



**A Business
Sale Report
Guide**

Due Diligence

**Over 1000 key questions to
evaluate any business for sale**

Compiled by

**Robert Moore
Chris St Cartmail**



Business Sale Report Guide to Due Diligence

The Business Sale Report Guide to

Due Diligence

Over 1000 key questions to evaluate any business for sale

Chris St Cartmail



Foreword

This compilation aims to be a guide to the kind of questions that should be asked by someone who is looking to acquire a substantial interest in a business. This can be applied to outright purchasers, venture capitalists, or other investors. Also set out is documentation that should be obtained to help analyse the business.

This publication also contains questions that a chief executive of any company should know the answers to or, if not him or her, then at least senior management. These questions can be used in a due diligence investigation.

A broad definition of due diligence is an investigation into the financial and commercial activities of a business in connection with a proposed acquisition or disposal of an interest in that business.

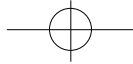
Acquisition due diligence is the process by which the owner manager gathers information about the business being bought into so that he or she enters into the purchase with full knowledge of the facts. It will usually draw on experts with experience in making acquisitions who can guide the owner or the owner manager through the process.

The first phase in due diligence is the evaluation of the deal, whereby a preliminary assessment is made of the key risks and opportunities. These findings are then built upon in a subsequent detailed investigation.

The due diligence process can normally be broken into three main sections:

Commercial
Financial
Legal

One area, however that we will not be concentrating on is the legal side. This is partly because it would be unlikely that any individual purchaser would have personal legal experience in this field. It is also the case that the legal due diligence is tied up with the structure of the deal. However it is worth mentioning that much of the legal due diligence process is investigating whether the processes, contracts, liabilities are enforceable in law.



Business Sale Report Guide to Due Diligence

Two new sections have, however, been included -

Environment Information Technology

Both these sections are relatively new areas that companies need to be aware of when evaluating an acquisition target. Environmental concerns have come about due to the increased awareness of pollution and contaminated land issues.

Relevant Industries

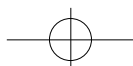
Readers of this guide will notice that many questions relate to the manufacturing industry. However, services are in many ways the products of a company. As such, the reader should be able to apply many of these questions to the service industries.

Confidentiality

Please remember that due diligence activity needs to be thorough and discreet. It should not impede the normal workings of the company. There will often be occasions where it is inappropriate or simply not possible to ask the entire list of questions. For example, the vendor may not wish for his customers to be directly contacted, or his employees to be alerted, at least until serious negotiations have begun. The level of confidentiality ought to be established in detail at the outset of the investigation.

Disclaimer

Whilst this guide is a list of questions that should be asked for the purposes of due diligence it is not exhaustive. As such the publishers do not accept liability for any claims arising from the use of these questions or answers given in response to them. The publishers advise that relevant professional advice should be taken at all stages of the due diligence process.



Contents

What is Due Diligence?

COMMERCIAL DUE DILIGENCE

Management Area **15**

Chief Executive 25

Number 2 and 3 in Management

Management as a Team

Decision Making

Management Characteristics

Basic Information Required

Personnel Area

Corporate Organisation

Employee Compensation

Pension Plans

Profit Sharing

Bonus Plans

Other Compensations

Special Arrangements

Payroll Records

Employee Books/Manuals

Union

Work Stoppage

Training Program

Attitude and Morale

Record Maintenance

Reports

Hiring Procedure

Motivation

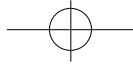
Employee Litigation

Regulatory Agencies

Consultants

Key Personnel

Reference



Business Sale Report Guide to Due Diligence

Production Process

Management
Manufacturing Process
Energy Requirements
Quality Control
Engineering
Subcontract Work
Inventory
Production Stoppage
Production Costs
Production Level

Distribution of Product

Purchasing
Suppliers
Receiving
Shipping

Customer Service

Customers Analysis

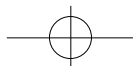
Efficiency Analysis

Reference

A.Documentation of Production
B.Production Reports
Ratio Analysis
Strengths and Weaknesses

Research and Development

Management and Personnel
Major Programs
Documentation
R&D Reports
Ratio Analysis
Strengths and Weaknesses



Marketing

The Marketing People
Product Description
Product Pricing
Product Life and Reliability
Product Warranty
Product Development
Documentation of Products
Personnel and Organisation
Documentation of Marketing Personnel
Customer Description
Competitive Analysis
Industry Structure
Size and Nature of Market
Industry Growth
Competition
Customers of the Industry
Suppliers of the Industry
Labour of the Industry
Government Regulation of the Industry
Patents, Trademarks, Copyrights, and Other Intellectual Properties
Cyclical Factors
Industry Associations and Trade Periodicals
Documentation of the Industry
General Strategy
Sales Projections
Advertising and Public Relations

Documentation

Promotion
Marketing Reports
Ratio Analysis
Strengths and Weaknesses
Summary Analysis



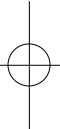
Business Sale Report Guide to Due Diligence

FINANCIAL DUE DILIGENCE

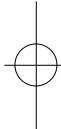
Management

Management, Personnel, and Organisation
Management Reports
Budgeting and Controls
Cash Management
Receivables Management - Credit and
Collection Policy and Procedures
Inventory Management and Control
Investment Management
Debt Management

Analysis of Financial Operations



Accounting Policies
Accounting Methods and Costing Practices
Leverage Analysis
Lease Analysis
Energy Intensiveness
Impact of Inflation on Operations
Documentation



Financial Statement Analysis

Financial Statement Records
Assets
Investments
Inventories
Property, Plant, and Equipment
Liabilities
Accounts Payable
Shareholder Equity and Net Worth

