

# Client Problem Audit

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*A useful guide to uncover the real problems that sit in  
your clients' businesses.*



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**A. CAPITAL STRUCTURE**

What is the Capital Structure of the business? What is invested as equity and what is Debt?

■ Initial Capital from promoters	\$xxxx	Assets	\$xxxx
■ Additional capital contributed	\$xxxx	Working Capital	\$xxxx
■ Mezzanine Funding	\$xxxx	Acquisitions	\$xxxx
■ Senior Funding	\$xxxx	Growth	\$xxxx

*It is important not to confuse debt and equity as this may cause undercapitalisation.*

**B. BUSINESS CASE**

What is the business case that the shareholders and stakeholders have built the business on?

An efficient way of analysing this is a single economic unit analysis

1. Identify the base cost of the client's product
2. Identify the working and packaging cost of the product
3. Identify the cost of distribution
4. Enquire and agree the target Profit Margin
5. Identify the Retail Pricing
6. Establish the critical mass that has to be sold to break even (Fixed Overhead / Profit Margin)

Analyse historical and projected sales volumes achieved by the business

*By objectively reviewing the cost components both the Profit Margin and Retail Price can be adjusted. The market will, drive the Retail Pricing value is delivered in targeting and monitoring Profit Margin and costings.*

**C. MARKETING**

What is the market size that the business competes in?

Who are the key participants?

List the top 5 competitors (not necessarily the 5 largest as their products may differ)

Target penetration as a % of the market

*It is important to discuss and assess if your client can achieve the required volume. Should you consider introducing a marketing strategist to the client to drive deeper penetration?*

**D. KEY RISKS AND MITIGATIONS**

List the key risks and importantly the mitigation that will secure sustainable growth

*What can go wrong will likely go wrong at some point. You can never plan for the exact event but to be prepared and have options will minimise disruption.*

RISK	MITIGATION
1	1
2	2
3	3
4	4
5	5

**E. SOURCE & APPLICATION OF WORKING CAPITAL**

The deployment of capital is the oxygen to the business. It is important that capital is structured to reflect the risk attaching and is deployed to achieve the most effective return. This is where leverage can accelerate growth and reward.

At this point we reflect back to B. Business Case and establish what the portfolio perspective of the business is.

KEY ISSUES	MODEL ASSUMPTIONS
1. What does scale look like?	
2. Where will it come from?	
3. How can it be driven?	
4. Who will drive it?	
5. Identify where capacity thresholds in the business case exist?	
6. Is there a need for working capital to execute on growth?	
7. What will the resulting cashflows be from growth expressed as Return On Funds Invested (ROFI)?	
8. How much working capital is available and how much needs to be borrowed?	
9. Prove the repayment profile by reference to cost model?	
10. Demonstrate the likely capital value accretion arising from structured growth?	

## **F. SHAREHOLDER PROTECTION**

Asset protection is a key component as preservation of capital is paramount in the business case. It is also important in the personal sphere. However, the structuring must be appropriate and efficient.

*Asset protection executed poorly can restrict your clients ability to access capital and or increase the risks and pricing to the business.*

*Where there is no alignment of risk and returns for example 100% debt funding then the lender will be seeking equity like returns. There are lenders in the market that participate in this space however they're pricing is often a restriction to growth.*

*It may be worth exploring some optionality where the promoters of a sound business case are undercapitalised but still want to pursue the opportunity.*

## **G. REGULATORY & COMPLIANCE**

Many businesses have obligations to the Taxation Authorities. Some obligations are a part of business and are therefore under arrangement. They are performing. Others that are outside arrangements introduce solvency risk. While obligations to Taxation Authorities are not ideal providing they are under arrangement and performing a lender should not take an adverse view.

*Where a client has obligations make certain that they are under arrangement before seeking external debt.*

Where the business operates in a regulated industry it is not only important to confirm compliance but to be able to demonstrate systems that ensure compliance.

Human Resources is always a complex issue. Compliance is not only paramount from regulatory sense but also

## **H. BUSINESS CONTINUITY & DISASTER PLANNING**

IT is well documented that each business should have a Business Continuity Plan. Aspects of the plan must include Technology, Workplace, Staff, Records and the consequence of physical disruption & replacement.

These plans are often presented and have been an extract from a web based service.

To secure the integrity and sustainability of the business case and therefore its capital value for its owners it is of equal importance to test the planning by actual recovery and remote working. A register of testing will deliver value when seeking capital be that equity or debt.