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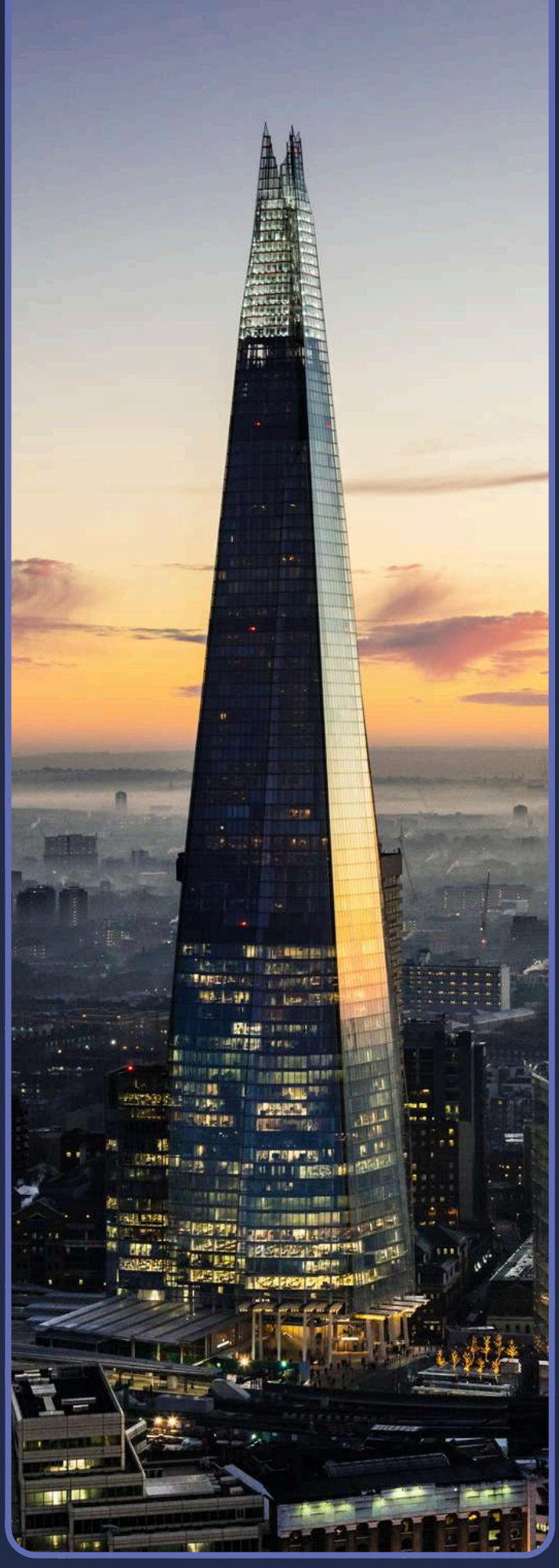
DUE DILIGENCE CHECKLIST

An all-encompassing guide for company acquisitions.



ACQUISITION TARGET

- [ ] Why is the company being sold / or is being targeted? Investigate the reasons for sale, which may range from legitimate reasons like retirement to potentially concerning factors such as pending lawsuits or declining prospects.
- [ ] Have there been prior attempts to sell? If so, explore why those attempts were unsuccessful, as this could indicate underlying issues.
- [ ] Review business plans, comparing them to actual performance to assess management's ability to execute.
- [ ] Evaluate the complexity of the business. Simpler operations may be more manageable than those with many disparate subsidiaries.
- [ ] Conduct a market review, examining competitors, market trends, and the impact of new technologies.
- [ ] Assess the ease of market entry and the competitive landscape.
- [ ] Investigate recent industry acquisitions and sale trends.
- [ ] Obtain and review the company's reporting relationships and geographical structure.
- [ ] Examine the organisational ownership (present and past), legal structure, including subsidiary ownership and incorporation details.
- [ ] Undertake a culture audit of the target. Link to existing skillset audit and forward requirement post acquisition.

