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# Due Diligence

For M&A  
and investment deals

A Checklist

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## DUE DILIGENCE FOR M&A AND INVESTMENT DEALS

### A COMPREHENSIVE CHECKLIST

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*This checklist provides a comprehensive guide for conducting due diligence in M&A and investment deals. The specific focus areas may vary depending on the nature of the transaction, the industry, and the investor's requirements. Due diligence is essential for mitigating risks, maximizing the value of the deal, and ensuring a successful transaction.*

#### 1. Financial:

- Review audited financial statements for the last five years.
- Examine income statements, balance sheets, and cash flow statements.
- Analyze revenue streams, profitability, and historical financial performance.
- Assess working capital and liquidity.
- Evaluate any outstanding debt and associated covenants.
- Examine financial projections and assumptions.

#### 2. Legal:

- Conduct a comprehensive review of all contracts and agreements, including customer contracts, supplier contracts, and employee contracts.
- Assess the target company's compliance with industry-specific regulations and legal requirements.
- Identify any pending or potential legal issues, lawsuits, or disputes.
- Review intellectual property rights, patents, trademarks, and copyrights.
- Assess compliance with labor laws and employment-related matters.

#### 3. Operational:

- Analyze the target company's operational efficiency and supply chain management.
- Review inventory management and quality control processes.
- Assess manufacturing processes, if applicable.
- Cross-check equipment and equipment lifetime against related financials (specifically the depreciation balance posts).
- Evaluate distribution channels and logistical efficiency.
- Identify operational risks and inefficiencies.

#### 4. Market and Competitive Analysis:

- Analyze the target company's position within its industry and market.
- Assess market size, growth trends, and competitive landscape.
- Identify competitive advantages and market differentiators.
- Review customer concentration and key client relationships.
- Evaluate potential market challenges and threats.



#### 5. Customer and Supplier:

- Review the customer base and supplier relationships.
- Identify key customer accounts and supplier contracts.
- Assess customer and supplier concentration.
- Analyze customer satisfaction and relationships.
- Evaluate the supplier network and reliability.

#### 6. Technology and IT:

- Assess the target company's technology infrastructure, including hardware and software.
- Review cybersecurity measures, data protection, and privacy policies.
- Identify technology risks and readiness for digital transformation.
- Review software systems, licenses, and potential liabilities.

#### 7. Human Resources and Employee:

- Evaluate employee satisfaction, talent retention, and organizational culture.
- Review the target company's talent acquisition and retention strategies.
- Assess employee compensation, benefits, and employment contracts.
- Understand any pending labor disputes or employee-related issues.

#### 8. Intellectual Property and Proprietary Assets:

- Confirm intellectual property ownership and protection.
- Review the target company's patent, trademark, and copyright portfolios.
- Assess any intellectual property-related risks and potential infringement claims.

#### 9. Regulatory and Compliance:

- Confirm compliance with industry-specific regulations, licenses, and permits.
- Assess environmental, health, and safety compliance.
- Identify any issues related to antitrust, anti-bribery, and data privacy regulations.
- Review product or service certifications and approvals.

#### 10. Tax and Financial Structuring:

- Evaluate the target company's tax positions, liabilities, and deferred tax assets.
- Assess tax compliance and historical tax returns.
- Identify any tax-related risks or exposure.
- Review the financial and legal structure of the transaction.



11. Strategic Fit and Synergies:

- Assess the strategic fit of the target company with the acquiring or investing entity.
- Identify potential synergies, cost savings, and operational improvements.
- Review integration plans and challenges.

12. Due Diligence on Previous Transactions:

- Review due diligence conducted during previous financing rounds or acquisitions.
- Identify and assess any outstanding issues or risks from prior transactions.

13. Environmental and Sustainability:

- Review the target company's environmental policies, sustainability efforts, and potential environmental liabilities.
- Assess compliance with environmental regulations and obligations.

14. International Considerations:

- Evaluate any international aspects, including cross-border operations and regulatory compliance.
- Assess currency risks and exchange rate exposure.

15. Human Capital and Management:

- Evaluate the qualifications and experience of key executives and management team.
- Review the stability and performance of the management team.
- Verify backgrounds and references of top management.
- Assess management's alignment with the acquiring or investing entity's goals.
- Review the company's Board of Directors structure and interaction with the company;
- Review the profiles of the directors in the BoD and their functioning within the BoD.

16. Exit Strategy and Investment Objectives:

- Understand the exit strategy and investment objectives for the transaction.
- Identify potential exit scenarios, such as IPO, trade sale, or strategic acquisition.
- Align the due diligence with the desired investment outcomes.