Other Assets And Liabilities

Unrecognised Liabilities
Contingent Liabilities and Commitments
Undervalued Assets

Taxes

Tax Planning and Preparation
Other Tax Considerations
Buyout Specials Tax Questions
Documentation of Taxes
Long-Range Budgetary Planning
Procedures and Organisation Manuals

Analysis of Projections

Projected Financial Statement Analysis
Sensitivity Analysis
The Risk
The Return

Reference

Documentation of Finance
Financial Reports
Financial Ratio Analysis
Strengths and Weaknesses
Summary Analysis

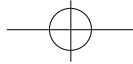
General Due Diligence

Reference List
Insurance

Questions to ask outside the company

Questions to Manufacturing Representatives
Questions to Lawyers
Questions to Accountants
Questions to Suppliers
Questions to Customers
Questions to Landlords
Questions to Advertisement People
Questions to Bankers

ENVIRONMENTAL DUE DILIGENCE
TECHNOLOGY DUE DILIGENCE



SECTION 1

Commercial Due Diligence

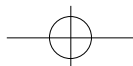
Covering Management, Personnel, Products, Production Processes and Production Distribution

MANAGEMENT

Obviously if you are looking to purchase outright a business you will not need to worry about the future performance of the Chief Executive. However, It is sometimes the case that the Chief Executive will stay on for up to three years to oversee the handover.

A. Chief Executive

1. How well has the Chief Executive done in business generally?
2. Will he/she reach the targets you have set?
3. What other business ventures has this entrepreneur been in? How successful were they? Why were they unsuccessful?
4. What is the style of leadership of the chief executive? Will that style be effective in this business?
5. How does this person perceive his role relative to other members of the management team? Is the emphasis on one individual or on the team effort?
6. How well does the chief executive understand the details of this business? Is the entrepreneur a detail-oriented or a concept person?
7. Does he/she know the details of the day-to-day operations of the business?
8. Is the Chief Executive knowledgeable about all parts of his business, marketing, production, finance, etc.?
9. To what extent does he/she rely on subordinates or other managers to analyse business operations?
10. Does the chief executive take a lead role in the company's planning efforts. Is he/she innovative in dealing with existing or potential problems?



11. Are they honest?
12. What is the reputation of the Chief Executive in the company, in the community, and in the industry?
13. What is the age of the entrepreneur? Do they have the energy to run the business?
14. What is their state of health?
15. Are they insured?
16. Does he/she want mainly capital gain from the business or salary. What is their salary and how does it compare to others in similar businesses?
17. Is the Chief Executive the final decision maker? Are they in control of the decision making process?
18. Is there a natural successor for the chief executive? Would the company be able to function smoothly without him/her?
19. Does he/she give you straight answers to questions?
20. Does he/she have a need for autonomy?
21. Do they need to dominate every situation?
22. Are they self-confident?
23. Are they persuasive?
24. Does the Chief Executive have a high tolerance for ambiguity?
25. Are they able to perceive risk well?
26. Do they take excessive risk?
27. Does the Chief Executive have a good personality? Are they easy to get along with or a difficult person to work with?
28. Do they have a broad and deep knowledge of the industry or the market?

B. Number Two and Three in Management

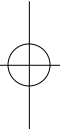
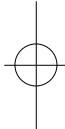
1. Would the people in second or third command be able to replace the Chief Executive?
2. Are there any disagreements between the top executives?
3. What are the backgrounds of the second and third level executives?

C. Management as a Team

1. Obtain an organisation chart and job description indicating present management areas of responsibility.
2. How does management experience in the past and the responsibilities of each person in the team compare with present job requirements? How does salary level compare?



Business Sale Report Guide to Due Diligence

3. Are there any gaps in the present management structure? What are the company's plans for resolving these deficiencies? Should they be rectified before an investment is made?
 4. What percentage of ownership or potential ownership does each member of the management team have?
 5. How significant is each person's investment position in the company relative to his/her overall financial resources?
 6. Are there any loans to or from management or key shareholders?
 7. Does the company have the right to re-purchase shares held by employees if they leave or are sacked? For how long does this right continue? Can the company repurchase shares at cost?
 8. What are the present salary levels of management?
 9. Are there any kinds of incentive compensation?
 10. Are there any employment contracts?
 11. Have key employees signed non-compete agreements?
 12. Is there presently any litigation or other potential liability resulting from management's previous relationship with another company?
 13. What changes have there been in the management group in the last three years?
 14. How do other members of management feel about the chief executives and their leadership style?
 15. Does the company have a management development program?
 16. How often is performance by members of the management team reviewed? By whom?
 17. Is there a strong work ethic? Do they work long hours?
- 
- 

D. Decision Making

1. Who exercises the principal authority?
2. Are there any committees? What functions do they perform? Who sits on them? How often do they meet? What records are kept?
3. Who are the members of the board of directors? What recent changes have there been in board membership?
4. What is management's attitude regarding the function of the board and the investors?
5. What outside interests influence management's decision making?
6. What are the individual duties, responsibilities, and authorities of each member of the management group? Who defines these? Do written job descriptions exist?

7. Are the basic rules of good organisation being adhered to, such as delegation of authority, defined authority limits, defined responsibility limits, simple and flexible organisation, separation of line functions, and staff functions?
8. What happens if a key employee is not available for an extended period?
9. Is there a successful mix of youth and experience, or are most employees the same age and do they have the same experience? Have new technology companies suffered from too much youth and not enough experience?
10. Have development plans been established for key managers and high-potential employees?
11. What is the strategy for filling key positions? Can internal development alone meet the requirements or will inter-company transfer or outside employment be required? Are outside consultants used? What has been the company's past experience?
12. Is the compensation plan being administered so as to attract and retain top-quality personnel? Are salary levels competitive with industry norms?
13. Does the company have "key person" life insurance and disability insurance on any of its employees?
14. Do any voting trust arguments exist on any of the company's stock?

