

Supply Chain Audits for Private Equity: Protecting Valuation and Deal Outcomes

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Supply chain resilience has moved from an operational concern to a value creation, diligence and enterprise risk issue. For private equity sponsors and management teams, disruption can affect EBITDA, working capital, customer retention, covenant compliance, ROI on an acquisition and ultimately exit value.

Until relatively recently, many executives and business owners viewed the global supply chain as relatively stable, offering opportunities to optimize costs, just-in-time inventory, production and profits. That assumption has been tested repeatedly. Today's market is being shaped by tariffs, geopolitical instability, Red Sea and Strait of Hormuz disruption, heightened customs scrutiny and broader concerns about supplier resilience. Raw materials shortages, shipping delays, blockades, higher energy prices and changing trade policy can turn business forecasts and profit margins into a moving target.

At PKF O'Connor Davies, we see increasing demand from private equity sponsors and management teams for greater visibility into supply chain risk and operational resilience. Organizations are looking beyond traditional financial metrics to better understand supplier dependencies, logistics constraints, inventory management practices and other factors that can materially affect profitability and enterprise value. Through supply chain assessments, transaction diligence and risk advisory services, we help clients identify vulnerabilities, evaluate mitigation strategies and make more informed business and investment decisions.

One client, a seller of children's toys, experienced a significant write-off when labor disruption affected the Port of Los Angeles in June 2023. That season's "hot" toys became "cold" when cargo could not move in time and the company missed the Christmas selling season.

Why Private Equity Sponsors Should Reassess Supply Chain Risk

Many executives are now analyzing global sourcing relationships, product availability and manufacturing networks with an eye toward diversification and risk mitigation. Supply chain assessments — or, where appropriate, more formal supply chain audits — can help identify risks that may affect profitability, valuation and business continuity.

This is especially critical for private equity-backed businesses dependent on growth and value creation. A supplier concentration issue, tariff exposure, weak logistics controls or insufficient inventory planning can quickly become a purchase price, working capital, earnout, covenant or exit-readiness issue.

Supply chain disruption is not limited to product-based businesses. Service companies also depend on parts, supplies, technology platforms and other third-party providers. If those resources are not available, a company may be unable to serve its customers.

What a Supply Chain Assessment Can Reveal

A supply chain analysis, assessment or audit can help identify risks, bottlenecks and stress points, while supporting transaction diligence, post-close integration, internal audit planning and enterprise risk management.

Tariff evasion and customs fraud have long been persistent risks in imports, exports and international supply chains. Recent tariff increases and heightened enforcement attention on goods entering the United States have increased both the incentive and the risk for companies and suppliers to misclassify products, undervalue goods, falsify country-of-origin information or route shipments through third countries to conceal true origin. A supply chain audit can help identify these risks, assess existing controls and support corrective action before issues result in enforcement exposure, financial penalties or reputational harm.

PKF O'Connor Davies professionals across Transaction Advisory, Risk Advisory, Forensics, Cybersecurity and Privacy Advisory, Tax, Attest and Board Advisory can help management teams and private equity firms and sponsors evaluate these risks through a multidisciplinary lens. Depending on the situation, that may include diligence support, control gap assessments, forensic review, tax and tariff analysis, cybersecurity/vendor risk review or financial planning and scenario modeling.

Key Components of a Supply Chain Audit or Assessment

At PKF O'Connor Davies, we advise clients to consider the following when evaluating supply chain risk and resilience:

- Map the components and counterparties involved in creating and delivering and shipping raw materials, work-in-process and finished goods.
- Identify the geographies involved and understand the risks of each jurisdiction.
- Assess supplier concentration, including country of origin, creditworthiness, ownership and management, raw materials, labor practices, regulatory environment and system of laws.
- Diversify suppliers to avoid single-source dependencies.
- Monitor changes in pricing, declared country of origin or shipping routes, particularly for suppliers operating in or shipping from countries subject to increased tariffs.
- Revisit inventory levels, inventory cushion, obsolescence risk and reliance on just-in-time practices.
- Review compliance requirements across all relevant jurisdictions, including U.S. Customs and Border Protection requirements related to import documentation and chain-of-custody evidence.
- Review customer contracts for penalties, price concessions or service-level exposure related to delivery delays or interruptions.
- Update Financial Planning & Analysis to model potential supply chain disruptions, lost sales, working capital pressure and profitability impact.
- Review financing sources and liquidity needs, including revolving lines of credit.
- Assess tax exposure, including tariffs, value-added tax (VAT) and transfer pricing, as well as the structural impact of potential supply chain changes.
- Consider whether a System and Organization Controls (SOC) Reporting attestation engagement or supply chain control gap analysis may be appropriate.
- Assess cybersecurity and data protection risks across key suppliers, logistics providers and technology platforms.
- Evaluate whether supply chain assumptions are reflected appropriately in quality of earnings (QOE) due diligence, working capital targets, purchase price adjustments, forecasts and valuation models.

Deal Terms Private Equity Buyers May Want to Consider

For private equity funds and businesses looking to acquire companies or expand operations, consider whether purchase and sale agreements should include:

- An earnout tied to agreed-upon minimum profit margins.
- A holdback for material events, including key supply chain disruption.
- A holdback for unexpected tariffs and VAT.
- Representations related to supplier concentration, country-of-origin documentation, tariff compliance, inventory sufficiency, customer penalties and known logistics constraints.
- Interviews with key supply chain partners to assess whether they can meet future business requirements without material interruption or delays.

Final Takeaway

Supply chain risk has become a strategic business issue that can directly affect profitability, valuation, transaction outcomes and long-term enterprise value. For private equity sponsors and management teams, disciplined analysis of suppliers, logistics networks, inventory strategies, tariff exposure and operational dependencies can help identify risks before they become costly disruptions.

As supply chains grow more complex and global trade conditions continue to evolve, organizations increasingly benefit from working with professionals who possess deep experience in supply chain operations, transaction advisory, risk management, forensics, tax and regulatory compliance. Bringing together these perspectives can help businesses make more informed decisions, strengthen resilience, support value creation initiatives and better protect investments throughout the deal lifecycle.

We Can Help

Manufacturing and distribution companies, service-based businesses and private equity-backed companies face supply chain and logistics issues that often hinge on the quality of information, analysis and vendor transparency.

PKF O'Connor Davies brings together professionals in Transaction Advisory, Risk Advisory, Forensics, Cybersecurity and Privacy Advisory, Attest, Tax and Board Advisory to help executive teams and sponsors evaluate supply chain risk from multiple angles. Our work may include diligence support, supply chain risk assessments, control gap analyses, forensic reviews, tax and tariff analysis, scenario modeling, internal audit support and transaction-related advisory services.

Contact Us

To discuss supply chain audits, transaction advisory, forensics, risk advisory, cybersecurity, tax or board advisory services, or to learn more about this topic, please contact your PKF O'Connor Davies client service team or any of the following:

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