Case study: Data processing in FDDs

A sample from a carve-out project

Dear project team,

we already received access to the data room for our current carve-out project called **Academic**. The expectation for this initial project phase is to

- A. build a principal Lead Profit & Loss (P&L) statement (i) as reported and (ii) with normalization adjustments,
- B. conduct a basic top line analysis to identify drivers of net sales+margin growth

Data room

So far, we obtained the following data extracts:

- DATA_Cons.csv: retrieved directly from the client's consolidation system; contains high level data for all P&L accounts across business units, legal entities and delivery countries; data appears to be without inconsistencies

- DATA_SKU.xlsx: provides more detail for the top line analysis (sales to margin) as it contains additional product dimensions; copy&pasted manually by the head of controlling using different source systems per legal entity; file can contain inconsistencies in the mapping of IDs and names; hence, it is advisable to create extra mapping tables for these cases, e.g. BusinessUnit+BusinessUnitName, Product+ProductName

- AccountMapping: allows us to map account numbers (from Cons or SKU) to a P&L hierarchy
- Destinations+Entities: metadata on customer countries and the group's legal entities

(Please ensure referential integrity, i.e. check whether key fields contain a corresponding entry in the respective mapping tables. Make adjustments where necessary.)

Profit & Loss (P&L) statement

Create P&L statements for the three carve-out objects separately (field scope) for 2015 to 2018. For below margin P&L lines use data from the consolidation system, for sales to margin use the SKU data.

A sample might look like this (numbers are random):

	2015
Gross sales	119,217.3
Sales deductions	(25,056.7)
NET SALES	**94,160.6**
Sales adjustments	(687.5)
Freight	(687.5)
COGS (standard costs)	(22,546.0)
GROSS MARGIN	**70,927.1**
COGS (variances)	528.8
GROSS MARGIN (INCL. VARIANCES)	**71,455.9**
Marketing costs	(652.4)
R&D costs	(7,584.1)
Other income and expenses	(85.8)
Administrative costs	(283.5)
Overheads	60.4
OPEX	**(8,545.5)**
PPA effects	-
ADJUSTED EBIT	**62,910.4**
Add-back D&A	1,126.1
ADJUSTED EBITDA	**64,036.5**
GROSS MARGIN %	*75.3*
GROSS MARGIN (INCL. VARIANCES) %	*75.9*
OPEX %	*(9.1)*
ADJUSTED EBIT %	*66.8*
ADJUSTED EBITDA %	*68.0*

What are the respective EBITDA margins? How do they compare to the out-of-scope figures?

We discussed with management that the following normalization adjustments need to be made to better reflect the quality of earnings:

- €4m for a legal settlement and lawyer's fees in 2016 for legal entity 686 (in Germany) under other income and expenses
- several severance packages for €3m related to the same topic in 2018 for legal entity 730 (in Germany) under other income and expenses
- Research costs of €1.2m in 2015+2016 and €0.5m in 2017 for legal entity 692 (in Canada); as research for the products within the carve-out scope has concluded, these costs are unlikely to re-appear (*could this be challenged?)

How do your figures change if you account for the normalizations?

Top line analysis

Identify drivers of net sales and gross margin growth. Which products and which delivery countries are main contributors? Which products and countries are underperforming?

Evtl einfach statt year und scope nach product und delivery country slicen und dann schauen wie groß net sales und gross margin (growth – über die zeit) ist?