 ***E. Management Characteristics*** 

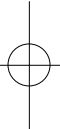
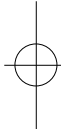
1. What type of leader is successful in this industry? Is the management like them? What type of leader is likely to be successful in this company? Does the management have this?
2. What experience does the management team have in this industry?
3. How intelligent are they? What schools did they go to? What degrees did they receive?
4. What successes have they had? What have they achieved in their lives?
5. What is the reputation of the management, the board members, and the company?
6. Have any of the officers, directors, or major stockholders been involved in legal proceedings? Criminal proceedings?
7. Has any executive, director, member of the management group, or the company, (including subsidiaries and/or affiliates) ever been insolvent or made any assignment for the benefit of creditors? If so, describe.
8. Has any executive, director, member of management group, or the company (including subsidiaries and/or affiliates) ever been accused or convicted of any crime other than a minor traffic offence? If so, describe.
9. Has a member of the management team left? If so, why? Contact this person and discuss the company and why he left.



Business Sale Report Guide to Due Diligence

10. Are there any actions, lawsuits, proceedings pending or threatened against the company or any executives or directors if so, list.
11. Does the company have any management contracts?
12. Do any affiliated transactions exist between the company and any of its directors, or their relatives other than in their capacity as a director?

F. Corporate Ownership

1. How much of this company does the Chief Executive own? After the financing will the ownership be enough to motivate the Chief Executive to achieve long-term capital gains?
 2. How much of this company does each member of the management team own? After this financing will they own enough to be motivated to sell long-term capital gains?
 3. How much of the company do the outside/non-management directors own? Are they motivated to achieve long-term capital gains?
 4. Do any individuals outside the company own a large percentage of the company? What is their role in the company?
 5. Does the company or any of its executives own 10% or more of the equity in any company other than the company you are looking at?
- 
- 

Reference

A. Documentation of the Management Area

1. Obtain a management organisation chart.
2. Obtain details of management stock ownership.
3. Obtain detailed c.v.'s (including past experience, salary and promotion history, and academic qualifications) and business and personal references for each key member of management and each department head.
4. Copies of any employment agreements, non-compete agreements, or agreements with respect to the repurchase of shares owned by management.
5. Copies of any incentive/profit sharing plans.
6. Copies of any litigation material.
7. Management checks:
 - a. Personal reference
 - b. Former employers of management
 - c. Former employees of this company

- d. Former investors, shareholders, or business partners
- e. Retail credit reports
- f. Litigation report
- h. Dun & Bradstreet on past business
- i. Past trade creditors
- j. Past suppliers.
8. At least five business and three personal references for each key member of management. Business references should correspond to most recent job, as indicated on CV.
9. A complete list of the total remuneration to the management of the company including salary, commissions, bonuses, fees, prerequisites, loans, advances, cars, club fees, pension, profit sharing, and other. What does each person cost the company!

B. Management Reports

1. What management reports are received by top management?
2. Which management reports are used by top management to "run the business"?
3. Does top management get performance reports on each functional area?
4. Does the management receive sufficient, timely, and accurate reports so they know what is going on in the business?

C. Strengths and Weaknesses

1. List the three strengths of the Chief Executive.
2. List the three strengths of the management team.
3. List the three weaknesses of the Chief Executive.
4. List the three weaknesses of the management team.
5. What are the three greatest risks of backing this management?

D. Summary Analysis

1. In a very few words, how do you feel about the Chief Executive? About the management?
2. Can this Chief Executive make this business plan happen? With this management team? Why do you believe this?
3. Are you willing to bet real money on this Chief Executive and this management? Would you bet your career or job on this Chief Executive and management?

PERSONNEL

The staff are one of the most important areas of the company as it is ultimately the employees who get the job done. As such it is important that the company has a focused and efficient strategy to retain key staff and recruit new staff. It is also vital that there is a good fit within the organisation i.e. the best people are in the best jobs for them.

A. Corporate Organisation

1. Does the company have a complete organisation chart?
2. Are there job descriptions for each person in the organisation?
3. Is there a complete list of officers and directors?
4. Is there a complete list of stockholders?
5. Is there a complete list of employees?
6. Is the organisation consistent in its short- and long-range objectives?
7. Are savings available through consolidations or other restructuring?

B. Employee Compensation

1. Is there a list for all officers, directors and department heads,
2. What is the date and percentage wage increase of the latest general pay raise for all employees?
3. List the average salary and hourly wage level for the three categories consisting of executives, supervisors, and other employees. Is the average for each higher, the same as, or lower than it is for other local firms in the area and for the competition?
4. Does the company have a written procedure for determining beginning salaries, raises, promotions, etc.? Who sets these policies?

C. Pension Plan

1. Does the company have a pension plan? If so, obtain a summary.
2. Is it fully funded? Through what date? Who is the actuary?.
3. Is the plan over-funded so that termination of the plan will trigger a return of the surplus to the company?

D. Profit-Sharing Plan

1. Does the company have a profit-sharing plan? If so, obtain a summary.

2. Have all disbursements been made to the plan for the past year? If not, describe.
3. Can the plan be terminated at any time at the discretion of the company?
4. List the contributions for each of the past five years, Are they excessive?

E. Bonus Plan

1. Does the company have a bonus plan for any of its employees (including Christmas)? If so, describe.
2. Obtain a list of the bonuses paid last year. Are they excessive?

