



Due Diligence Best Practices for Economic Development Officers

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Transforming Economic Development in Changing Times

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Keating Business Strategies Ltd. is an economic consulting firm of *rural economic development and agribusiness specialists*.

- KBSL was established in Alberta in 2003 by Tim Keating.
- Our team members specialize in
 - Indigenous agribusiness and economic development
 - Project management
 - Investment attraction
 - Feasibility studies and business planning



Due Diligence Best Practices Workshop Overview

- The impacts
- The purpose
- The process
- The challenges
- The application: case studies



Engaging in Due Diligence

The impacts of due diligence can be substantial.



What's the difference between **good** and **bad** due diligence?

Defining due diligence.

Due diligence is the **exercise of reasonable care** that is taken before entering into an agreement.

- **Commercial Due Diligence:** external and internal review of the business, industry and competitors
- **Financial Due Diligence:** review of all the financials and finances
- **Legal Due Diligence:** review all legal documents and issues

The 6 Cornerstones of Proper Due Diligence

- **Ownership**
- **Financial**
- **Technology**
- **Market**
- **Raw Materials and Resources**
- **Environment and Sustainability**

OWNERSHIP

- Who are the main owners of the company?
- What are their backgrounds, history, do they own other companies?
- Will the company give up ownership and more importantly majority ownership for your community?
- What is the dirt on the owners, good and bad?
- Will you own the intellectual property or license it?
- What about market ownership and sales territory?

FINANCIAL

- What is the total cost of this opportunity or investment? Will there be more money required later on?
- What is the return on investment? Financial and community return on investment
- What is the payback period
- How much money is the company putting up and how much are they asking your community for?

TECHNOLOGY

- ▶ What is the stage of development of the proposed technology, bench-top, lab scale, pilot plant, first commercial plant, commercially proven on a wide scale
- ▶ What are the repairs and maintenance costs associated with the technology
- ▶ Is the technology the best out there or are other technologies better?
- ▶ Does the technology actually perform and produce products as stated?

MARKET

- Is the market well established or is it need be to developed from within? Market push vs Market Pull
- Is there lots of competition in the market, what are your competitive advantages
- Is the market growing or shrinking?
- What are the regulatory barriers and costs to get into the market?
- If you are successful will you be able to meet the future demand by your customers?

RAW MATERIAL AND RESOURCES

- ▶ Do you have the required raw materials to support the project?
- ▶ Do you have the labour supply and labour skills?
- ▶ Will the company provide training?
- ▶ Land, water, infrastructure such as road, rail, unused buildings, brownfield sites that can be repurposed?

ENVIRONMENTAL AND SUSTAINABILITY

- Is the project or opportunity sustainable?
- What are the negative impacts to the environment and community?
- Water and waste water requirement?
- Renewable energy?
- Carbon offsets?
- Will the project require a Phase 1 or Phase 2 environmental impact assessment?
- Any toxic waste streams to the environment, to the land, water and air?



Due diligence is about good
data collection strategies.

Best Practice Basics

Due diligence is about asking the ***right questions***.

Focus on **HOW** questions:

Is this business a good fit for our community?

versus

How will this business advance our community?

How will this business harm our community?

Due diligence is about asking the **right questions**.

Business Background

Be tough, put your community first.

- ▶ How is this business related to the larger company picture?
- ▶ Is this business a new facility, expansion, merger or relocation?
- ▶ Is this company well-established or a startup?
- ▶ Are there pending lawsuits or legal actions?
- ▶ Who are the company's principals and what are their backgrounds?
- ▶ What are the sources of funds for the capital investment?

Due diligence is about asking the **right questions**.

Community Fit

Be tough, put your community first.

- ▶ How will the business advance the community's ED strategy and goals?
- ▶ Who are the company suppliers?
- ▶ How will this business compete with existing businesses?
- ▶ Where does the company ship its products?
- ▶ Will the company use or produce substances potentially harmful to the environment?
- ▶ How will the business impact transportation?

Due diligence is about asking the **right questions**.

Economic Impacts

Be tough, put your community first.

- ▶ How many jobs will be created and what are the expected wages?
- ▶ What specific occupations will the business hire?
- ▶ Will the business hire locally or relocate workers to the community?
- ▶ What will the multiplier effects be? Are these net new impacts?
- ▶ What is the size and nature of the capital investment?
- ▶ What other communities or regions is this business looking at?

Due diligence is about asking the **right questions**.

Financial Impacts

Be tough, put your community first.

- ▶ What types and amounts of revenues will the project bring?
- ▶ What are potential spin-off activities?
- ▶ Will the project require infrastructure improvements or other costs from the community?
- ▶ How do revenues and costs compare over the long-term?
- ▶ Is your community providing incentives? If so, what's the rate of return and payback period?

Due diligence is about
the *right practices*.

Desktop research isn't enough:

They have great Google Reviews!

versus

What do community members or neighbours say?

What do their employees say about the business?

Due diligence is about
the **right practices**.

Get to know the business

Be tough, put your community first.

- Conduct in-person interviews with work teams and key principals.
- Conduct on-site visits or tours.
- Ask for product, service or technology demonstrations.
- Speak with surrounding communities or neighbours.

