

# Vendor Due Diligence Frequently Asked Questions

ADVISORY

## FREQUENTLY ASKED QUESTIONS FOR VENDOR DUE DILIGENCE (“VDD”) ENGAGEMENTS

### *Background*

*Q. How much VDD experience does KPMG have?*

A. VDD has been successfully offered by the KPMG firms around the world since the early 1990s. The transaction services team in the Saudi includes individuals with significant, sell-side and VDD due diligence experience includes.

*Q. What do investment banks think about VDD?*

A. In the UK and Europe, investment banks tend to be advocates for VDD as they believe prospective purchasers require such information when in an auction, especially when it involves a carve-out of the target business, as they believe it helps get the deal done and avoids frustrating the bidders who may include an information risk discount in bids.

*Q. What do private equity funds think about VDD?*

A. In the UK and Europe, private equity funds almost always expect a VDD report in a structured auction scenario, especially if it involves a carve-out of the target business. We are confident that a structured

VDD approach can yield the same benefits for private equity funds in the Saudi as their counterparts in Europe.

*Q. Why has VDD not been popular in the Saudi to date?*

A. VDD is a relatively new product in the M&A arena and has not yet been employed heavily in the Kingdom of Saudi Arabia. We believe that this is a function of the lack of auction style sales processes to dates. In addition, the private equity cycle in the Saudi has only recently commenced the existing of earlier investments.

*Q. How do we respond to assertions by prospective purchasers that we may not be independent?*

A. Our contractual responsibility is to the ultimate purchaser, and therefore we cannot afford to be anything other than independent. Our report would also be of no value to prospective purchasers if it was not independent, therefore negating the purpose of our assistance.

*Q. Will prospective purchasers use our report in lieu of performing their own financial due diligence?*

A. Generally yes, as our procedures (or additional procedures as agreed with the prospective purchaser) should have been agreed with the client to satisfy most, if not all, financial



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due diligence required by the prospective purchaser.

*Q. Can a VDD report take the place of an information memorandum?*

A. No. VDD reports are an independent and objective analysis of the business for sale. They are not sales documents or Offering/Information Memoranda which are typically prepared by investment banks. VDD reports stand on their own and are not physically bound or incorporated by reference into such documents. Also KPMG cannot be engaged to prepare both an Offering/Information Memoranda and a VDD report.

*Q. How are fees structured for VDD engagements?*

A. Fees for vendor due diligence engagements are charged based on the actual time incurred to complete the agreed work for the professionals involved in the engagement and are not dependent on the outcome of our analysis, the price received for the sale or whether the sale of the business is completed.

*Engagement letter*

*Q. Who pays for VDD assistance?*

A. In most cases the vendor pays for all procedures we perform, including carrying out further work for prospective purchasers

(e.g. refreshing our report). However, an efficient disposal process can enhance sales value, helping to recover these up front costs.

*Reporting*

*Q. Who receives a copy of our report?*

A. Any of the following:

- the client and target;
- any prospective purchasers that have signed and delivered the acknowledgement letter to us (note: if a prospective purchaser has agreed on an exclusivity period with the vendor then we would not distribute our report to the other prospective purchasers until that exclusivity period had expired and we had discussed distribution with the vendor); and
- any other party that has signed and delivered the appropriate approved reader letter to us. Usually investment banks and advisors.

*Q. After we issue the VDD report is it common to present to the prospective purchasers?*

A. Q&A sessions are useful on a case-by-case basis to clarify any misunderstandings and answer questions prospective purchasers may have.

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