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REVENUE

- Determine the backlog, tracking trends over the past year to understand near-term revenue levels.
- Identify and quantify (in detail) the recurring revenue stream.
- Segment revenue by product, service line, and customer type.
- What is the sales process and how is this supported by data.
- How effective is customer service, could it be improved quickly.
- Analyse changes in major customers over the past three years.
- Explore potential new geographic regions or distribution channels.
- Understand the company's pricing philosophy.
- Assess the estimating process for customised services or products.
- Review major customer contracts, including expiration dates and potential for renewals.
- Examine the accounts receivable ageing report and understand why there are bad debts.
- Compare gross to net sales and assess credits given by reason. Compare to contract terms.

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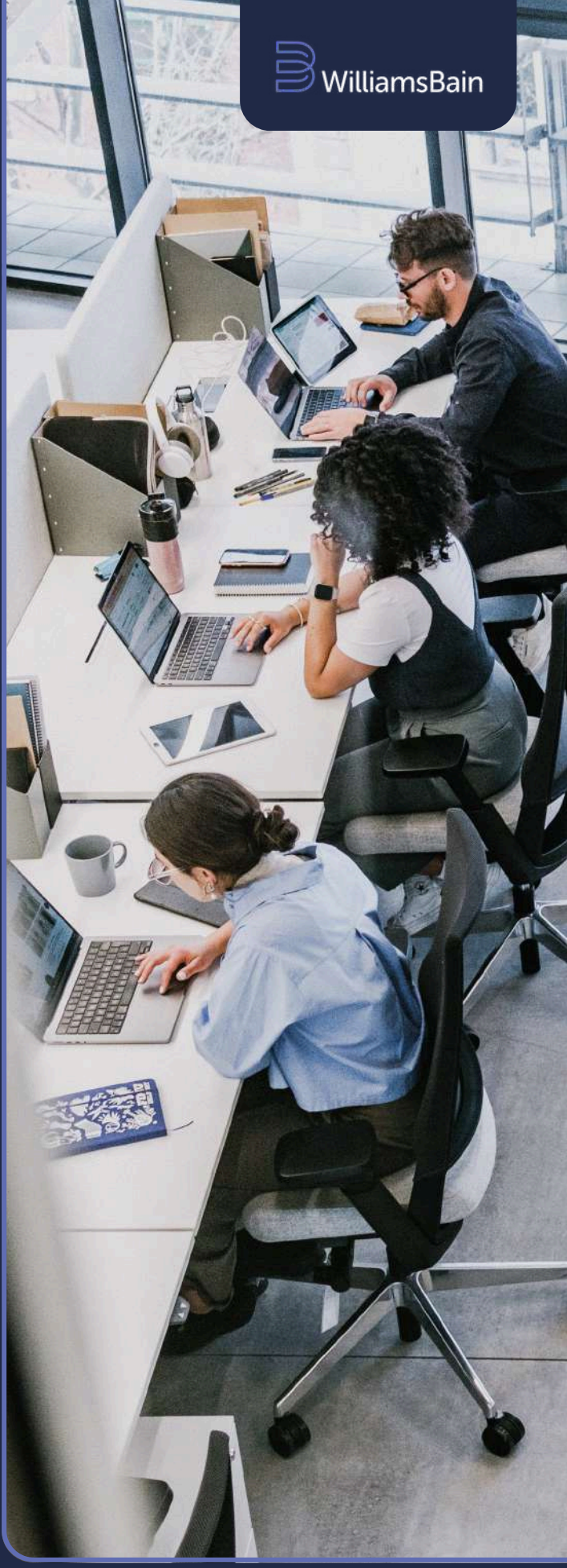
SALES & MARKETING ACTIVITIES

- [ ] Examine the organisation of the sales department.
- [ ] Analyse the customer acquisition cost (CAC) and customer lifetime value (CLV).
- [ ] Evaluate sales productivity and identify top and underperforming salespeople or stores.
- [ ] Review the sales compensation plan and its effectiveness.
- [ ] Assess the alignment of sales skills with product requirements.
- [ ] Conduct a comparative analysis of the company's marketing efforts against its competitors.
- [ ] Evaluate the coordination between marketing and sales efforts, include promotions and detailed analysis.
- [ ] Examine the company's branding strategy.

