Due Diligence Steps for Buyers

Due Diligence Steps for a Buyer	
Receivables	
	Review the company's aged accounts receivable schedule to identify possible "old and cold" receivables.
	Review receivables to assess the collectability of larger balances and identify larger customers for scrutiny of their status.
	Ask about and carefully review any significant receivable owed by related parties, such as the target company officers or owners – or entities or businesses controlled by them.
	Determine if receivables have been factored or borrowed against without the related liabilities being properly booked on the liability side of the balance sheet.
Intellectual Property	
	If intellectual property and other intangible assets are involved, consult with an attorney to verify the rights and ownership and evaluate the strength of patents, trademarks, licenses, etc.
Inventories	
	Consider performing physical inventory procedures to establish the existence and condition of inventory items if they are a significant part of the deal. Are there obsolete or slow-moving items?
	Review work-in-process inventory values to make sure they are not overstated.
	Compare book inventory values to insured values.
	Determine if inventories have been borrowed against without the related liabilities being properly booked on the liability side of the balance sheet.
Equipment	
	If purchased equipment is a major part of the deal, review the target company's repair and maintenance records to determine if needed work has been postponed to artificially pump up current operating results.
	Consider having equipment values professionally appraised.
	Determine if equipment has been borrowed against without the related liabilities being properly booked on the liability side of the balance sheet.
	Is there going to be a need to purchase new equipment in the next 3 – 5 years to meet cash projections for this time period?
Real Estate	
	Consider hiring a professional appraiser to value real property assets, if they are a significant part of the deal.
	Compare estimated fair market values to insured values and property taxing authority values.
	Consider hiring an environmental engineer to assess possible environmental concerns and liabilities associated with real property assets.
	Verify ownership of real property assets and possible existence of undisclosed mortgages and liens by conducting title reviews.
	Determine if mortgages with favorable terms can be assumed or not.
	Check public records for tax liens and other liens against properties.

Liabilities	
	Conduct a Uniform Commercial Code (UCC) filing search and a review of local court records to turn up undisclosed loans secured by assets; outstanding liens and judgments against the target business or its owners or principals; undisclosed litigation against the target business or its owners or principals; and so forth.
	Review prior tax returns and tax filing positions to identify aggressive or questionable positions that could lead to future assessments for unpaid taxes, penalties, and interest.
	Review contracts entered into by the target company for undisclosed liabilities, obligations, and unfavorable deals that might hinder future operations.
	Look at listing of vendor accounts payable to determine if current and if there are any specific payment terms with vendors.
	Examine employee retirement and benefit plans to determine if they have been properly funded and to understand the extent of future financial obligations that will be assumed by your company.
	Get information on compensation and fringe benefits of key employees, i.e. accrued vacation.
Operations	
	Perform various financial ratio analyses to assess cash flow, profitability and overall financial health.
	Assess the financial health of the target company's major customers and suppliers. Interview some of them about their perspectives on the company's operations.
	Examine the company's culture and determine if it can be integrated with your company's culture.
	Do an Internet search of the company and its officers to make sure there are no embarrassing surprises that could come to light in the future.
	Obtain an organizational chart of managers and employees, along with biographical information for key personnel.
	Interview selected personnel to hear their thoughts about the target company's operational performance and suggestions for improvements. Also, if possible interview some of the major customers.
	Determine if key personnel can be retained or are likely to leave after the merger or acquisition.

These are just some of the due diligence factors that need consideration when evaluating a potential merger or acquisition candidate. Each case is unique and the appropriate due diligence procedures must be customized for each situation.

Contact SVA if you need assistance conducting a thorough, revealing and cost-effective due diligence investigation.