F. Other Employee Benefits

1. Describe medical and sick leave benefits and policies. Also determine the number, type, and cost of claims over the past three years, and specifically identify any significant open claims.
2. Describe holiday policies.
3. Describe stock option or related equity incentives.
4. Describe policies related to travel and entertainment expenses.

G. Special Compensation Arrangements

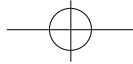
1. Do any employment contracts, non-compete contracts, termination agreements, or other special employee agreements exist? If so, list.
2. Why does the company have such arrangements?
3. Who has signed these agreements? Who determines who must sign the agreements?
4. Who are responsible for obtaining these agreements?

H. Payroll Records

1. Obtain a copy of the weekly and monthly payroll record or printout for salaried and hourly, full-time and part-time employees. Identify the codes, departments, supervisors, and officers.
2. What payroll records exist for each employee? Why are they maintained?

I. Employee Books/Manuals

1. Does the company have a corporate policy handbook for the employees? If so, obtain a copy.
2. Does the company have an employee benefits handbook? If so, obtain a copy.
3. Does the company have a standard operating procedure manual for all departments and/or job functions? If so, review.



Business Sale Report Guide to Due Diligence

J. Union

1. Has a union represented any employee groups during the past ten years? If so, describe.
2. Is any union activity threatened or pending? If so, describe.
3. Does the company have a formal anti-union plan in existence? If so, review.

K. Work Stoppage

1. Has the company had a work stoppage for three hours or longer for any reason because of strikes, equipment failure, inventory shortages, or other reason during the past five years? If so, describe.
2. Has the company been threatened with work stoppage during the past three years?

L. Training Program

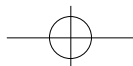
1. Does the company have a formal training program for its employees? If so, describe.
2. If no formal program exists describe the procedure for training new employees and transferred employees.
3. Who is responsible for assuring that the company has a well-trained group of employees?
4. Describe the extent to which the employees in each department have been cross-trained to reduce problems when employees are absent.

M. Attitude and Morale

1. Has the company ever conducted a survey of employees? If so, obtain a copy of the results.
2. If not, do the company plan to have one?
3. In touring the facilities, what did you think of the attitude and morale of the employees?
4. Is there a strong work ethic among the employers? Is there a team feeling?

N. Record Maintenance

1. Review the company reporting procedure for maintaining records regarding
 - a. Hiring of new employees
 - b. Employee evaluations
 - c. Employee transfers
 - d. Employee promotions/demotions



- e. Employee compensation changes
 - f. Employee reprimands
 - g. Employee disciplinary actions
 - h. Employee training
 - i. Employee time keeping
 - j. Employee absenteeism
 - k. Employee termination's
2. Review the procedure for building legitimate case for employee termination
 3. Review several actual employee files.
 4. Review personnel files for all executives, directors, department heads, and supervisors.

O. Reports

1. List the reports originating within the personnel department for other areas of the company and their value.
2. List the reports generated by outside personnel that you receive and their value to you.

P. Hiring Procedure

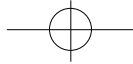
1. Review in detail your procedure for soliciting, interviewing, screening, evaluating, conducting reference and credit checks, and hiring new management personnel, and other new employees.
2. Does the company have some sort of contract with a recruitment agency. Is the relationship good.

Q. Motivation

1. What specific methods and techniques has the company found and applied to motivate hourly employees? Salaried employees? Can you quantify the effectiveness of each?
2. What monetary rewards are given for outstanding performance?
3. How is performance measured and used to communicate to employees?

R. Employee Litigation

1. Has employee litigation action occurred in the past twenty-four months, or is any threatened or pending now? If so, describe.
2. Why have some employees been fired and why have they sued?



Business Sale Report Guide to Due Diligence

S. Regulatory Agencies

1. Has the company experienced any regulatory problems or complaints within the past twenty-four months.
2. Is the company in compliance with all government laws and with all rules and regulations of the agencies and commissions thereof, including but not limited to Health and Safety, Office of Fair Trading, Environmental (air, water, waste treatment, land)? Is any threatened or pending? If so, describe.

T. Consultants

1. Has the company used any outside consultants within the past five years such as job fit, training, health etc.

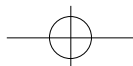
U. Key Personnel

1. Are the critical functions staffed with well-qualified people?
2. Are there special personnel or skill needs.
3. What are the plans to respond to skill needs or technical obsolescence?
4. Is there an excess of manpower in some functional areas?
5. Can excess people be retrained for other positions within the organisation if the need arises?

BASIC INFORMATION

A. Documentation

1. Review the personnel manual given to each employee.
2. The company's rating for unemployment and compensation.
3. A complete organisation chart.
4. Job descriptions for various key jobs in the organisation.
5. List of officers and directors.
6. Payroll listing by employee showing what each person earns
7. Copy of pension and profit sharing plans plus their financial statements.
8. Copy of any employment contracts.
9. Copy of non-compete and nondisclosure contracts.
10. Union contracts.
11. Personnel procedure's manual.
12. Written statement about any outstanding personnel or employee problems or suits.



13. List of all people with stock options, the number of options held, and the price of the options with the expiration date.

B. Personnel Reports

1. Obtain copies of reports used by the personnel department to manage their department.
2. Obtain copies of reports given to top management.
3. Obtain a copy of the budget used in the personnel department.

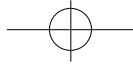
C. Ratio Analysis

1. Calculate the average salary over time by dividing the total payroll by total number of employees. This will tell you how much the average payroll has gone up per employee over time.
2. Calculate the average salary per employee by division such as sales, production, etc. This will show which divisions have high labour cost. Divide the total payroll expense for that division by the number of employees in the division.
3. Calculate total payroll as a percentage of sales by dividing total payroll and benefits by net sales. This can show you if labour costs are going up relative to sales.
4. Calculate benefits as a percentage of sales by dividing benefits by total payroll. This will tell you if benefits are going up.
5. Calculate employee turnover by dividing the total number of employees who left in a year by the average number of employees. This will measure the stability of the work force and perhaps reflect how satisfied employees are.
6. Calculate management per employee by dividing number in management by total number of employees. This can tell you if the organisation is management top-heavy.
7. Calculate sales per employee by dividing net sales by number of employees. This can give you a measure of efficiency.

These figures in isolation mean little unless you have a good benchmark to measure against or have data on other similar cases. It may be that if you are investing in many major businesses this is to hand if not seek professional advice.

D. Major Strengths and Weaknesses

1. Identify the company's three major strengths in personnel.
2. Identify the company's three major weaknesses in personnel.



Business Sale Report Guide to Due Diligence

Production Process

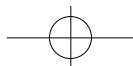
Production Process including distribution, suppliers, Research and Development. This area covers the capacity of the company to make the product, service the product and be as efficient as possible in the production process

Production Management

1. Who is the person in charge of production?
2. What is the background of the person in charge of production?
3. Does this person have the background and experience necessary to manage the production process?
4. Ask the same questions about production management that you asked in the management area above.

Production Facilities

1. Where is each plant located? Describe the location and construction. Estimate the remaining useful life. Evaluate its condition.
2. Is the plant leased or owned?
3. What is the mix of products produced there?
4. What is the production capacity of each plant? What is the throughput for each production line? At what capacity is the plant operating?
5. What are the reasons for the present distribution of production capacity? How does it relate to customer distribution and shipment requirements? To raw material and labour supply requirements?
6. What is the replacement value for each plant? How does this compare with book value and liquidation value?
7. How much and what kinds of insurance are carried on each plant? How does this compare with replacement value?
8. How old is the existing plant? What condition is it in?
9. What are the annual maintenance expenditure requirements? Are they expected to increase significantly as the equipment gets older?
10. What are the present maintenance procedures and replacement policies?
11. What is the estimated useful life of the plant and major piece of equipment? How do these compare with depreciation rates?



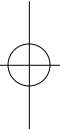
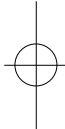
12. Does the company have a formal preventive maintenance program in effect? Make sure you review the repair record and program for important pieces of equipment.
13. Does the company anticipate any major repair or reconditioning work on its equipment in the next twelve months?
14. Does the company need any major new capital equipment items and/or production space during the next twelve months?
15. Is the equipment sufficiently modern so the company is not at a competitive disadvantage?
16. What alternate uses could the physical plant be used for?

B. Manufacturing Process

1. Obtain a plant layout sketch.
2. Is production a continuous process or a batch processes?
3. What is the length of each production cycle?
4. What is the set-up times and costs for each one?
5. What are the key segments of the process?
6. What is the unit throughput rate for each one?
7. How many employees are there in each segment?
8. Is the production flow generally efficient? How could it be improved? How does this operation compare with other manufacturing operations in the industry?
9. Is the manufacturing process labour-intensive? What is the number of employees per sales pound?
10. To what extent is the production process now automated?
11. What is the capital investment per sales pound?
12. What is the value of equipment leased by the company for production use?
13. What is the investment per sales pounds, including the value of leased equipment?
14. Are any computers or other electronic processing equipment used in the production process? What kinds? 15. Where are they located? What functions do they perform?
16. How much downtime has been experienced with each piece of equipment? What kind of backup system is available?
17. How much production downtime has been experienced as a result of electronic equipment failures?
18. Is any of the production equipment highly specialised or custom-made?
19. Are there any backups in the event of failure of key elements? How long would it take to obtain replacement parts or equipment?



Business Sale Report Guide to Due Diligence

20. How much flexibility is there to shift production within each plant? Between plants?
 21. To what extent could additional parts of the manufacturing process be automated? What would the capital requirements be?
 22. What would be the effect on overall product costs? On labour utilisation? On labour content of product cost? On production flexibility? What other considerations are involved?
 23. Are there any plans at present to replace or add equipment? Are they reflected in the budgets prepared by the company?
 24. What kind of manufacturing process exists?
 - a. Mass production or job shop-oriented?
 - b. Product or process structured flow?
 - c. Production to order or from stock?
 25. Have the key components of the manufacturing process been identified?
 26. Nature of operations:
 - a. What are the major operations and their sequence (e.g., component fabrication and machining, component assembly, final assembly and testing)?
 - b. What is the relationship of the cost of each operation to total product cost?
 - c. What percentage of total factory floor space is used for each major operation?
 27. What programs exist for increasing standardisation and ensuring quality control?
 28. What are the major components of total production cycle time?
 29. What are the current trends in manufacturing productivity?
 30. Is there any technical obsolescence?
 31. Has the efficiency of this process been compared to competitors in the same industry?
- 
- 

C. Complexity

1. How many component parts and raw materials are used in the production process?
2. Does one supplier produce most of the parts?
3. What are the lead times for critical components? Are they handled differently from routine inventory times?
4. What is the inventory reorder procedure? Is it computerised? How are usage rates monitored and matched with lead times?

5. Is any consideration given to reorder costs and carrying costs in determining the optimal time and amount of reorders?
6. How are suppliers selected?
7. Are trade payables up to date? How often do suppliers fail to deliver on time?
8. What effect has this had on production schedules? Obtain lists of supplier references.
9. What have price trends for components been? What are expectations?
10. How often are physical inventories taken?
11. Trace the flow of raw materials from purchase to final product and document at each stage.
12. Visually examine the work-in-process areas. How do inventory levels appear to compare with book value? Do they contain any unfinished products that should be written off?
13. How is production co-ordinated with sales activities?
14. How much and what kinds of scrap or waste are generated by the production process? How is it disposed of?
15. What pollution control standards is each plant subject to?
16. What is the company's current status with respect to pollution control requirements? How will future needs be met? Are any capital expenditures required? Are they included in the budget?
17. Verify the company's status with appropriate agency officials.
18. What Health and safety requirements are each plant subject to?
19. What has the company's record been with respect to past HSE inspections?
20. What fines have been paid by the company as a result of HSE inspections? Have violations been corrected?

D. Energy Requirements

1. What kinds of fuel does the company use? How much of each kind?
2. Where are energy supplies obtained? What companies supply energy? Do firm contracts or other commitments exist?
3. Are there any questions about suppliers' ability to meet commitments?
4. What is the physical proximity of the company to raw material sources and sales markets? How are raw materials and finished goods presently transported?
5. What are the company's annual transportation expenses? How would a slowdown or reduction in transportation services affect the company's operations? Does it have any contingency plans in the event that one of these occurs?

E. Quality Control

1. What procedures does the company have for testing incoming raw materials and component parts?
2. What are the quality standards for each key component and material?
3. What has been the company's experience with each supplier of key components or materials?
4. What happens to parts or shipments that do not meet quality standards?
5. At how many points in the production process are tests made for quality or performance? What happens to items that do not meet tests? Can they be recycled? Are they disposed of? What is the average failure rate
6. What do the final test and quality control procedures consist of?
7. Does the company employ any full time quality control people?
8. How are the quality control standards established?
9. Describe in detail the company's quality control programs, and obtain a copy of the procedures manual.
10. Is there a specification sheet for each product?

F. Engineering

1. What is the size, organisation, and salary structure of the engineering department? How much does it cost the company?
2. Who do the engineering section report to? What is its function within the overall corporate strategy?
3. What specific projects are the engineering group now working on?
4. How are cost budgets established? How are costs monitored and controlled?
5. What is the past record of performance vs. budget?

G. Subcontract Work

1. Is any work subcontracted to others?
2. Is this working well?
3. Are there any alternative subcontractors?
4. Are any critical parts obtained from a single subcontractor?
5. Is the subcontractor owed a lot of money?
6. Does the subcontractor have an interest in the company

H. Inventory

1. What is the optimum inventory level for finished goods and raw materials?
2. Does the company have any inventory items that require delivery lead times?
3. Do inventory items have only a single source of supply? If so, list.
4. Are any items in inventory obsolete, outdated, out of style, subject to mark-down, etc.? If so, describe.
5. What was the inventory turn last year?

I. Production Stoppage

1. Has the company experienced a production stoppage of three hours or more during the past twenty-four months for any reason? If so, describe
2. Is there a possibility that production will be stopped in the future?

J. Production Costs

1. Does the company have a detailed worksheet for determining direct labour costs? Indirect labour costs? Review.
2. Is a standard cost system used?
3. How does the company monitor and control various costs of production?
4. Specifically, how does it use the information generated to keep costs under control?
5. What are the present and historical product costs? Obtain a complete list of labour and material costs, indirect costs, amount of overhead allocation, and other components of product cost, if any.
6. What are expected future costs? How do they compare in each category? What are the reasons for expected changes in costs?
7. What are expected usage levels over the next three years? Obtain a list of suppliers to confirm availability and pricing of materials.

K. Production Level

1. How is the weekly/monthly production schedule established?
2. Is a copy of the monthly unit production summary for each of the past twelve months available? Obtain a copy.
3. How many shifts/day is the company now operating?
4. What is production capacity if we assume no new plant and equipment are added?
5. At what percentage of capacity is the company operating?

PURCHASING AND DISTRIBUTION OF THE PRODUCT

1. How many distributors are used by the company? How many salesmen per distributor?
2. How are distributors selected?
3. What is the availability of qualified distributors?
4. What were the most recent annual volumes by each distributor?
5. How are distributors paid?
6. What other products does the distributor sell?
7. What percentage of each distributor's sales does company products account for?
8. Does the distributor purchase products from the company or merely take a commission for selling products?
9. What credit terms are extended to the distributor?
10. How are the financial capabilities of distributors determined?
11. What sales support and other services (maintenance, customer financing, etc.) does the company provide for distributors?
12. How do distributors sell the products?
13. How does the company ensure a consistent sales approach by different distributors?
14. What are the other details of any distributor marketing agreements? Obtain a copy.
15. What is the rationale for use of a distributor organisation vs. direct sales force or other type of marketing arrangement?
16. Under what conditions would a change in distribution methods be justified?

A. Purchasing

1. Analyse purchases for the last year. Make a list of the ten largest suppliers during the past year. Get their names, addresses, telephone numbers, and the person to contact.
2. Are there any inventory items for which less than two suppliers are available?
3. Do any contracts exist between the company and any suppliers?
4. Do any inventory items have delivery lead times in excess of thirty days?
5. What are the normal credit terms from suppliers?

6. Does the company take purchase discounts?
7. How often are physical inventories taken? Describe the procedure.
8. Who establishes the specifications for items purchased?
9. Is there a procedural manual for purchasing? If so, review. Is it current? Does the company strictly adhere to it, or is it a nominal one?
10. What system is in place for reducing the possibility of internal theft?
11. Has the company experienced any inventory shortages?
12. Is there a formal system of reorder quantities and reorder levels or does the company use an informed approach based on communication received from production foremen, review of bills of materials generated for work orders, and review of raw material inventory records? Describe.
13. Obtain a copy of the company's purchasing procedures or, if this is not available, determine through discussion with management the informal procedures that may exist.

B. Suppliers

1. List the basic raw materials used in the manufacturing process.
2. Determine the economic condition of the suppliers' industry, including competitive structure, and the related possibility of significant raw material shortages, interruption of deliveries, or price fluctuations.
3. List and describe any long-term supply contracts and/or reciprocal buying agreements.
4. Summarise intracompany/intercompany purchases.

C. Receiving

1. Is there a procedures manual for receiving goods and services? Is it strictly followed? If not, describe. Also, give date of latest revision.
2. Describe the procedure for receiving goods and services.
3. How are requisition and receiving tickets reconciled? What are the receiving hours?
4. Is a receiving ticket signed and completed for every item received?
5. Who is authorised to sign receiving tickets? To accept returned damaged goods or unacceptable goods?
6. What system is followed to ensure that items received are properly recorded in the company logs?
7. What system is in place to reduce the possibility of internal theft?
8. Describe the procedures for determining that the goods and services received meet the specifications and quality of those ordered.

D. Shipping

1. Is there a procedures manual for shipping products? Review.
2. Who signs the shipping tickets and how does the accounting department know the goods were shipped?
3. Does the customer sign the shipping ticket to prove the merchandise was received? If not, what record is there that it was received?
4. What checks and balances does the company use to reduce the possibility of theft?
5. Describe the methods of shipping.

CUSTOMER SERVICE

1. How is the company service function organised? Ask the same questions on staff as asked previously.
2. How many service offices are there? What is their relationship with the sales and marketing offices?
3. What are the service requirements for each product? Can third parties be used to provide service for any products?
4. What cost/performance trade-offs are involved in the choice between using the company's service department and a third party?
5. How important is service capability to the customer? What are his most frequent service demands - repair of equipment, replenishment of consumable supplies, etc.?
6. How is the customer charged for servicing? Is this a profitable operation for the company? If not, why not?
7. What volume or other requirements are necessary in order to break even or turn a profit?
8. What are the logical follow-on products from a service standpoint? Can service personnel be used to provide service for other companies on a third-party basis?
9. Who performs customer services work? Company employees, service reps, both?
10. Is there a customer service manual?
11. Describe the customer service operation.
12. List your ten major customer service problems.
13. What is the departmental budget for this year?
14. Describe the extent of product warranties and guaranties provided.
15. Does the company contract out any customer services/work? If so, describe the terms. Provide the names, addresses, telephone numbers, and contracts of contractors.

EFFICIENCY ANALYSIS

Does the company use any of the following methods for improving efficiency? If so, how is it working out?

1. Control of inventory using "ABC," zero inventory, and/or "just in time" inventory techniques.
2. Setup and production line time reduction studies.
3. Plant utilisation and layout studies.
4. Obsolescence reviews.
5. Long-term supplier contracts.
6. Responsibility accounting for inventory and scrap.
7. Value engineering (input from purchasing into decisions made by engineering regarding the components of new products).
8. Parts standardisation.
9. Establishment of a cycle counting program.
10. Reduction of Engineering Change Notices.
11. Purchasing reviews (e.g., usage vs. substitution, competitive bidding, approved vendor list, etc.)
12. Vendor evaluation procedure (quality, timelines, price).
13. Time and motion studies.
14. In-line vs. batch manufacturing.
15. Make or buy analyses.

Reference

1. Organisation chart and salary structures for production and engineering personnel.
2. Copies of any union contracts and negotiation dates.
3. Plant layout sketch for each plant.
4. Diagrams of manufacturing process and production flow.
5. Copies of any recent appraisals of plant.
6. Useful life schedules for plant and major equipment.
7. Historical data on inventory trends.
8. List of supplier references.
9. Historical data on cost trends.



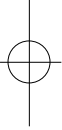
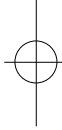
Business Sale Report Guide to Due Diligence

10. Pollution agency officials to contact.
11. Copies of any fuel supply or transportation contracts.
12. Historical data on quality control test results.
13. A complete description of each physical plant or facility in terms of land acreage, building, square feet, cost assessed value, approved value, insured value, size, age, expansion dates, capabilities to expand leases, etc.
14. A copy of any appraisals.
15. A copy of any leases.

B. Production Reports

1. Ask for a copy of each management report generated outside of the production area that the company receives and have someone explain its value.
2. Ask for a copy of each management report generated in the production area.

C. Ratio Analysis

1. Compute the hours needed to produce a unit by dividing direct labour hours by unit produced. This will measure the units of labour it is costing for each unit produced and will measure employee productivity.
 2. Calculate labour cost as a percentage of total production cost by dividing labour costs by total production costs. This will measure the proportion of labour cost to the total production cost
 3. Calculate material costs to total production costs by dividing cost of material by total production cost.
 4. Calculate manufacturing overhead to total production costs by dividing manufacturing overhead by total production costs.
 5. Calculate the direct labour hours as a percentage of total factory hours by dividing direct labour hours by total hours of factory personnel. This will measure the amount of support personnel needed to complete the production process as opposed to the direct labour hours needed.
 6. Calculate the percentage of hours worked on overtime by dividing overtime hours worked by total hours worked. This will measure the overtime and the percentage needed to complete the work and will indicate how well the employees are being scheduled.
 7. Calculate machine utilisation by dividing productive machine hours used by total available hours. This will measure the efficiency of the equipment utilisation as well as scheduling of the machines.
- 
- 

8. Calculate scrap rate by dividing the number of units scrapped by total units produced. This will measure the company's efficiency in producing good useable units without scrapping any of the pieces.

D. Strengths and Weaknesses

1. Describe the company's three major strengths in production.
2. Describe the company's three major weaknesses in production.

