THE DISCOVERY METHOD

A Playbook for Risk-Based Corporate Due Diligence

EVERGREEN
CONSULTING

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Foreword

Every firm in this business claims to know its clients before it signs an engagement letter with them. Very few of them mean it. What follows is not a theory of due diligence. Theories are cheap, and every business school in this hemisphere has one. It is a record of how Evergreen actually does the work, refined over a decade of engagements across manufacturing, shipping, property, and finance, and written down for the first time so that the practice survives any one of us leaving the room.

I have called it Discovery rather than "due diligence" or "audit" deliberately. An audit asks whether the numbers add up. Discovery asks a harder and more useful question: what is this counterparty hoping we do not find, and are we the sort of firm that finds it anyway? Clients do not retain Evergreen because we are thorough. Thoroughness is a commodity; every firm on Bay Street sells it. They retain us because we are difficult to lie to, and because when we are wrong, we say so before the money moves rather than after.

This playbook owes a good deal to the people who have actually sat across the table from the men whose businesses we investigate, and I am glad to say so plainly. H. Burgh's notes on interview conduct, reproduced in Part II with only light editing, are as good an account of how to listen for the truth as I have read anywhere, and better than most of what I was taught. A firm that cannot credit its own people in its own methodology has already started to rot from the top. I intend for Evergreen not to.

— J.T.R., Toronto, 1982

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Part I — What Discovery Is, and Is Not

Discovery is the discipline of establishing, systematically and defensibly, what a counterparty would prefer a buyer, insurer, lender, or partner not find before capital is committed rather than after. It is not an audit, which tests whether stated figures are internally consistent; it is not a background check, which confirms identity and credentials against a register. It sits above both, because its subject is not the file but the person and the institution the file was written to describe.

Three principles govern the practice at Evergreen, and every consultant on an engagement is expected to be able to recite them without notes:

- Absence is data. A document that should exist and does not is as significant a finding as a document that does exist and is troubling.
- Corroboration, not confirmation. A fact stated by one source, however senior, is a lead. A fact confirmed independently by two unconnected sources is a finding.
- The client is not the audience for an uncomfortable truth until the partner in charge has decided how to deliver it. Findings travel up the engagement team before they travel anywhere else.

Discovery is not, and must never become, a search for reasons to say yes. A Discovery team that returns a clean report on every engagement it runs is either extraordinarily lucky in its client roster or is not looking hard enough. Either possibility should worry the partner responsible for it.

Part II — The Five Phases of Discovery

1. Scope and Risk Hypothesis

Every engagement begins with a written risk hypothesis, agreed with the client before any interview is scheduled or any file is requested: a plain statement of what could go wrong in this transaction specifically, not in transactions of this kind generally. A property merger and a shipping fleet acquisition carry entirely different hypotheses, and a team that opens both engagements with the same checklist has not done its scoping properly. The hypothesis is revised, not discarded, as findings emerge, it is the spine the rest of the engagement hangs from.

2. Stakeholder Mapping

Before a single interview is booked, the team builds a map of everyone with a formal or informal stake in the outcome: officers, family shareholders, long-serving employees, former employees who left on uncertain terms, the company's bankers, its auditors, and the frequently the most productive category is the people who used to hold a role that no longer appears on the organization chart at all. An engagement that only interviews the people the client puts forward has been handed a script, not a stakeholder list.

3. Interview Protocol

The interview is Discovery's central instrument, and the one most often done badly by consultants trained to think of it as a formality before the real work of reviewing documents begins. It is the reverse: the documents tell you what a business wants recorded. The interview, conducted properly, tells you what it does not.

A note on interview conduct — H. Burgh

Most people are perfectly good liars about the thing they expected to be asked. Almost nobody is a good liar about the small procedural detail that follows it. If a man has spent a week rehearsing his answer to "why did you sell the Rotterdam warehouse," ask him next who signed the transfer papers, and watch how much longer it takes him to answer a question he should find easier than the first. I have never once found the discrepancy in the rehearsed answer. I have found it, more times than I can count, in the answer nobody thought to prepare for. Write down what a subject says unprompted before you write down what he says in response to your question. The order matters more than people believe.

Interviews are conducted in pairs wherever the engagement allows it: one consultant leading the conversation, one recording it in full, without paraphrase, for later cross-reference against every other interview on the engagement. Contradictions between interviews are worth more than contradictions within one.

4. Documentary and Records Review

Records review runs in parallel with interviews, never in sequence. A team that reads every file before speaking to anyone arrives at each conversation already primed to hear what the paper told them to expect. The documentary trail is treated as a second, independent witness, to be checked against the interviews rather than used to prepare for them. Part III sets out the standing list of records Evergreen requests on every engagement of this kind, and the additional categories to be requested where the risk hypothesis warrants it.