Due diligence is also about ***knowing your limits.***

The due diligence process can be challenging and resource-intensive:

- Do you have the team, knowledge and expertise to **properly review this opportunity?**
- Do you **feel pressure** to complete the review?
- Do you know **when to hire a third-party** team?
- Do you know how to **spot potential problems?**
- What do you do if there's a **conflict of interest?**



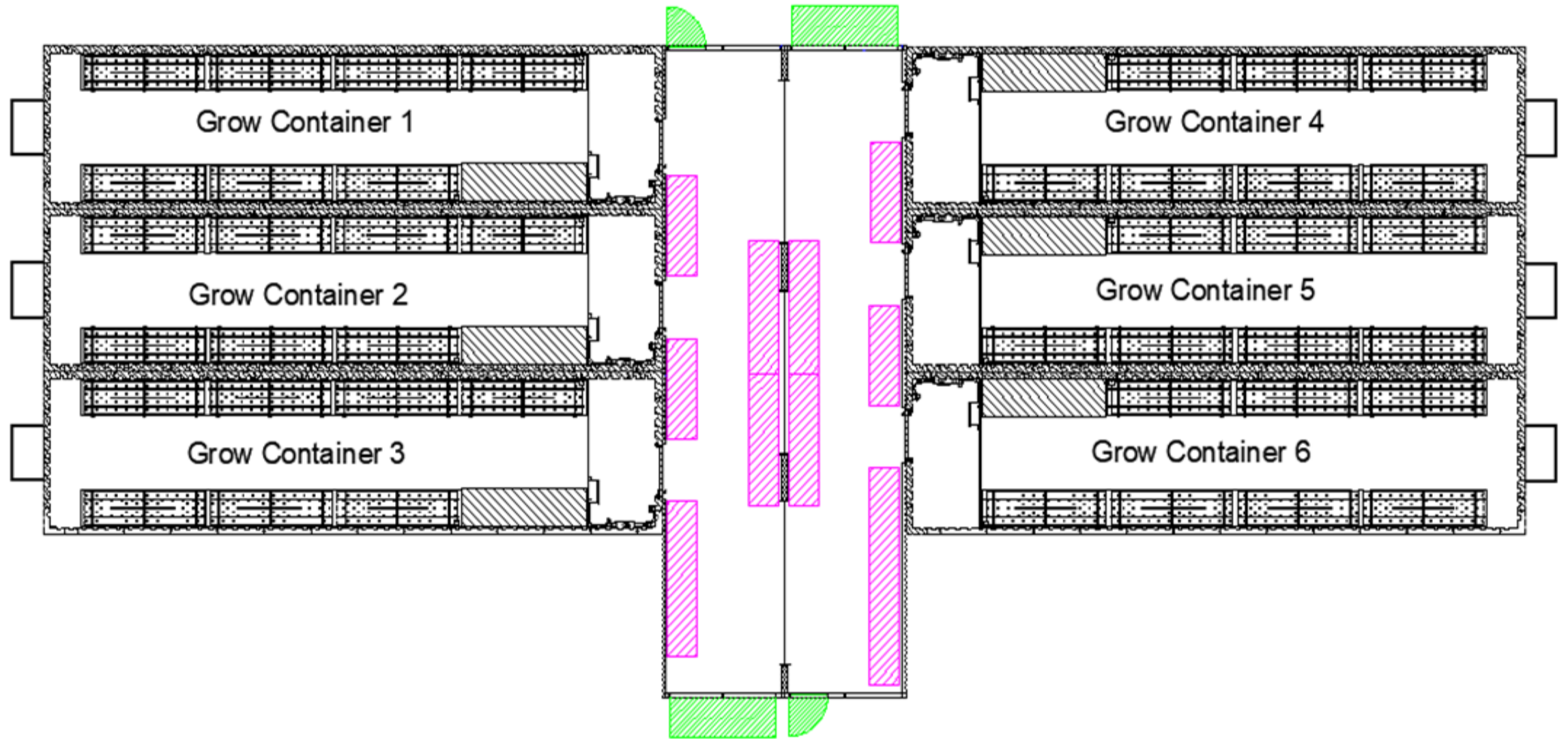
Due Diligence Practice Examples

Case Studies

Case Study #1:
Fred's Hydroponic Company

Case Study #2:

Green Hemp Products Company



 Space allocated for tables and fridges



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WHAT YOU CAN GROW



Brassicas
5-6 weeks from seed
Ex: Broccoli and
mustard greens



Asian Hearty Greens
6 weeks from seed
Ex: bok choy and
water spinach



Microgreens
2-3 weeks from seed
Ex: red sorrel, chives, and
mizuna



Herbs
8-10 weeks from seed
Ex: mint, dill, basil,
and rosemary



Leafy Greens
4-6 weeks from seed
Ex: lettuce, kale, and
chard



Cultural crops
Ex: Qungulit
(Mountain sorrel)



Strawberries(beta)



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Due diligence is risk management.

- Have a due diligence checklist and process.
- Be thorough.
- Ask the tough questions.
- Get to know the business from the inside.
- Take your time.
- Know your limits and when to hire a third-party.
- **ALWAYS PUT YOUR COMMUNITY FIRST, ALWAYS!!!!**



Thank you!

If you have any questions, please reach out:

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