

A background graphic consisting of a network of light blue circles of various sizes connected by thin, light blue lines, creating a complex web-like structure. The circles and lines are semi-transparent, allowing the white background to show through.

# DUE DILIGENCE CHECKLIST

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**Corporate Overview**

- Brief overview and history of the company. This should be cursory, as most of it is covered in more detail below. It should include:
  - Location and date of establishment
  - Background on founders
  - Timeline highlighting the major milestones
- Overview of corporate structure. Organizational chart showing all subsidiaries, joint ventures, and divisions of the company, and those of any related companies.
- Brief biographies of each member of the current executive team and board of directors. These should include position, age, number of years with the company, work experience, and education. Also include biographies for personnel of any related companies, if applicable.
- Overview of any existing banking, financing, or investing relationships.
- Overview of ownership. Must include details on all existing options, warrants, or redemption plans.

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**Products**

- Overview of each primary product line and list of all product SKUs.
- Background on major applications and customers by line.
- Pricing by product. Discussion of pricing dynamics and trends.
- Estimated market share by line. (Supplemental due diligence items are covered in the Competition section below.)
- Dollar sales, unit sales, and percentage of total revenue by line. (Supplemental due diligence items are covered in the Financials section.)
- Forecasted growth rates by line.
- Cost structure and profitability by line. Should minimally include gross margin details.
- All existing plans for any expansion or enhancements of the current product portfolio. Details on timing and anticipated impact on sales.
- All existing plans for any launches of new products. Details on timing and anticipated impact on sales.
- Discussion of declining products.

**3** 

## Market

- Overview of the main target markets.
- Estimated sizes of markets. Brief discussion of how markets are segmented.
- Summary of growth prospects. Includes industry outlook, preferably with quantitative forecasts. Discussion of growth drivers. If business projections don't align with anticipated industry growth, discussion of the delta.
- Overview of profitability drivers.

**4** 

## Competition

- Overview of core competitors. cursory background on their competing products. Should include specifics where necessary for understanding.
- Breakdown of market showing market share of company versus primary competitors. Supplemental due diligence items are covered in the Products section.
- Discussion of competitor strengths and weaknesses relative to the company.
- Any known insight on future competition.

**5** 

## Customers

- List of the top 10 to 20 customers in each product line. Percentage of total sales attributable to each customer. If relevant, timing of any major batch purchases or large future orders.
- Overview of all strategic relationships (e.g., marketing, distribution). Include terms, revenue contribution, and current relationship status.
- List and details of all major strategic or customer relationships severed in the last two years.
- Description of collections process. Standard terms extended to customers.
- Samples of customer agreements.
- Schedule of all loans or advances to any customer.
- All agreements or arrangements reflecting pricing commitments for products or services (of the company or the related companies).

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## Marketing, Commercialization and Distribution

- Brief overview of the marketing organization.
- Description of existing commercialization strategy for each product line. Overview of promotion, pricing, and distribution channels by line.
- Details on any contemplated changes.
- All major marketing plans. Details on location-specific strategies, if possible.
- Overview of past and current market research. Include all customer surveys, if any. Should include research and analysis relating to past assessments of geographical or product line expansion opportunities.
- List of all marketing and advertising agreements or commitments.
- Brief overview of the sales organization.
- Overview of direct and non-direct sales efforts. Discussion of product presentation methods, as appropriate. Must include list of any trade shows that were historically attended on a recurring basis.
- Overview of sales commissions paid.
- Core sales collateral, price lists, brochures, product literature, and other prospecting material.
- Schedule of all loans or advances to any dealer, retailer, or other third party distributor, if applicable.

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## Public Relations

- General overview of public relations strategy.
- List of all public relations agreements or commitments.
- Press releases referring to the company or the related companies from the last 3 years.
- Analyst or industry reports providing insight into the micro or macro standing of the company from the last 3 years.
- All files of customer complaints from the last 5 years.

**8** 

## Suppliers and Vendors

- List of major production materials. Should include quantity detail.
- Overview of materials pricing. Discussion of pricing dynamics, drivers, and trends. Should include major risks to and movers of pricing.
- Overview of all primary suppliers and status of relationship.
- Schedule of all substantive purchasing and supply contracts. Details on terms. Schedule of all loans or advances to any supplier, if applicable.
- Schedule of all major vendor agreements.

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## Properties

- Description of all property, offices, and facilities. Information on the functions performed and/or products produced or sold at each property. Details on the size, location, age of facility, and current ownership of each property.
- List of employees at each property, by job function and union status.
- Schedule of all agreements to purchase or sell property at a future date.