EMPLOYEES

- [ ] Gather information on the number of employees in each functional area.
- [ ] Identify key skills that are crucial to operations and have a bridging plan.
- [ ] Identify any open or anticipated roles critical to business continuity.
- [ ] Assess customer linkages and the risk of owners or employees taking customers with them.
- [ ] Compile total compensation details for top employees.
- [ ] Understand the company's compensation philosophy and pay history.
- [ ] Investigate any pay freezes and their potential implications.
- [ ] Review employment agreements and potential severance obligations.
- [ ] Examine union representation and contracts.
- [ ] Assess pending or historical discrimination or tribunal claims.
- [ ] Review employee injury records and workers' compensation claims.
- [ ] Obtain and review the employee manual.
- [ ] Review sickness / absenteeism / timekeeping records by department if possible.



FINANCIALS

- [ ] Obtain and analyse annual financial statements for the past five years.
- [ ] Balance sheet including goodwill, asset ownership, cash conversion, R&D, IP
- [ ] Conduct a cash flow analysis, paying attention to both profits and cash reserves.
- [ ] Identify any covenants, cash restrictions, lending limitations.
- [ ] Investigate expenses categorised as non-operational.
- [ ] Consider any one-time events that may skew financial results.
- [ ] Review financial statement disclosures and public filings.
- [ ] Examine management letters from auditors.

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COST STRUCTURE

- Review the cost allocation methodology.
- Analyse expense trends as a percentage of sales.
- Identify and investigate questionable expenses.
- Review any loans to employees, directors or other companies linked by shareholders
- Assess the condition and replacement rate of fixed assets, both owned and leased.
- Investigate stock holding, stock turns and any work in progress.
- Key supplier relationships and contractual obligations.

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LIABILITIES

- [ ] Review the accounts payable ageing report.
- [ ] Examine equipment leases and any bargain purchase clauses.
- [ ] Analyse debt agreements, including acceleration clauses, write off policies and personal guarantees.
- [ ] Investigate debts to related parties.
- [ ] Attempt to uncover any unrecorded liabilities.
- [ ] Review all contingent liabilities.
- [ ] Verify which assets have been designated as collateral.

