

# **CAPSTONE PROJECT SUMMARY**

by

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# How to properly invest in a Hungarian mid-size firm?

Over the past two months, I have been working as an analyst at Impact Advisory, which is a boutique Hungarian financial consultancy firm. Impact was founded in 2018 by former Big4 consultants, who have extensive professional experience in the field. The main expertise of the company is focused on transaction services, such as M&A processes, transaction support, due diligence processes, debt restructuring services, etc.

## What have I learnt from the project?

I joined a smaller team of the firm in March, working on a due diligence process of a Hungarian healthcare company. At first, I learnt about the steps and outline of a due diligence process. It is a sub-step in the general M&A process. Usually, it happens when the acquisition process is already at a developed phase and both parties already show commitment towards the deal. This brings up an exciting strategic aspect of the situation, which is the issue of what kind of and how much information shall be shared? On one hand the investor wants to know as much as possible about the target firm. On the other hand, the target firm wants the deal to happen so they have the incentive to share everything they can, but since the deal might not be successful, they don't want to share sensitive business information which might be used against them in the future. In my opinion, this is one of the most important reasons why an outside, independent consultant is relevant during the process. They can mediate between the two and often ambiguous strategic interests. Furthermore, the consultant plays an important role for pure professional reasons. As an outsider from the target firm, they don't have any biases about it and one can assume that they'll be able to conduct a much more rational review which might spot details which have been hidden to the employees of the target firm earlier.

There are different types of the work which shall be carried out, such as financial, operational, and legal due diligence. During the project, our job was to work on the operational part of it. The legal part was done by a legal firm, independent from Impact. The financial part was done by outside consultants and at the beginning of March, it was already done. The general purpose of the operational due diligence is to provide a clear outline of the business and allow the investor to investigate as many details of day-to-day operations as possible, with the purpose of helping them to make an investment decision. To fit the results to the needs of the investor, they provide a list of questions which they are specifically interested in. This helps the consultant to narrow the scope of the analysis to certain topics and issues. Finally, the purpose of the due diligence is not to form an explicit opinion and give advice on whether to make the investment or not. This is the responsibility of the investor. The consultant only helps by

exploring different segments of the target company and thereby providing a deeper insight into it.

## Description of the work

To carry out the analysis, the consultant needs to have access to the so-called data room. It is an online file sharing platform where the target firm can upload business documents of the company. This is the main source of data available. The target can decide what to upload to the data room and what not to. The consultant has the right to request documents which describe specific segments of the business, but the final decision always remains at the hands of the target firm. Besides the data room, the consultant is in close contact with both the representatives of the investor and the target. This allows for flexibility in both ways. The consultant can show partial results and proceedings to the investor, to see whether the direction they are going with the report helps them make an investment decision or not. On other side, the consultant has the chance to ask questions from the target firm and clarify information. For this purpose, the consultant can also request management interviews with the target company.

In our project, the main topics of the investor's question were the following:

- *information systems,*
- *management accounts,*
- *healthcare related,*
- *operations and organizational structure,*
- *marketing,*
- *procurement,*
- *customer experience.*

I had to understand the list of investor questions in detail. What exactly do they wish to know? How can the information be condensed and put into a format which is easy to interpret? After the questions, I turned to the actual analysis, which can be separated into three main steps. The first is to read, summarize and understand the vast amount of information available in the data room. This means hundreds of pages of documents, which include general company directives, occasional dashboards created within the firm or administrative documents of day-to-day operations.

The second step was to move beyond factual understanding of the information and create the story behind it. By story, I mean looking beyond the data and putting together the pieces of the target's operational flow. Some of the investor questions were straightforward and required

a simple factual answer, but some others were less clear and needed a deeper review of the firm. This is the part where the option of management interviews became highly relevant. After weeks of working with the available information, we have put together our own list of questions which we could discuss during a longer discussion with the top management of the target.

Finally, the third part of the work was to put together the actual report of the analysis, which is the key outcome of the work. This happened through an iterative process of moving forward with the analysis and developing the report itself. As the structure of the report became clearer from time to time, there were additional questions and sub-topics which came up. To answer these, we had to get back to the data room or conduct management interviews. The final result is a report which has three main parts: 1) Executive Summary, 2) Business Overview, 3) and the Operational Due Diligence of the target firm.

## Main results and outcomes

The purpose of the report is to be presented to the client. I would like to clarify the roles and names of the project. The client of my Capstone Project is Impact Advisory. However, the work I have been working on was made for a client of Impact, who is the investor. Therefore, by “client” I refer to the investor. Without being able to explain the specifics, I would like to briefly summarize the findings of the report. The target has a strong market presence, and it can successfully leverage this position to expand and improve in all segments of the business. It uses effective strategies to motivate the employees and to provide profit-sharing incentives. The day-to-day operations are carefully worked out with years of experience, and the target can even manage to negotiate unique deals on the market which further enhance its growth potential. Two potential dangers have been spotted. One is that the management structure of the firm is centralized which makes it highly dependent on two key people. Second, even though the firm puts special effort into in-house reporting systems, it shall improve on its KPI system and formulate better goals.

## Future of the work and benefits to the client

The final report will be presented to the investor on the week of project deadline. As I have mentioned, there have been ongoing communication with them all along the process, so the information won't be completely new. They have already seen an almost final version of the report and reflected that they are satisfied with it and feel that it can help them move forward with the investment decision. Besides the main purpose, I believe this work has the potential to strengthen Impact's relationship with the client for future projects as well.