5. Synthesis, Risk Categorisation, and Escalation

Findings are sorted into the five risk categories set out in Appendix A — Financial, Operational, Legal/Regulatory, Reputational, and Undisclosed-Historical. Each is weighed, not merely counted. A single Undisclosed-Historical finding that a subject actively resists explaining outweighs a page of minor Operational findings, and the final report must say so plainly rather than presenting every finding with equal emphasis in the interest of appearing balanced. Part V sets out how a finding moves from the engagement team to the partner responsible for the client relationship, and when a finding obliges that partner to write a Walk-Away Memo rather than a report.

Part III — The Documentary Trail

The following is the standing request list for any engagement involving a change of control, a material investment, or a new counterparty relationship. It is a floor, not a ceiling. The risk hypothesis may require categories beyond it, and the absence of any item below, once requested, is itself to be recorded as a finding.

- Audited financial statements, five years, with management letters
- Board and committee minutes, five years
- Related-party transaction schedules, however immaterial the client considers them
- Corporate registry filings and ownership history, including any prior names under which the entity has traded
- Litigation history, active and settled, including matters resolved outside the courts
- Insurance claims history and any declined or cancelled policies
- Personnel files for officers and directors, to the extent the subject will produce them, and independent verification of employment history where they will not
- Prior due diligence or audit reports commissioned by the counterparty itself, and a note of any recommendations from them that were not acted upon

Part IV — A Taxonomy of Red Flags

No single indicator below is disqualifying on its own. Two or more, appearing together on the same engagement, warrant an immediate revision of the risk hypothesis and a conversation with the responsible partner before work continues.

- A file that is unusually complete and unusually tidy, with none of the ordinary informal correspondence a real business generates
- An executive who answers a direct question with a longer answer than the question required
- Reluctance to discuss the period before the current ownership or management took control, however long ago that was
- A single outside adviser, unlisted on any formal organizational chart, whose approval is nonetheless described by multiple interviewees as necessary before a decision is finalised
- Related-party arrangements conducted on informal terms — a handshake, a standing verbal understanding — where the sums involved would ordinarily warrant a written contract
- A biography that holds together in outline but not in the specific, checkable detail, such as a stated employer that cannot confirm dates, a stated town of origin that no one there seems to remember him from

Part V — The Escalation Ladder and the Walk-Away Memo

A finding does not stay with the consultant who discovers it. It is Evergreen's practice, without exception, that any finding touching the categories in Appendix A is raised with the engagement lead within one working day, and with the responsible partner within three. This is not bureaucracy for its own sake, it exists because a junior consultant sitting on a serious finding while deciding how to phrase it politely to a client is the single most common way a firm's judgement is compromised, and the delay is rarely one anyone chooses knowingly.

Three outcomes follow a completed Discovery engagement:

- A clean report, where findings across all categories fall below the materiality threshold agreed at scoping.
- A qualified report, where findings are material but manageable disclosed to the client with specific, recommended conditions attached to proceeding.
- A Walk-Away Memo, reserved for findings the responsible partner judges cannot be made safe by any condition short of not proceeding at all. The memo is addressed to the client relationship partner, not the client, and states plainly that Evergreen's name should not be associated with the transaction going forward. It is the least common document this firm produces, and it should stay that way. Not because we should find fewer reasons to write it, but because a firm doing Discovery properly should rarely be surprised this late in an engagement by something serious enough to warrant one.

A partner who has never had occasion to write a Walk-Away Memo has either been fortunate in every engagement of their career or has not been reading the findings placed in front of them. I would ask every consultant using this playbook to consider, honestly, which of those explanations is more likely over a long enough career, and to conduct themselves accordingly.

Appendix A — Risk Categorisation Matrix

Risk Category	Typical Indicators	Primary Source	Escalation Trigger
Financial	Related-party transactions not on the face of the statements; margins inconsistent with stated industry norms	Audited financials, bank references, insurance claims history	Any restatement-worthy discrepancy over the engagement's materiality threshold
Operational	Key-person dependency; undocumented informal arrangements standing in for contracts	Site visits, personnel interviews, vendor confirmations	Single point of failure with no succession or paper trail
Legal / Regulatory	Unresolved litigation not disclosed at scoping; licences held personally rather than corporately	Court registries, regulatory filings, counsel interviews	Any matter that could void the transaction's legal basis
Reputational	Executive reluctance to discuss ownership history; inconsistent personal biographies across sources	Cross-referenced interviews, press archive, trade contacts	Material contradiction between two independent sources
Undisclosed-Historical	Gaps in an individual's documented history exceeding twelve months with no satisfactory account	Employment records, immigration and residency records where available, long-serving employee interviews	Any gap the subject actively resists explaining

Appendix B — Sample Interview Record

(Reproduced in redacted form for training purposes. Names and identifying details have been removed at the direction of the Risk Advisory Practice.)

- Engagement: [Client name / matter reference]
- Subject: [Name, role, tenure with organization]
- Interviewers: [Lead / Recorder]
- Date and location:
- Unprompted statements (verbatim, recorded before questioning began):
- Questions asked, in sequence, with answers recorded in full — no paraphrase:
- Interviewer observations (recorded separately from the transcript, after the interview concludes):
- Cross-references to other interviews or documents on this engagement:
- Recommended follow-up, if any: