

# Investment Due Diligence Summary

**Target:** Cash-based retail/service business (~\$21M annual sales)

**Analysis Date:** February 9, 2026

**Analyst:** Verch (PE Fund Due Diligence)

## Executive Summary

This is a **HARD PASS** or requires immediate forensic audit before any valuation discussion. The company shows deteriorating financial controls with ~\$26.99M (47% of total sales) unaccounted for across 2022-2024. 2024 shows catastrophic collapse in deposit discipline.

## Critical Red Flags

### 1. Fraud/Embezzlement Risk - CRITICAL

- ~\$13.6M missing in 2024 alone (64% of sales undeposited)
- Deposit ratio collapsed from 65% (2023) to 36% (2024) despite stable sales
- Every single month in 2024 showed under-deposits — systematic pattern, not random variance
- July 2024: ~\$1.61M single-month gap (76% unaccounted)

**Assessment:** This pattern screams internal theft or systematic diversion of cash.

### 2. No Financial Controls

- No daily reconciliation evident
- No documented deposit proof/audit trail mentioned
- "Over-deposits" in some months (2023: Aug/Sep/Oct) suggest retroactive adjustments to hide shortfalls
- Sales data exists but cash doesn't reach the bank = zero accountability

### 3. Working Capital Black Hole

- ⚡26.99M cumulative unexplained difference = **1.3x annual sales**
- If cash isn't stolen, where is it? COGS? Undisclosed expenses? Off-book operations?
- No inventory/AP/AR context provided to explain cash burn

### 4. Management Dysfunction

- 2024 shows no corrective action despite worsening trend
- Report prepared by "Maydeline del Rosario" (bookkeeper?) — no CFO/controller oversight evident
- Recommendations are basic hygiene (daily reconciliation, deposit slips) = these don't exist now

## Deal-Killer Questions

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### 1. Where is the ⚡26.99M?

- **If embezzled** → fraud liability, potential lawsuits, criminal exposure
- **If legitimate expenses** → EBITDA is fictitious, business is cash-flow negative
- **If tied up in inventory/AR** → working capital crisis

### 2. Why did 2024 collapse?

- Key employee quit/fired?
- Owner health issue reducing oversight?
- Business model change (credit sales not captured)?

### 3. Are sales figures real?

- If deposits don't match sales, who verified the sales data?
- Could be inflated top-line to mask declining business

### 4. What's the actual profitability?

- No P&L, no COGS, no expense breakdown
- Reported sales mean nothing if cash doesn't materialize

## Valuation Impact

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**Current asking price:** TBD

## Adjusted value: \$0 until proven otherwise

- Cannot value a business where 47% of revenue disappears
- Enterprise value = recoverable assets (inventory, equipment, customer base) minus fraud liabilities
- Likely worth only **liquidation value** unless audit clears the \$26.99M

## Mitigation Strategy (If You Still Want This Deal)

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### Immediate Actions (Pre-LOI)

#### 1. Forensic Audit

**Timeline:** 2-3 weeks | **Cost:** ₦200K-500K

##### Scope:

- Trace ₦26.99M: bank statements, personal accounts, inventory purchases, supplier payments
- Interview staff confidentially (someone knows where the cash went)
- Review POS data vs bank deposits by day

#### 2. Seller Representations & Warranties

- Personal guarantee from owner for undisclosed liabilities
- Holdback 50%+ of purchase price in escrow for 24 months
- Right to clawback if fraud discovered

#### 3. Staff Interviews

- Meet the cashiers, bookkeeper, anyone handling money
- Assess if this is known/tolerated vs management complicity

### Post-Acquisition Actions (If Deal Proceeds)

#### 1. Install Controls Day 1

- New POS system with real-time bank integration
- Daily manager reconciliation (sales vs deposits vs register count)
- Segregate duties: different people handle cash, record sales, make deposits

#### 2. Replace Entire Finance Function

- Bring in your own CFO/controller
- Assume current bookkeeper is compromised (complicit or incompetent)

#### 3. Customer Revenue Audit

- **If B2B:** verify receivables with customers
- **If retail:** install cameras on registers, mystery shoppers

## Financial Summary (2022-2024)

Year	Total Sales	Total Deposited	Difference	Deposit Ratio
2022	₹14,356,353	₹8,561,101	₹5,795,252	60%
2023	₹21,813,012	₹14,188,953	₹7,624,059	65%
2024	₹21,269,857	₹7,672,424	₹13,597,433	36%
<b>Total</b>	<b>₹57,439,222</b>	<b>₹30,422,478</b>	<b>₹26,999,744</b>	<b>53%</b>

### Key Observations:

- Sales grew 48% from 2022 to 2023 (healthy growth)
- Sales flat in 2024 (-2.5% YoY)
- **Deposits collapsed 46% in 2024 despite stable sales**
- **2024 gap (₹13.6M) is 2.3x larger than 2023 gap (₹7.6M)**

## Bottom Line

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### Do Not Proceed Without Full Explanation of the ⚡26.99M

This isn't "weak controls" — this is a business where half the cash vanishes. You'd be buying a liability unless the owner can prove:

1. The missing cash went to legitimate business expenses (and show receipts), **OR**
2. They've already recovered the funds and prosecuted the fraudster, **OR**
3. They'll discount the purchase price by ⚡26.99M + a fraud risk premium (50%+ haircut)

Even then, the infrastructure to allow this level of leakage means you're buying a **turnaround project**, not a performing asset.

#### Investment Required for Professionalization:

- **Timeline:** 12-18 months
- **Cost:** ⚡2-3M for systems, controls, and management team
- **Risk:** High execution risk given current state

#### Opportunity Cost:

Time spent investigating this mess could be spent on cleaner deals with audited financials.

## Recommendation

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### PASS — unless seller provides:

- Complete forensic audit results (at their expense)
- Full explanation with supporting documentation for ⚡26.99M
- 50%+ purchase price discount to compensate for fraud risk and turnaround effort

### Risk Rating: EXTREME

**Priority:** Low (investigate only if no better alternatives)

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*This analysis is based on the "Sales vs. Deposits Summary Report (2022-2024)" prepared by Maydeline del Rosario. Additional due diligence required before making any investment decision.*