

Forvis Mazars in Vietnam Alert

Thought catalysts

Vendor Due Diligence: Value Creation Tool or Additional Cost?

When vendor due diligence strengthens valuation credibility, transaction readiness and seller control, and when a lighter approach is enough

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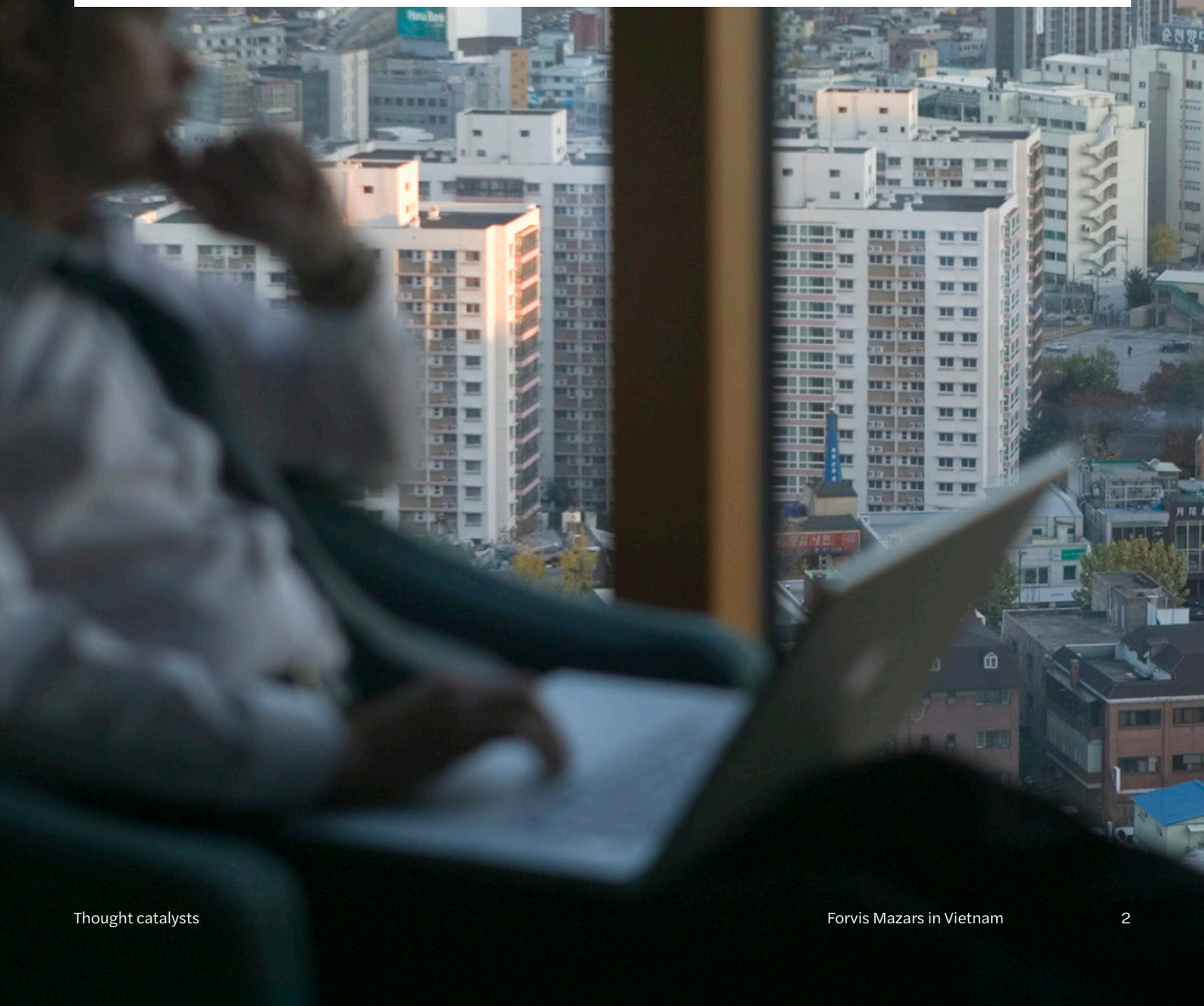
Vendor Due Diligence

When Vendor Due Diligence (VDD) comes up, sellers often ask a perfectly reasonable question: **"Why should I pay to help buyers do their job?"** Buyers will appoint their own advisers and run their own diligence anyway, so a separate seller-funded exercise can feel like just another transaction cost.

But cost is only part of the equation. A more useful question is **how much value might be lost if important issues surface too late**. A VDD that is treated as a report-writing exercise can certainly become an expensive box to tick. Used well, however, it gives the seller time to fix weaknesses, sharpen the business story and reduce uncertainty before negotiations begin.



Vendor Due Diligence



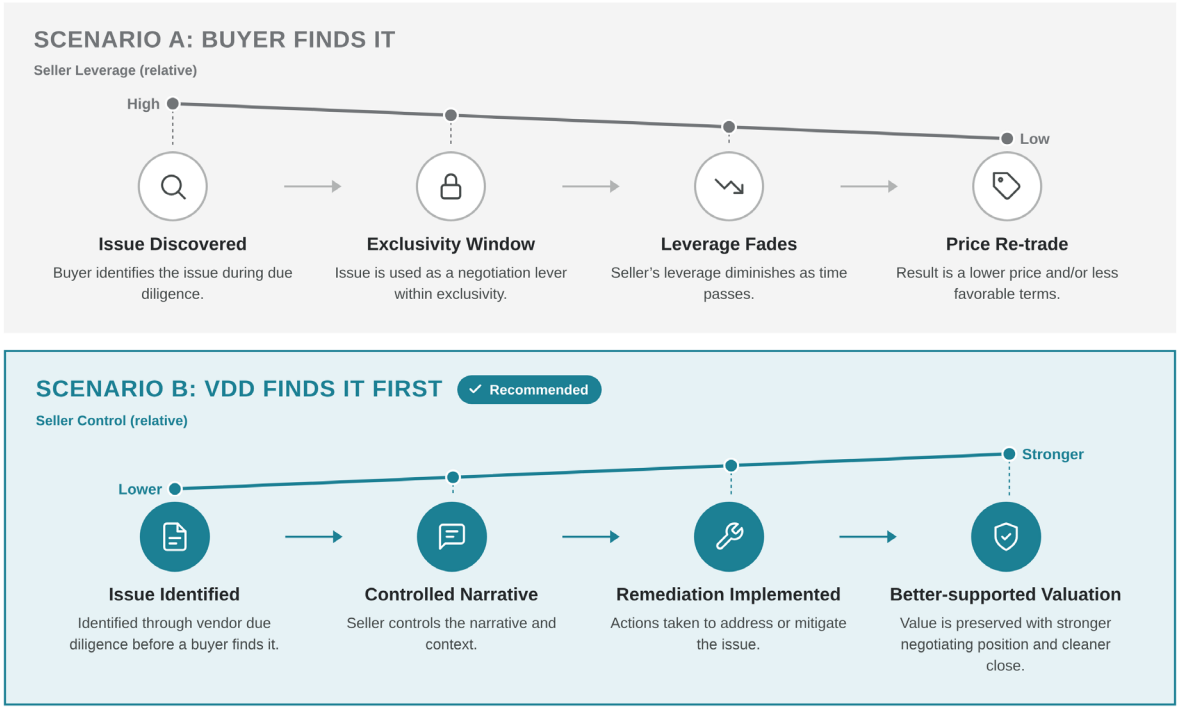
Why uncertainty gives buyers leverage

Sellers know their businesses better than any bidder. What they cannot always predict is how buyers will interrogate the numbers. Each bidder approaches diligence differently, and issues may only emerge after exclusivity when the seller's leverage is starting to fade and the cost of a surprise is at its highest.

Buyers are not simply acquiring reported earnings; they are buying confidence in those earnings. If revenue movements are hard to explain, cash conversion is weak, management accounts are inconsistent, or related-party and tax matters remain unclear, buyers tend to protect themselves. That may mean a lower valuation, tighter deal protections or a late-stage retrade.

VDD changes who gets to see those issues first. Management has a chance to understand and address them before they become bargaining chips in a buyer's hands.

