

IPO Investigative Due Diligence Services

Common Risk Factors

While every industry, geography, enterprise and IPO offering is different, FTI Consulting has identified a number of common risk factors in the IPO process:

- Principal management of companies to be listed being, in reality, different from the professional management disclosed in the draft prospectus
- Inaccurate statements of academic qualifications and technical expertise when describing senior management background and experience
- Non-disclosure of related party transactions
- Acceptance by accountants, acting for sponsors, as to the valuation of properties involved in inter-company 'paper transactions', prior to the IPO exercise
- Insufficient separation of the accounting functions in inter-group transactions
- Potential conflicts of interest arising from the involvement of the candidates' senior management in other competing, but not openly disclosed businesses
- Previous or current brushes with the law, both civil and criminal, being omitted or insufficiently described in the prospectus
- Issues over the intended use of the IPO proceeds, especially in relation to companies with a complicated structure
- Undisclosed tax liabilities, industrial labour disputes, environmental problems or fines
- Undisclosed previous or current organised crime connections
- Other omissions of important facts, such as previous or current pension obligations of state-owned enterprises

The FTI Consulting Global Risk and Investigations practice undertakes sophisticated investigations, uncovers actionable intelligence and performs value-added analysis to help decision-makers address and mitigate risk, protect assets, make informed decisions and maximise opportunities in the Asia Pacific region. We bring an interdisciplinary and comprehensive approach to business critical investigations. Our multicultural teams combine the skill and experience of former senior law enforcement officials and regulators with forensic accountants, anti-corruption investigators, economic researchers, academic analysts, and computer forensic, electronic evidence and enterprise data specialists based around the world.

As market regulators move towards more disclosure-based regimes, one of the biggest risks to a successful public listing is the lack of full disclosure. This is increasingly true in emerging markets due to the unavailability of reliable information. The collection of reliable information about an issuer for the offering document can be particularly difficult for financial and other advisors who have not conducted full due diligence.

Goals of Investigative Due Diligence in the IPO Process

While investigative due diligence is an important part of any significant transaction, the key objectives of a pre-IPO investigative due diligence are:

- To ensure that offering documents contain all material information about the issuer and its financial condition, and that no important information is omitted
- To provide a more comprehensive understanding of the issuer and to identify risks at the earliest possible opportunity

Our Approach

The IPO due diligence process should not just examine financial statements and legal documents, but closely examine people and organisations.

Our pre-IPO investigative due diligence services include a review of the client's draft prospectus to identify potential areas of risk. We then consult with the IPO sponsor and professional advisors, who may wish to raise their own areas of concern in relation to an issuer, to establish clear objectives and scope of work.

Our services involve the collection, collation and analysis of information from a wide variety of sources. It starts with comprehensive data mining of publicly available material, online resources, media, public records and corporate filings by our specialist in-house research analysts.

Experienced senior consultants then oversee in-depth and discreet field inquiries. In a legal and ethical manner, we undertake inquiries into key issues with knowledgeable industry sources, government and regulatory bodies, and with other parties and individuals such as suppliers, customers, distributors and competitors.

Critical Areas of Examination

Based on our experience, critical issues to be examined in the pre-IPO investigative due diligence process will include:

- Actual corporate structure – the real key officers, shareholders and subsidiaries, as compared to the information disclosed in the draft IPO prospectus.
- Background, relevant history and current activities of the issuer and its principals.
- Character, integrity and reputation of key individuals.
- Reputation of the business and its principals with vendors, associates and local regulators.
- Litigation history of IPO candidate and its key principals.
- Political connections of key individuals.
- Professional and personal relationships of relevance.
- Other potential material risks associated with the issuer, including regulatory risk.
- Potential labour-related risks.



For more information on our activities across Asia Pacific and how FTI Consulting can help your business, please contact us on info-ap@fticonsulting.com

CRITICAL THINKING
AT THE CRITICAL TIME™

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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