Q&A

LUMINII CONSULTING

As one of the pioneers of CDD, Luminii Consulting managing director Lushani Kodituwakku, reflects on how commercial due diligence (CDD) has evolved since our first issue 22 years ago.

By *Talya Misiri*

How has CDD evolved?
CDD has over 30 years of history, although when it emerged as an M&A service in the late 80s/early 90s it was very much a niche offering, often referred to as a "market study", championed by a few boutiques that specialised in strategy consulting. In the early days, CDD was often an afterthought "a nice to have", more often used as a tick-box exercise to confirm the seller's information about market potential, commissioned after the financial and legal due diligence strands were well advanced and usually only for large ticket deals. Over time, CDD has become standard operating procedure, including for lower and mid-market deals. Looking back, it is fascinating to see how it has evolved into a pivotal element in the M&A process. This traction was accompanied by a proliferation of strategy consulting firms and accountancy firms branching out to CDD and the growth of dedicated CDD boutiques; our company, Luminii Consulting, is one such example.

What value does CDD bring to investors and how has CDD developed as a product?
CDD has become more prominent because investors are paying significant Ebitda multiples for their acquisitions, and they need comfort and robust advice on what drives value, with a clear path to capture additional revenue post-acquisition. Whilst obtaining an unbiased analysis of the target's addressable market size, its growth trajectory, sustainability of competitive advantage, customer satisfaction & continuity and the appropriateness of business model, remain the standard analytical pillars of a CDD. Investors are increasingly interested in obtaining insight into growing the business post-deal and identifying value creation opportunities.

As private equity investors wanted to get under the cover of what made a business sustainable, the questions asked became more precise with CDD providers expected to showcase deep sector expertise. This has led to the rise of sector specialisation among CDD providers. This has also been the case for us. Luminii Consulting has built a reputation in the mid-market technology space and continues to win mandates based on credentials and the insightful discussions we have with clients on key aspects impacting particular technology sub-sectors.

CDD has also evolved to reflect the local or global context and the key events/shocks of the last decades. For example, in the aftermath of the 2007-2008 global financial crisis or more recently Brexit and the pandemic, investors increasingly needed to go beyond high-level information into deeper sector analysis and scenario-building to understand if and how a target company could emerge victorious. Investors wanted to be confident that the businesses they invested in were resilient or had the best chance to recover quickly.

What has been the impact of the pandemic on CDD?
The work we, and other CDD providers, undertook in the early months of the pandemic pivoted to strategic projects, understanding how portfolio companies can recover and mapping markets that are more likely to be attractive investment areas post-crisis.

Just like during the global financial crisis, resilience to economic downturns has become a standard question in CDD scopes of work, now clients want to understand what businesses have done to navigate through the pandemic and how they can sustainably succeed in post-pandemic contexts. Thus, focus on sustainability of the business model and scenario-building have once more come to the forefront of our work.

If anything, CDD has become even more important, as investors need to get comfort around a target's resilience in very uncertain market conditions, thus giving further impetus to increase the scope of work for CDD.

> **"Over the past two decades, CDD has become an indispensable tool in M&A regardless of deal value.**

Any concluding comments on the importance of CDD in M&A?
Over the past two decades, CDD has become an indispensable tool in M&A regardless of deal value. It is an essential element in making the go/no-go decision and as a negotiating tool. It has also evolved into something more meaningful; CDD is used to identify value creation opportunities and to articulate the post-deal strategy. This has brought with it a specialisation of CDD consulting teams who are expected to use both their deep sector expertise and strategic insight to support and, in some cases, challenge the clients' investment hypotheses and provide a more sophisticated, nuanced, and forward-looking view with well-articulated strategic recommendations that can be implemented into the 100 day-plan and beyond.

Ultimately, it is all about reducing the risks involved and identifying the opportunities. An effective CDD programme helps our clients to build the evidence-base to gain investment committee approval, facilitates their negotiation process and inform their post-deal and value creation strategy. It is a valued service in M&A for both investors and management teams; this is what makes our work so fulfilling and rewarding!