

## Due diligence checklist

Before you start work on due diligence, make sure the acquisition deal is agreed in principle. A purchaser should seek buy-in from shareholders and confirmation that all are on board. An understanding on price and who will give warranties is crucial.

Make sure that all parties have signed a protective confidentiality agreement. Always obtain full legal and tax advice at an early stage, as key issues, such as how to deal with or consult employees, how to address key customers, and how to manage any press or leaks about the proposed plans, need to be addressed before the process starts.

The precise scope of due diligence will vary, but could include any or all of the areas below.

### Financial

- Examine the target company's accounting policies and decide whether they are reasonable for the industry in which it operates.
- Look at the accounts for "exceptional items" that may have distorted value.
- Determine whether there are contingent liabilities that could affect future value.

### Commercial

- Explore the target's unique selling propositions and whether these will be of value in the enlarged company.
- Look at customer and supplier contracts and assess how well they are documented.
- Check what intellectual property the target owns and whether the IP is licensed.
- Review the target's prospects and decide whether its revenue projections are realistic.

### Cultural

- Decide whether there will be a cultural fit from both business and geographical viewpoints.
- Assess the target's management style and gauge whether it will fit into the new organisation.
- Size up the demographic profile of the target's staff and decide whether this will sit comfortably alongside existing workers.
- Gauge how the target company communicates with staff, customers and suppliers.
- Conduct a brand audit to identify synergies, conflicts and potential gaps.

## Legal

- Verify legal title to all the target's key assets.
- Examine key contracts to see whether any contain "change of control" clauses that might affect future revenues.
- Check that the target meets all regulatory requirements.
- Confirm whether the business is involved in any unresolved litigation.

## Management

- Review whether key managers intend to stay or leave after a takeover.
- Look at management synergies between the buyer and the target, and review how these can be developed.

## Environmental

- Determine whether the target has complied with all environmental permits.
- Investigate whether its site is on contaminated land or subject to flooding.
- Weigh up whether future environmental legislation is likely to affect the target company's business.

Are you planning to expand your business through an acquisition or a merger? Some of the crucial information mentioned above can be very difficult to find. For help in avoiding potentially disastrous mistakes, [email me](#) or call me on **020 7099 2621**.