

# The Strategic Role of Financial Due Diligence in M&A & Corporate Transactions

As the Mauritian market evolves with cross-border transactions on the rise, the importance of strategic financial due diligence cannot be overstated, according to Shamin A. Sookia and Krystel Dookhith Burrin of Perigeum Capital Ltd, where advisors have a vital role to play in supporting the conclusion of a successful transaction.

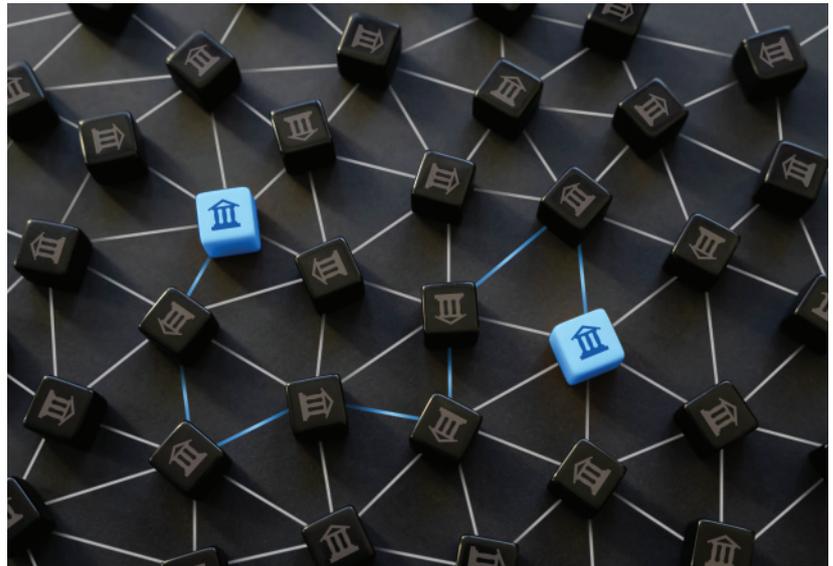
Corporate transactions often begin with vision and ambition. At some point, however, the focus inevitably shifts to whether the figures genuinely support the promise. Financial due diligence bridges that gap, translating raw data into insights that guide decision-making, safeguard value, and lay the foundation for lasting success.

Financial due diligence (FDD) is not just a mechanical box-ticking exercise. It is the interpretation of a business's financial reality, an examination of how past performance aligns with the assumptions driving the deal. The process aims to uncover what may be hidden, overstated, understated, or simply misunderstood.

An effective review tests both the integrity of historical results and their reliability as indicators of future performance. Historical statements are shaped by accounting rules, management judgment, and prevailing market conditions. Due diligence asks the harder question: can those patterns endure, and if so, under what circumstances?

The exercise also identifies potential risks that could materially affect value: whether it's a heavy reliance on a small group of customers, a cost base vulnerable to inflation, exposure to volatile markets, or the presence of contingent liabilities. The real insights often emerge when numbers are viewed through the prism of market forces, operational drivers, and competitive positioning.

These findings feed directly into valuation and deal structuring. If earnings quality proves weaker than presented, valuation multiples may need adjusting.



If cash flow patterns point to a higher working capital requirement, the method for settling the purchase price may need to change. For instance, under a completion accounts or post-closing adjustment approach, the price is recalculated after closing, protecting the buyer if more capital is tied up than expected. In a locked-box or fixed-price approach, the price is agreed in advance, based on a past balance sheet date, with strict limits on the seller extracting value before closing. Where material risks are identified, additional protections such as warranties, indemnities, or earn-outs can be negotiated.

Sell-side financial due diligence plays an equally important role. By preparing a thorough analysis in advance of a sale, vendors can identify and address

potential concerns before entering the market, reduce uncertainty for buyers, and increase the credibility of their financial information. This preparation often shortens timelines, builds trust, and can support stronger valuations.

### **From navigating cross-border complexity to enhancing governance**

In cross-border transactions, increasingly common in the Mauritian context, FDD takes on added complexity. Different jurisdictions bring different accounting practices, regulatory regimes, and levels of reporting sophistication. Local factors such as seasonality, currency volatility, or informal business norms can significantly alter the interpretation of financial results. The ability to navigate these nuances is essential to forming a balanced view of value and risk.

## **Financial due diligence is not just a mechanical box-ticking exercise**

The benefits of FDD extend beyond the transaction itself. Post-acquisition, the findings can inform integration plans, operational improvements, and performance monitoring. Insights into cost efficiencies, asset utilisation, and working capital management can be translated into tangible actions that drive value creation. Far from being only a defensive step, FDD can be a springboard for unlocking future potential.

FDD also plays a growing role in governance. Boards, investors, lenders, and regulators increasingly expect major corporate decisions to rest on robust, independent analysis. Comprehensive due diligence demonstrates that decisions are being made with the benefit of verified facts and considered judgment, strengthening confidence across all stakeholders.

The speed of modern deal-making can create pressure to compress due diligence timelines. While efficiency is important, depth should not be sacrificed for speed. Many transaction failures are not

the result of unforeseeable shocks, but of issues that could have been identified with sufficient diligence. A well-executed FDD is targeted, disciplined, and aligned with the specific characteristics of the transaction, ensuring that attention is concentrated on the issues that matter most.

### **Making a difference: advisors bring significant value to the table**

Both buyers and sellers face challenges that can materially affect outcomes. A successful transaction, from the perspective of either side (buyer and seller), is based on sound knowledge of the company and transaction process. It is important to have adequate psychological preparation, awareness of how the process will be carried out and, most importantly, appropriate counselling. Sellers often overestimate their ability to prepare independently, risking gaps in financial information, missteps in addressing investor concerns, or delays that erode confidence. Buyers, for their part, may overlook hidden risks if diligence is rushed or unfocused. This is where experienced advisors add significant value.

For buyers, advisors ensure that financial due diligence remains disciplined, focused, and aligned with the specific risks of the transaction. On the sell-side, early involvement allows potential concerns to be identified and resolved, enhancing the credibility of financial information and presenting the business in its strongest light. By anticipating issues, structuring the review process, and delivering clear, reliable analysis, advisors help both parties avoid common pitfalls. The result is greater confidence, more efficient execution, and stronger positioning in negotiations.

In the evolving Mauritian market, the importance of strategic financial due diligence cannot be overstated. As the jurisdiction continues to strengthen its position as a regional hub for investments into Africa and Asia, transaction complexity will increase, and so will stakeholder scrutiny. Deals will involve a greater diversity of counterparties, financing structures, and regulatory frameworks, making the quality of analysis a critical differentiator.

Ultimately, the role of financial due diligence is to enable informed decision-making. By converting complex financial information into a coherent assessment of value, risk, and opportunity, it helps ensure that transactions are not only completed but completed on terms that stand the test of time.



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