is an emotionally related figure) but rather read it off from the historical balance sheet.

Investment in this business – for a start-up this would be the client’s own contribution. For an existing business, this would be the client’s net equity interest read off from the historical balance sheet (before ’s funding).

Income required in meeting clients fixed monthly personal obligations : R

\*Other monthly sources of income (spouse, other businesses) etc : R

\* also include spouse’s monthly income (joint income concept) as this affects the client’s monthly drawing (owner’s remuneration) which has a major impact on the business’s monthly breakeven turnovers.