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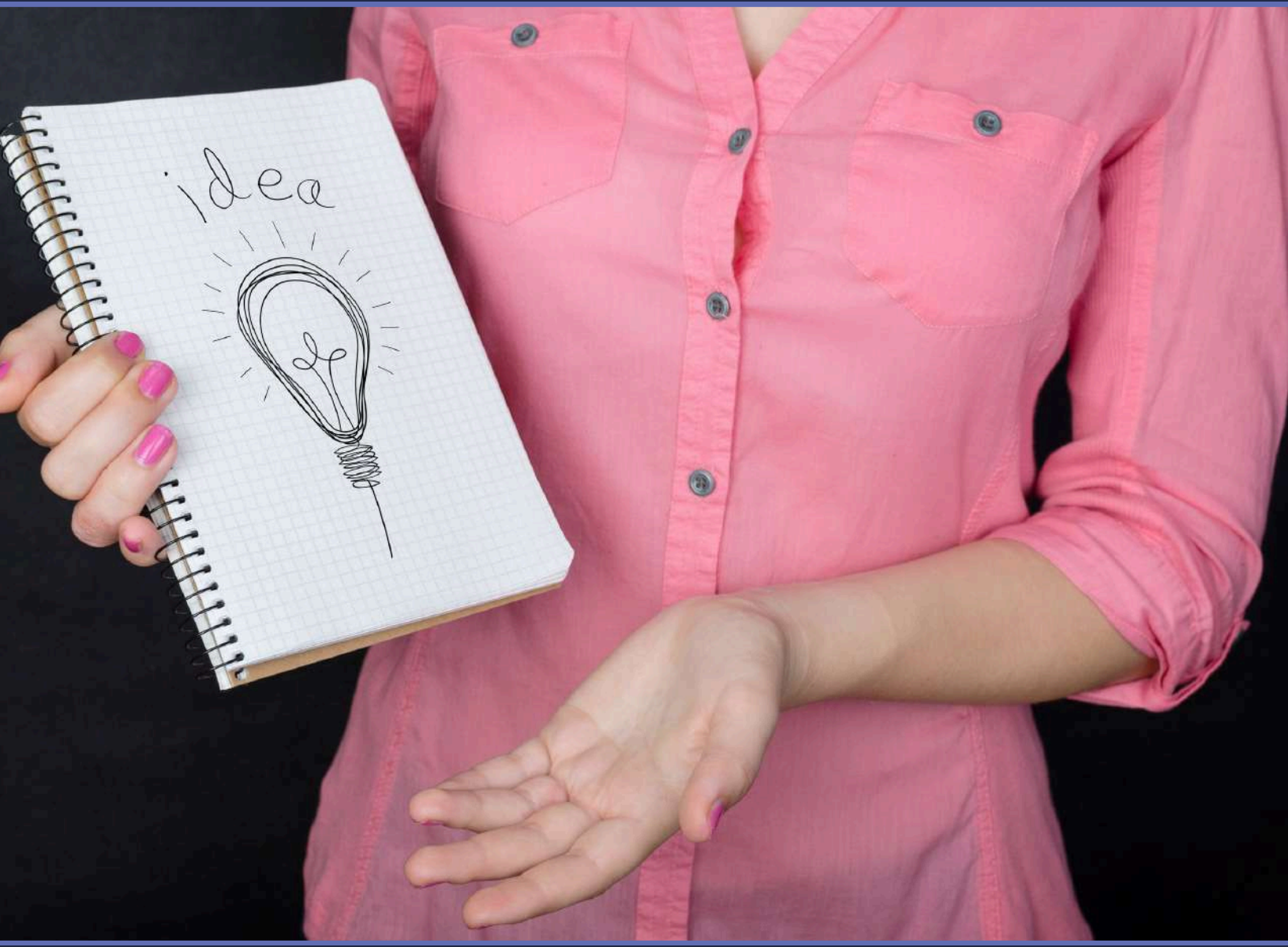
INTELLECTUAL PROPERTY

- Review the company's IP ownership structure.
- Assess the value and registration status of patents and trademarks.
- Determine the size of licensing income and expenses.
- Relate IP/patent policy and R&D/innovation activity.

