

When a Deal Makes You Look like You're Tied to Organized Crime — Will the Numbers Matter?

Friday Morning Dealmakers Column

When the potential partner to a joint venture failed to provide sufficient documentation about the source of his income, the private equity investor hired an outside consultant to conduct pre-deal investigative due diligence. On the surface, the partner appeared to be tied to a number of legitimate commercial entities, including several shopping malls and real estate ventures. The background investigation revealed that the partner's portfolio was developed from a variety of illicit activities, including drug dealing and other items connected to organized crime syndicates in South America. In fact, upon further investigation it was found that foreign and U.S. law enforcement also happened to be investigating the partner and his business dealings.

Ultimately, the private equity investor walked away from the transaction - not because it believed the joint venture would fail, but because of the potential damage to its reputation for being associated with organized crime.

Understanding who you are doing business with is essential to the success or failure of any deal. Each investor has a threshold for risk that will drive the strategy and ultimate path for conducting background investigative due diligence. A comprehensive background investigation not only can provide a better understanding of the individuals with whom an investor is doing business; more importantly, it can reveal information that may impact a transaction, so that informed business decisions can be made before a deal closes.

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