

The Importance of Risk Assessment in Mergers & Acquisitions (M&A) Transactions

A Spotlight on the Impact of Risk Assessments on M&A Success

Merging Mergers, Acquisition, and Risk Assessment

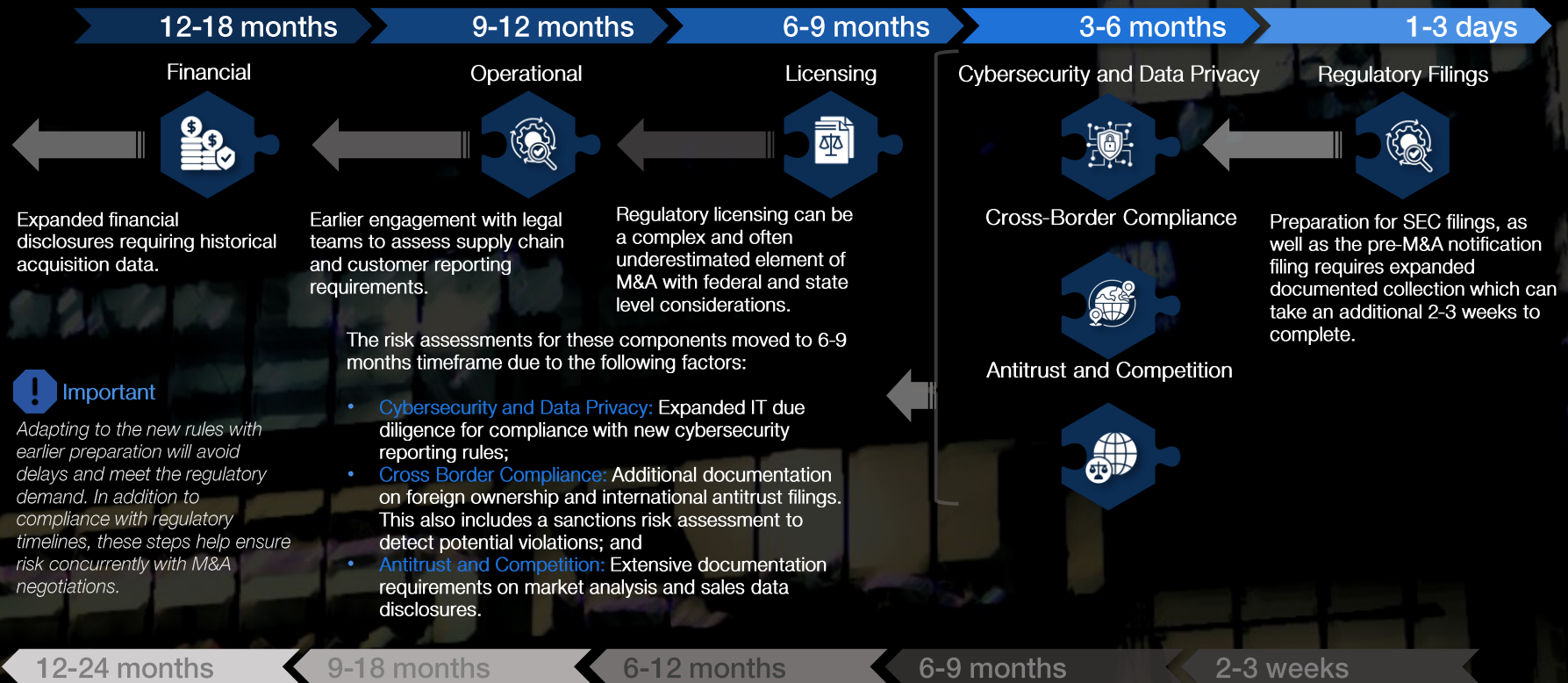
Risk assessments play a pivotal role in merger and acquisition (M&A) transactions. Before an M&A transaction takes place, US companies must comply with regulatory requirements set by federal and state regulators. A comprehensive risk assessment ensures potential financial, regulatory, operational, legal, and technological challenges that could impact the transaction are uncovered and evaluated as detailed below:

Components		Risk Assessment Activities	Key Outputs
Due Diligence	 Financial	Assess financial stability, revenue streams, debt exposure, and tax liabilities.	Valuation accuracy and prevention of hidden financial risks for the entities.
	 Legal	Review pending lawsuits, intellectual property rights, and contractual obligations.	Identification of potential legal disputes and compliance risks in entities.
	 Operational	Evaluate supply chain dependencies, workforce stability, and integration risks.	Prevents disruptions in business operations after an M&A transaction.
	 Cybersecurity and Data Privacy	Conduct IT security audits, assess data protection measures, and review compliance with privacy laws.	Mitigation of data breaches risks and regulatory penalties or offences.
	 Regulatory Compliance	Ensure compliance with state laws, including foreign investment restrictions, and sanctions requirements.	Prevents regulatory violations and ensures smooth approval processes during an M&A transaction.
	 Cross Border	Review foreign investment risks, currency exchange implications, and global regulatory filings.	Addresses international compliance challenges and foreign subsidy disclosures.
	 Antitrust and Competition	Conduct market concentration analysis, assess competitive impact, and prevent monopolistic practices.	Compliance with Hart-Scott-Rodino (HSR Act) and prevents anti-competitive mergers.



Longer Timelines to Comply with Hart-Scott-Rodino Act Requirements

The HSR Act is a US federal law designed to regulate M&A since 1976. It requires companies to file pre-merger notifications with the Federal Trade Commission (FTC) and the Department of Justice (DOJ) and has undergone several amendments. The latest amendment, which took effect on February 10, 2025, includes expanded financial, competitive, and foreign subsidiary disclosures and requires risk assessments to be conducted earlier in the M&A process with more extensive documentation and longer regulatory review periods.



Crossing the Bridge on Cross Border Transactions

In the US, M&A activity with foreign entities is subject to strict compliance with national security, market competition, and financial transparency rules and regulations. Foreign M&A ownership structures and disclosures are also subject to global regulations outside of the US.

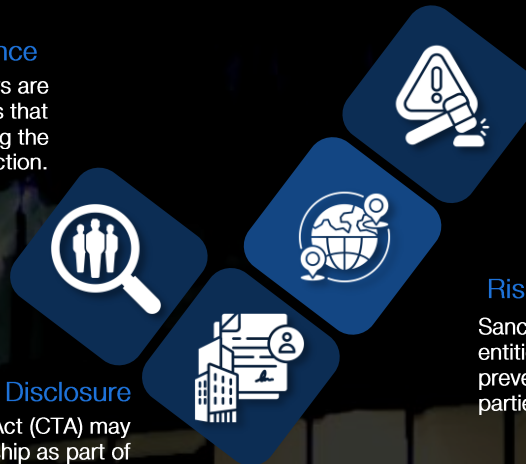
Sanctions screening is no longer just a cross-border concern, but a critical component to M&A risk management activities, which helps acquiring firms to avoid inheriting sanctions-related liabilities, penalties or asset freezes, and to establish strong corporate governance structure that is not exposed to sanctions risks.

Due Diligence

Risk assessments and strategic asset reviews are insightful to provide actionable visibility into areas that may need special considerations in shaping the economics of the transaction.

Ultimate Beneficial Ownership Disclosure

The HSR Act and Corporate Transparency Act (CTA) may require companies to report beneficial ownership as part of risk mitigation and to ensure transparency.



Sanctions Compliance and Obligations

Companies must comply with U.S. sanctions laws, including those enforced by the Office of Foreign Assets Control (OFAC) with broader visibility into sanctions issues by the European Union (EU) and United Nations (UN) sanctions, among others. There is a need to screen sanctioned entities to avoid penalties, asset freezes, or blocked transactions.

Risk Mitigation in Cross-Border Transactions

Sanctions screening can help determine restricted individuals, entities, and jurisdictions before finalizing a deal. It gives prevention on unintentional engagement with sanctioned parties, thus reducing exposure to regulatory enforcement.



Discover what Stratis Advisory can do for you



Pre-M&A Readiness Assessment

Risk factors must be taken into consideration in anticipation of filing for an M&A. Readiness assessments should include operations, governance, regulatory compliance, partnerships, and cybersecurity. Stratis can execute enterprise-wide assessments with enough time for you to remediate significant issues, get the board buy-in and budget, and deliver a clean company for your M&A transaction.



Post-Acquisition Integration and Operations

Understanding your inherent risks in the context of regulatory frameworks provides insights that inform post-acquisition integration planning and, together with strategic imperatives such as speed to market, product roadmap and equity valuation, ultimately determine your growth path. Stratis can help with preparing a detailed plan, managing it end-to-end, and adjusting it as need to help you stand up and continuously execute the infrastructure and operations for success as a regulated entity.



Regulatory Compliance Advisory

Regulatory compliance is an ongoing function pre-and-post M&A. Compliance relies extensively on the success of your underlying operational processes. From reportable sanctions to cyber incidents, Stratis can help you identify enterprise-wide gaps in your organization leading up to and through your M&A to mitigate disclosable activity and protect your purchase price.





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