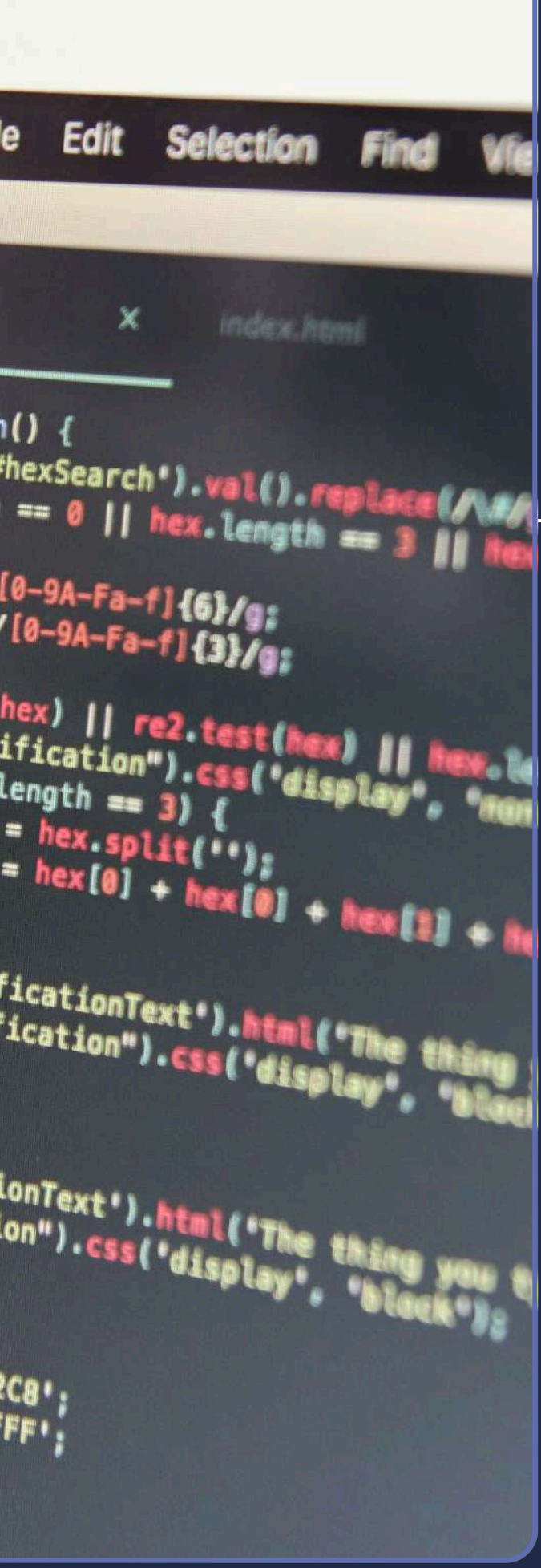


FIXED ASSETS

- Assess alignment of fixed assets with business operations.
- Assess the actual value of fixed assets versus their net book value.
- Conduct a physical inspection and trace fixed assets from records to reality.
- Evaluate asset utilisation and identify any unused assets.
- Review the fixed asset replacement history.
- Assess the adequacy of maintenance levels.
- Examine asset insurance coverage and claims history.

EQUITY

- [ ] Obtain a list of all shareholders and their holdings, include unallocated shares and golden shares.
- [ ] Verify the stock ownership and voting rights of all stock classes.
- [ ] Examine debt agreements for conversion rights to shares.
- [ ] Determine the amount of outstanding stock options and warrants.
- [ ] Investigate any unpaid dividends.
- [ ] Assess any stock buyback obligations.
- [ ] Evaluate the impact of any recent or pending equity crowdfunding or private placements.



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IT AND DATA

- Create a list of all major software packages, their versions, and maintenance costs.
- Establish extent of AI use and company policy to AI application.
- Verify the number of valid software licenses.
- Review outsourcing agreements for IT operations.
- Assess the capacity and age of IT systems.
- Investigate any cyber security issues and ensure there is a Cyber security policy.
- Investigate the extent of software customisation.
- Examine system interfaces.
- Identify any legacy systems and their maintenance costs.
- Assess the disaster recovery plan and its testing.
- Assess compliance with data regulations.

LEGAL

- [ ] Ascertain the status of current lawsuits against the target.
- [ ] Confirm litigation reserves on the balance sheet are adequate.
- [ ] Obtain copies of settlement agreements for prior lawsuits.
- [ ] Review invoices paid to law firms.
- [ ] Examine all contracts entered into within the past five years.
- [ ] Obtain and review the company's charter and bylaws.
- [ ] Review board meeting minutes for key decisions.
- [ ] Obtain and review shareholder meeting minutes.
- [ ] Review audit and remuneration committee minutes, if applicable.

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ABOUT US

Williams Bain works with organisations that are experiencing planned or forced change, with most of our clients delivering an acquisition, disposal or carve-out in the last 3 years.