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## Operations

- Description of the operations for each product line.
- Quantitative assessment of capacity and current utilization of each facility used in a production capacity. Utilization should be discussed as a percentage of full capacity, number of shifts per facility, etc.
- Overview of backlog in each product line.
- Detailed summary of all plans for new production equipment, or production facilities. Table of estimated costs of expansion. Ideally itemized by land, building, equipment, and operating cost.
- Assessment of any operating improvements available through the use of new technology.
- All information relating to quality assurance. Includes compliance manuals, internal memoranda, testing reports, external correspondence, and minutes of any material meetings with operations managers, safety directors, or quality control directors.

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## Inventories

- Detail on inventory composition, e.g., raw materials, work-in-process, finished goods, and age by product line.
- Summary of inventory controls.
- Schedule of inventory reserves, write-offs, and provision for losses.

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## Historical Financials

- At least three or five year historical financial statements, plus the most recent interim period on a comparative basis with the same period last year. For example, if you're four months into the fiscal year, the financials should include annual results for the last three or five years, monthly results for the first four months of this year ("interim period"), and monthly results for the first four months of last year. If this isn't available, quarterly results for Q1 of this year versus Q1 of last year will give an approximate view of the picture. Includes income statements, balance sheets, and cash flow statements. Includes all related companies, if applicable.
- Breakdown of fixed and variable expenses.
- Historical annual forward-looking budgets for each of the last 3 fiscal years. Comparison of projected versus actual performance over the historical period.
- Detailed discussion of one time charges and any abnormally high expenses.
- If relevant, a breakdown of revenue and gross profit by product line, channel, and geography. Supplemental due diligence items are covered in the Products section.
- Cash flow statements for the most recent fiscal year and the interim period, on a monthly basis.
- List of accounts receivable and accounts payable as of the end of each historical fiscal year and the end of the interim period, specifying the name of each debtor or creditor, the amount owed, and the aging schedule.
- Details on accounts receivable aging. Discussion of historical receivable write-offs and provision for losses.

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## Projected Financials

- At least 3 years of projected financials. Should include income statements, balance sheets, and cash flow statements. Should include the key assumptions for sales, expenses, capital expenditures, working capital, etc. Break out depreciation and amortization with any pertinent schedules.
- Capital expenditure details. Includes all existing and planned expenses for the 3-year projection period. Should be segmented into maintenance versus growth capex.

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## Liabilities, Security Interests, and Related Financial Restrictions

- All documentation and agreements detailing the indebtedness of the company or the related companies. Includes loans, loan commitments, letters of credit, bonds, mortgages, deeds of trust, security agreements, guarantees, debt securities, leases, installments sales contracts, etc.
- Schedule of all aforementioned short term and long term debt, including capitalized leases, guarantees, and other contingent liabilities.
- Schedule of all operating leases.
- Historical compliance certificates detailing the company's satisfaction, or failure to satisfy, covenants contained in the debt obligations of the company. Includes any other compliance calculations relating to covenants, if applicable.
- Details of all off-balance sheet liabilities that are not otherwise disclosed or discussed in the most recent balance sheet.
- The proposed term sheet for the current funding round, if applicable.
- All documentation and agreements related to all prior funding rounds and any stock purchase offerings.
- Overview of any grant funding received.
- Schedule of all security interests that relate directly or indirectly to the assets or performance of the company. Copies of the associated security agreements and financing statements.
- Schedule of all contracts or arrangements restricting the company's ability to upstream or downstream cash, by distribution or otherwise.



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## Accounting

Schedule of all consents and approvals required from, and all notices and filings required to be made to or with, any third party, including any federal, state, local, or foreign governmental body, in connection with a change of control of the company or the related companies.

5 years of auditor review letters, annual management letters, and internal audit reports, if applicable.

All reports by internal or outside auditors or consultants to the Board of Directors regarding internal corporate controls.

Schedule of major accounting changes for the last 5 years.

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## Taxes

Schedule of all tax examinations, determinations, and assessments from the last 5 years including anything currently in progress. Includes income, withholding, excise, payroll, gross receipts, property, and sales and use taxes.

Schedule of all tax return statute of limitation extensions that are currently outstanding.

Schedule of all pending tax liabilities.

List of all NOL carryforwards available. Explicit details on any limitations on usage.

Copies of all tax sharing agreements.

Copies of all corporate tax filings.

Copies of any other material tax agreements, memoranda, or correspondence.