Issue Discovery Timeline & Leverage Shift

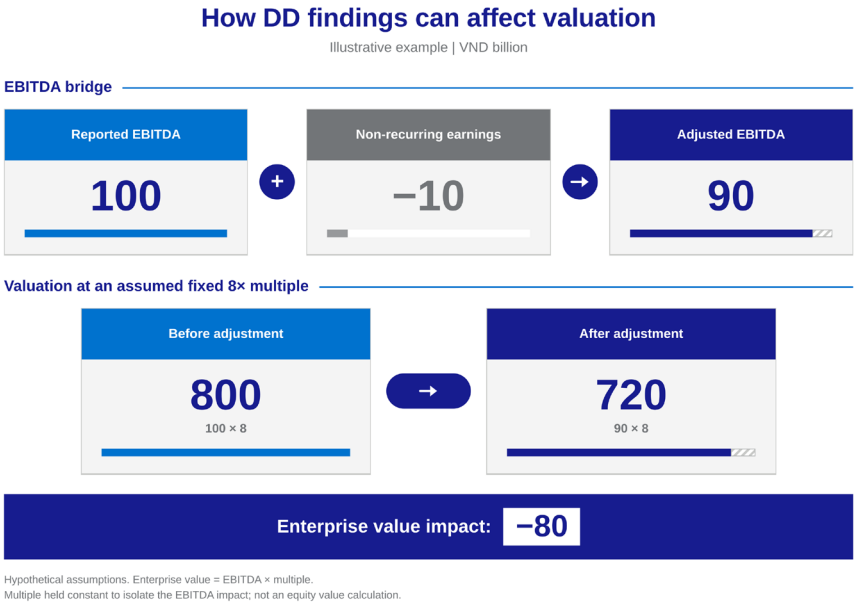


The same issue creates different outcomes depending on **who finds it first, and when.**

Vendor Due Diligence

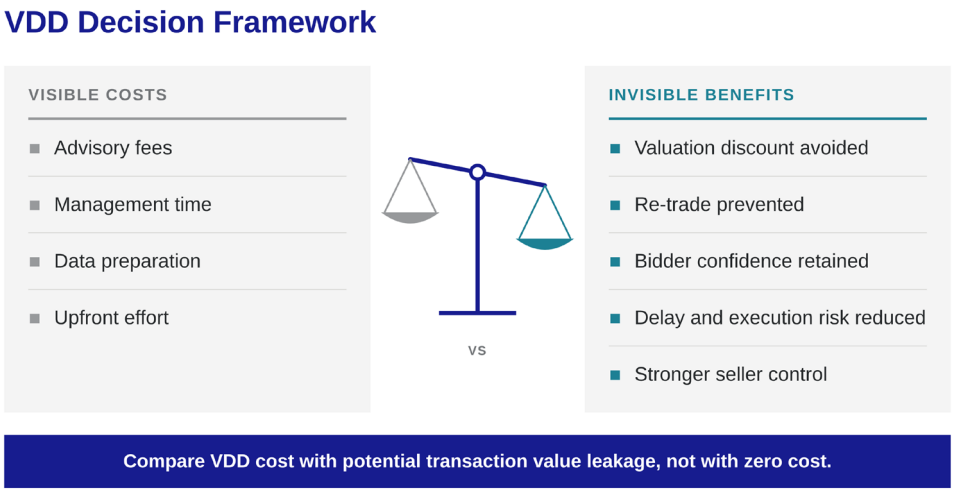
More than a report

Take a company reporting EBITDA of VND 100 billion. A buyer will want to know how much of that is recurring, whether margins can hold, which owner-related costs should be normalized, whether growth is tying up cash in receivables or inventory, and how reliably EBITDA converts into cash. These are not simply accounting questions. They shape **how much of the reported earnings a buyer is prepared to pay for.**



That is why a good VDD should not begin with "What will the report say?" The more useful question is: **"What can we still change before the buyer sees the business?"** The answer might involve formalizing a key customer contract, improving cash conversion, cleaning up related-party arrangements, strengthening reporting, separating personal and business expenses, supporting EBITDA adjustments or simply giving management a clearer, more consistent explanation of performance.

While VDD helps identify and assess matters that could affect a transaction, addressing these findings typically requires action by management. Its greatest value therefore comes when it forms part of a broader transaction-readiness process, allowing sufficient time for improvements before approaching buyers.



