

Information Checklist for Due Diligence & Business Valuation

Financial Statements

Balance sheets, income statements, statements of cash flows, statements of stockholders' equity for the last five fiscal years

Income tax returns for the same years

Latest interim statements and interim statements for comparable periods of previous year

Other Financial Information

Property, plant, and equipment list; depreciation schedule; capital budget

Aged accounts receivable

Aged accounts payable

Inventory and necessary information on inventory accounting policies

Lists of marketable securities and prepaid expenses

Leases for equipment and facilities

Other existing contracts (employment agreements, covenants not to compete, supplier agreements, customer agreements, royalty agreements, equipment lease or rental contracts, loan agreements, labor contracts, employee benefit plans)

Capitalization table - list of stockholders with number of shares owned by each

Schedule of insurance in force (key person life, property and casualty, liability)

Budgets or projections for a minimum of five years; business plan

List of subsidiaries and/or financial interests in other companies

Key personnel compensation schedule including benefits and personal expenses

Information regarding prior transactions in the stock or related party transactions

History including how long in business and details of any changes in ownership

Company Documents

Articles of incorporation, bylaws, and any amendments to either

Any existing buy-sell agreements, options to purchase stock, or rights of first refusal

Franchise or operating agreement

Company Information

Summary of business plan

- Description of the business, opportunities and strategy
- Target markets and projections
- Competitive advantages
- Costs
- Economics, profitability and harvest potential
- Team

Summary of industry, company, and products

- Industry
- Business model; company position in the value chain
- Product and service offerings
- Growth and exit strategy; entry strategy for new business/product

Summary of the economics of the business

- Gross and operating margins
- Profit potential and durability
- Fixed, variable and semi-variable costs
- Months to break-even and profitably for contributions from future products

Market research and analysis

- Customers
 - List of customer relationships and contracts; status and terms and conditions of agreements
 - List of customers that are or have potential to be competition and/or strategic partners

- Analysis of historical sales by customer, market segment, product line, geography and trend relevant to forecasts
- Market size and share
 - Relevant trade, analyst, or government publications including market forecasts
 - Trade associations to which the company belongs or would be eligible
- Competition and competitive advantages/disadvantages
 - List of competitors (direct with alternative offerings, substitutes)
 - Compare with respect to critical success factors
 - Market need unmet by competition
 - Competitive advantage – i.e. patents, IT, human resources
 - Value created in terms of economic benefit to customer
 - Competitive intelligence relevant to future market dynamics and behavior of individual players that would drive/change business plan
 - Review financial position, resources, costs and profitability of competition
- Estimated historical and Proforma market share

Marketing Plan

- Marketing strategy
- Pricing
- Sales tactics
- Service and warranty policies
- Advertising and promotion
 - Web site and marketing literature (catalogs, brochures, ads, etc.)
- Distribution
 - List of distributor relationships and contracts; status and terms and conditions of agreements
 - Risks and/or competitive advantages in distribution

Product / Service Offering Plans

- Product / service definition and customer requirements
- Product roadmaps – product improvement and new products
- Business model, marketing plan, pricing strategy
- Market analysis
- Competitive positioning
- IP Landscaping – competitive position of IP
- Proprietary issues
 - List of patents, copyrights, trademarks, licensing agreements
 - Impact of any unresolved issues or existing actions pending relating to assumed competitive advantage

- Difficulties and risks – market, technological, capital
- Historical and Proforma cost and profitability by product line
- Historical and Proforma revenue by product line

Supply, Manufacturing and Operations

- Operating cycle
 - Lead times and contributing internal/external factors
- Strategy and plans
 - Manufacturing processes – in house and outsourced
 - Make or buy policies
 - Product plan – cost/volume/inventory levels at different sales levels
 - Approach to quality control, production control and inventory control
- Facilities and improvements
 - Locations where company operates; size
 - Recent appraisals and leases agreements property, plant and equipment
- Regulatory and legal issues
- State, federal, international regulatory requirements unique to offering or processes – licenses, zoning, environmental, health
 - Filings or correspondence with regulatory agencies
 - Pending regulatory changes that could effect business
- Contingent or off-balance sheet liabilities (pending lawsuits, compliance agreements, warranty or other product liabilities, estimate of medical or pension benefits for retired employees, etc.)
- Supply chain
 - List of supplier relationships, and contracts; status and terms and conditions of agreements
 - Risks and/or competitive advantages in supply chain

Team

- Resumes of key personnel with age, position, compensation, length of service, education and prior experience
- Succession plan
- Organization chart
- Personnel census: number of employees by functional group (production, sales, marketing, customer service, engineering/R&D, applications engineering, human resources, accounting, etc.)
- Employment and consulting agreements; stock option and bonus plans
- Shareholders, rights and restrictions – Founders, Investors; Board of Directors

- Professional advisors – legal, accounting, financial, technological, management

Critical risks, problems and assumptions

Financial Plan

- Balance sheets, income statements, statements of cash flows, statements of stockholders' equity for the last five fiscal years
- Proforma Balance sheets, income statements, statements of cash flows, statements of stockholders' equity for the next five fiscal years or period that captures the business cycle
- Management discussion mapping business plan to financial Proformas
- Management discussion comparing and contrasting historical to Proforma financials