



BUDGETING & FORECASTING

DESCRIPTION

- Refers to the company’s internal processes for managing and overseeing its financial operations, including budgeting, forecasting, and reporting.
- Strong financial controls ensure accuracy, compliance with regulations, and timely decision-making.
- Weak financial controls lead to errors, inefficiencies, and higher risks of fraud or non-compliance.

WHY PRIVATE EQUITY CARES

- PE firms prioritize strong financial controls to mitigate the risk of financial mismanagement and ensure the business is run efficiently.
- Reliable financial controls improve transparency and help the company maintain stable operations, reducing post-acquisition risks.

IMPACTS ON SELLER

- **Strong Financial Controls:** Higher valuation due to greater operational efficiency and reduced risk of errors or fraud.
- **Weak Financial Controls:** Discounted valuation due to the increased risk of inaccuracies, mismanagement, or compliance issues.
- **Control Improvements:** Buyers may initially offer a lower valuation, with the expectation that controls will be improved after acquisition.

EXAMPLE

Factors	Weak	Medium	Strong
Controls & Processes	Limited budgeting & no internal audits	Some budgeting & audits	Well established & internal audits
Valuation Impact	-15-30% discount	-10-15% discount	+0-10% premium
Buyer’s Risk Perception	High	Moderate	Low