Vendor Due Diligence

Where VDD tends to earn its cost

- **Fewer surprises during exclusivity**. Issues are identified while the seller still has time and strategic options, rather than when the buyer has maximum leverage.
- **A controlled narrative**. Known weaknesses can be presented with context, evidence and remediation already underway.
- **Greater valuation credibility**. Sustainable earnings, normalized working capital and cash generation are explained rather than left for bidders to interpret conservatively.
- **Faster, more disciplined execution**. A credible common fact base reduces repetitive questions, keeps bidders aligned and lowers the risk of delay or disengagement.
- **Stronger competitive tension**. In a multi-bidder process, consistent information makes it harder for one bidder to exploit an information gap late in the process.

The difficulty is that many of these benefits are invisible: the discount that was never taken, the bidder who stayed engaged, the re-trade that did not happen and the delay that was avoided. Comparing a visible advisory fee with an invisible benefit can therefore be misleading. A fairer comparison is **the cost of VDD against the transaction value that could otherwise leak away.**

What VDD cannot do

- **It does not fix the underlying business by itself**. It creates the opportunity and time to act.
- **It does not eliminate buyer diligence**. Institutional buyers will still require formal reliance or conduct confirmatory work.
- **It does not create value if started too late**. A strong report produced alongside buyer negotiations leaves little time for remediation.
- **It is not risk-free**. Fees and management time are incurred even if the transaction does not proceed.

If VDD is commissioned only because "the market expects it," built around a generic template and judged by the length of the final report, it can become exactly the extra cost sellers worry about.



Vendor Due Diligence

The choices that make the difference

- **Timing matters**. Start too early and the findings may go stale; start too late and there is no time to do anything meaningful with them. In many cases, transaction preparation should begin six to twelve months before launch, depending on the business's complexity and the issues likely to emerge. The formal VDD exercise can then be timed closer to the transaction to ensure its findings remain current and relevant.
- **So does scope**. More work is not always better. The scope should reflect the likely buyers, the complexity of the transaction and the issues most likely to affect value. A financial sponsor, a strategic buyer and an existing joint-venture partner may look at the same business through very different lenses.
- **Reliance should be considered early**. This refers to whether prospective buyers are formally permitted to rely on the VDD report and its findings, subject to agreed terms and limitations. Where such reliance is unavailable, buyers may need to perform additional independent verification.

Sometimes a lighter approach is enough

Not every company needs a full institutional-grade VDD. A fact book provides a structured summary of key business and financial information, while a targeted readiness review focuses on selected financial issues or transaction risks that may require attention before approaching buyers. For a smaller bilateral process, a straightforward business or a known buyer, a fact book or targeted readiness review may do the job. Equally, a smaller transaction can still justify full VDD when the group structure, related-party history, accounting records or tax position are complicated. The table below is best read as a guide rather than a checklist.

Factor	Leans toward full VDD	Leans toward a fact book or targeted review
Buyer field	Competitive process with multiple bidders	Single buyer or a small, known buyer group
Business complexity	Multiple entities, restructurings or related-party history	Simple structure and clean reporting history
Known issues	Material matters requiring analysis, framing or remediation	Limited complexity and few expected diligence issues
Timeline	Sufficient lead time before launch	Near-term, buyer-driven process with little remediation time
Reliance needs	Institutional buyers likely to seek formal reliance	Buyer relationship or process does not require formal reliance
Management bandwidth	Team can support a structured external workstream	Capacity is limited and effort must be tightly prioritised



So, is it worth it?

There is no single deciding factor. The practical question is **how much value the seller could lose if an important issue is discovered during exclusivity, and how likely that is to happen**.

At its best, VDD strengthens valuation credibility, makes execution more predictable and gives the seller greater control. At its worst, it is broad, late and generic, an exercise detached from the realities of the deal. What separates the two is usually not the label on the report, but the timing, the scope and what management does with the findings.

A seller can uncover issues before the process begins, when there is still time to respond, or let bidders uncover them later, when every answer becomes part of the negotiation.

How can Forvis Mazars help?

Every M&A transaction comes with its own due diligence requirements and level of complexity. Forvis Mazars' Financial Advisory team can help businesses assess their transaction readiness and identify the right approach, whether that involves a full vendor due diligence (VDD), a structured fact book or a targeted readiness review.

Contact us to discuss the approach that best fits your transaction plans in Vietnam.

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