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## Employee Relations

- A copy of the current employee handbook, including information about general incentive compensation, 401(k), and health plans.
- Résumés for each member of the current executive team.
- List of all employees, including on-site personnel, by function. Should include details on current salaries, bonus program (if any), length of service, and turnover.
- List of employment agreements and copies thereof.
- Schedules and copies of all collective bargaining and other union agreements.
- Copies of major incentive, compensation, and severance agreements.
- Copies of major confidentiality agreements and non-compete agreements, particularly those relating to officers, directors, or affiliates.
- Schedule of loans to employees by or guaranteed by the company or the related companies, if applicable.
- Copies of the most recent report regarding post-retirement liabilities prepared in accordance with FASB, and a schedule of life and/or health benefits for retired employees or dependents. Should cover whether liability for those benefits has been determined, whether and how said benefits have been funded, and the number of retirees receiving benefits.
- Copies of any contractual arrangements to contribute to multiemployer plans for employees of the company and the related companies.
- Schedule of all employee claims, including, but not limited to, those regarding worker's compensation, employment discrimination, or unfair labor practices, among others.
- Description of material labor disputes, strikes or work stoppages that took place over the last 5 years.

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## Acquisitions, Divestitures, and Reorganizations

- Material documents relating to acquisitions or divestitures of business or assets (outside of the ordinary course of business) over the last 5 years.
  - With respect to all operations divested over the last 5 years, a schedule covering any liabilities the company has retained from the sold operations.
- Summary of any corporate reorganizations that occurred over the last 5 years.

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## Legal

- Details regarding any pending lawsuits against the company. Details regarding the claimant, alleged damages, history of relationship, name and address of the company's legal counsel, current status of suit, and expected outcome.
- Details regarding any pending lawsuits initiated by the company. Details regarding the defendant, alleged damages, history of relationship, name and address of the company's legal counsel, current status of suit, and expected outcome.
- Schedule of material patents, copyrights, licenses, trademarks, trade names, and service marks, both issued and pending. Includes those issued in a foreign country.
  - Evidence of entitlement to the foregoing, e.g., registrations, pending applications, etc.
  - All documentation relating to infringement or alleged infringement of any of the foregoing.
- Overview of any joint venture agreements, similar collaborative agreements, and profit sharing arrangements.
- Overview of insurance coverage and any material exposure.
  - Schedule of all insurance policies and arrangements (including property damage, third party liability, directors and officers liability, surety bonds, workers' compensation, and key employee insurance) and schedule of possible claims thereunder, cancellation notices, or premium increases thereon.

- Copies of all policies contained in the schedule of insurance. If policies have not been received, a copy of the expiring contract accompanied by a copy of the renewal binder.
- Loss history by line of insurance covering the last 5 years. Should identify paid claims, estimates, and reserves, in summary form. Details on historical self-insured deductible retentions.
- A copy of the standard confidentiality agreement and a schedule of confidentiality agreements signed with any other entities. Note any deviations from the standard agreement.

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**Regulatory**

- List of all material foreign, federal, and state regulations and statutes to which the company and the related companies are subject.
- All external correspondence, internal memoranda, notices of violation or default, and reports regarding the status of the company's compliance with the aforementioned regulations and statutes.
- Licenses, permits, filings, or authorizations obtained from, made with, or required by any governmental entity. Copies of correspondence with any regulatory governmental authority.
- Accident or injury reports to federal, state, local, and foreign governmental entities.

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**Environmental and Related Matters**

- All internal or external reports covering environmental matters relating to properties currently or formerly owned or operated by the company.
- Background information and all documentation regarding the generation, treatment, and disposal of hazardous substances or solid waste.
- All internal or external reports concerning compliance with waste disposal regulations (hazardous or otherwise) including, but not limited to, the disposal of waste water.

- Any documentation regarding historical problems with pollution control and environmental contamination. Includes copies of any correspondence, statements, or reports given by the company or related companies to the Federal Environmental Protection Agency, or any similar state or local regulatory authority or agency.
- All notices, suits, or complaints sent to, received by, or served upon the company, or any of the related companies, by the Federal Environmental Protection Agency, any state department for environmental regulation, or any similar state or local regulatory body, authority or agency.
- All other information relating to claims under environmental protection laws and any notices of violation with respect thereto.
  - Includes any claims under, and notices of violation with respect to the Comprehensive Environmental Responses, Compensation, and Liability Act ("CERCLA") and the Resource Conservation and Recovery Act ("RCRA")
  - Includes the CERCLA notification of hazardous substance disposal areas used by the company, and any RCRA notices of underground storage tanks, if applicable.