This makes us uniquely positioned to recruit executive-level permanent candidates and executive interim managers who are experienced in delivering value in a change and transformational environment

Our global leadership team is more than just recruiters; we are former business leaders, business owners, and current investors in businesses outside of recruitment. This means that we speak your language and we are perfectly positioned to identify and secure the very best talent to assist you with your strategic goals.

If you are delivering an acquisition strategy or restructuring your business please consider us to support you in securing the right candidates.

Supplying executive-level candidates for special situations.

- **Acquisitions**
- **Disposals**
- **Integration**
- **IPO's**
- **Turnaround**
- **Restructuring**
- **Due diligence**
- **Special projects**
- **Critical interventions**
- **Buy and Build**
- **Due diligence**
- **Business recovery**
- **TSA's**
- **Transformation**
- **Major change**
- **Contract recovery**
- **M&A**
- **High-profile programmes**
- **Origination**
- **Mergers**

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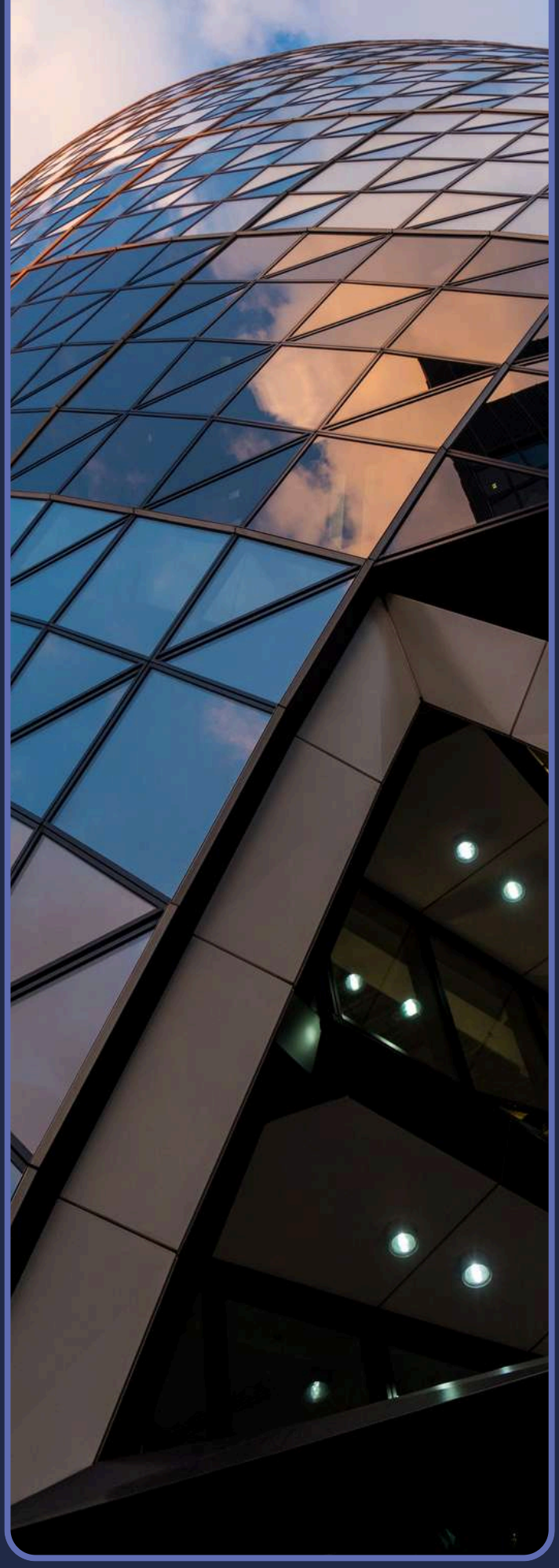
Williams Bain is part of IXPA, with physical offices in 29 countries.

Find out more

Mark Kitchen

EXECUTIVE INTERIM MANAGEMENT AND EXECUTIVE SEARCH



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