Due Diligence Checklist

Business acquisition due diligence is essential for buyers and lenders to obtain accurate information, ensuring informed decisions. It verifies financial health, uncovers liabilities, assesses risks, and confirms asset values, safeguarding the investment. Use this Due Diligence Checklist to assist in preparation.

Initial Review & Strategic Fit

- What are the company's products/services, and how do they fit with your goals?
- Who are the key customers? Any concentration risk?
- What is the company's reputation in the market?
- What are the company's competitive advantages or risks?
- Why is the business being sold?
- Are there any upcoming changes in the industry that could impact the business?
- What are the biggest risks and challenges facing the business?
- Are there opportunities for growth or expansion?
- How dependent is the business on the current owner?

Financial Due Diligence

- Three to five years of financial statements (income statement, balance sheet, cash flow)
- Interim (year-to-date) financials
- Tax returns (3–5 years)
- Revenue breakdown by product/service
- Gross margin trends
- Debt and liabilities
- Accounts receivable and payable aging
- Inventory detail and valuation method
- Capital expenditure history and needs

Legal & Corporate Structure

- Articles of incorporation, bylaws, and shareholder agreements
- Organizational chart and list of key personnel
- Employee contracts and benefits summary
- Litigation history or pending disputes
- Intellectual property (trademarks, patents, copyrights)
- Regulatory licenses or permits
- Environmental compliance (if applicable)
- Is the business involved in any current or past legal disputes?
- Is it fully licensed and compliant with local, state, and federal regulations?
- Are there any pending lawsuits, liens, or government investigations?
- Are all intellectual property rights (logos, trademarks, patents) properly registered and transferable?

Operational Review

- List of key suppliers and vendor agreements
- Lease agreements and property ownership
- Insurance policies (coverage, expiration, claims history)
- IT systems and cybersecurity status
- Processes and standard operating procedures
- Product warranties or return policies
- What does a typical day-to-day operation look like?
- What systems or processes are in place (e.g., inventory, CRM, accounting)?
- Are there any key vendors or suppliers with exclusive contracts?
- What assets or equipment are included in the sale—and are they in good condition?

Sales, Marketing, and Customers

- Who are your top customers, and how much do they contribute to revenue?
- What's the current customer retention rate?
- Customer contracts (including renewals or terminations)
- What marketing strategies are in place, and how effective are they?
- Are there long-term customer or supplier contracts?

Human Capital & Culture

- Employee handbook or HR policies
- What is the company culture and employee turnover rate?
- Union agreements (if any)
- Are there any employment contracts, benefits, or severance agreements?
- Who are the key employees, and what are their roles and salaries? Will they stay?

Risk Assessment & Red Flags

- Are there discrepancies between reported financials and tax documents?
- Any contingent liabilities or off-balance-sheet items?
- Are customer or vendor relationships at risk?
- Are there gaps in contracts or missing documentation?
- Any signs of deferred maintenance or underinvestment?

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