RESEARCH AND DEVELOPMENT

A. Management and Personnel

1. Ask the same questions of research as you did for the management and personnel areas above.

B. Questions

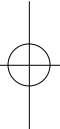
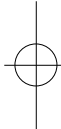
1. How are projects chosen for research and development?
2. What marketing studies are completed before a R&D project is funded?
3. What specific projects are the R&D section presently working on? What are the timetables for their completion?
4. How are R&D tasks organised and monitored? How is productivity in this area measured?
5. How are time schedules established? What is the past record with respect to the completion of projects within scheduled time periods?
6. How are cost budgets established? How are costs monitored and controlled? What is the past record of performance vs. budget?
7. To what extent do future revenues projected in the present business plan depend on the results of R&D efforts?
8. How do budgeted cost and time requirements compare with successful efforts at developing similar products? What are the reasons for any projected variance?
9. If a formal R&D program has been adopted, what is the amount of your budget for this year and each of the past three years?
10. What specific projects are presently in progress? Why were they chosen? Who made the decision to proceed?
11. Has any formal market research been completed for any of the projects? Describe.
12. What outside consultants have been used?
13. How do you ensure the secrecy of your projects?



Business Sale Report Guide to Due Diligence

14. What reports do you generate out of R&D and who receives them? Explain their value.
15. What is the estimated remaining life span of each of the company's major products? What is the company doing to sustain its past growth?
16. Does the company own any patents or have any patents pending? If so, describe the value and importance of patent positions.
17. Does the company produce any goods under patent licenses? If so, describe.

C. Major Programs

1. Describe the major programs completed during the past five years in terms of what they cost the company and the estimated benefit the company has received from the program.
 2. List any significant products recently developed and/or underway by the competition.
 3. Compare the industry expenditures on R&D to those of the company, as well as those of competitors in the industry. Review the percentage of the expenditures on R&D as a percentage of sales during the last five years and try to determine why there have been any major variations.
 4. What is the status of patents and trademarks regarding new products?
 5. Are all of the company's proprietary rights protected by patents and trademarks?
 6. Determine the current historical levels of research and development and the variations in those numbers. Determine why any research and development projects have been deferred or why costs have increased.
 7. Evaluate the facilities and laboratories used for research and development? How convenient are they for management supervision? How related are they to the production process?
 8. What input does marketing have in research and development?
- 
- 

BASIC INFORMATION

A. Documentation

1. Obtain an organisation chart and salary structure.
2. Obtain the C.V. of the head of R&D.
3. List of projects under way and those planned.
4. Obtain any marketing studies supporting the decision to produce a product.
5. Obtain a copy of the budget used by the research and development team to govern spending in that department.

B. R&D Reports

1. Determine which reports are prepared by the R&D department for managing the R&D process and obtain copies.
2. Determine which reports have been prepared and given to top management and obtain copies.
3. Determine from top management, which reports it uses to manage the R&D process.

C. Ratio Analysis

1. Calculate the percentage of gross sales to research and development spent by dividing research and development expenditures by total gross sales. This should give you an idea of what percentage of sales is being put back into research and development.

D. Strengths and Weaknesses

1. Identify the three major strengths the company has in R&D.
2. Identify the three major weaknesses the company has in R&D.
3. What are the three critical aspects of this production process?

E. Summary Analysis

1. Determine if the people operating the research and development section can accomplish their objectives.
2. Will this research and development strategy work?
3. Do you believe that this group of research and development people will develop the next great product for this company?

MARKETING

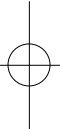
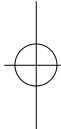
Marketing is all about how the outside world perceives the company and, in turn, how this compares to how the company perceives itself. Your task in this area is to determine how the outside world sees the company and how this may differ with how the company sees the outside world. Your analysis should commence by examining the marketing employees.

The aim of this section is to try and understand who the marketing people are, it is a short list and should be addressed to both personnel and management.



Business Sale Report Guide to Due Diligence

A. The Marketing People

1. Who is the head of the marketing department?
 2. What is his/her career background?
 3. How long has he/she been working for the company?
 4. What is the head of marketing's salary? How is it divided into commissions and base salary?
 5. Who are the organisation's top-ten salespersons?
 6. What are their career backgrounds?
 7. How long have these individuals been working for the company?
 8. What salary and commissions level have they been on for the past twelve months?
 9. What has been the volume of sales for each individual during the past twelve months?
 10. What has been the relationship between their sales target and the actual volume of sales they have achieved?
 11. What is the sales quota for each of these salespeople during the future? How does this compare with the projections?
 12. What is your basic appraisal on a scale of 1 to 10 on each of the salespeople, including the head of marketing?
 13. What is the approximate age of each person in the sales force? How achievement-oriented are they?
 14. Perform the same analysis of management here as used in the management area above.
- 
- 

A. Product Description

For each product, describe it in the terms set out below:

1. What does the product do for its user? How does it work? What need does the product fill for its user? Is the need real, created, or imagined?
2. Give a complete physical and functional description of the product.
3. Does the product have any proprietary features?
4. Is the product or any aspect of it patented? When does each patent expire? How important is the patent to the success of the business?
5. What service goes with the product? Is the service the key to the sale!

B. Product Pricing

1. How is the product priced? What does management consider before making a pricing change?
2. How do prices compare with competitive products; end-user price, distributor price, OEM price, etc.?
3. What have been the past price trends for this and other products?
4. What are expected future price trends? Why?
5. Will engineering and other features of this product make it more competitive or less competitive as these trends develop?
6. How are pricing decisions made? Who establishes the prices for each product? What is the rationale for the present pricing structure?
7. Describe the process you follow in establishing prices for your products.
8. Who is authorised to sell products at a price that differs from the approved price list? Who can discount?
9. How often are price changes reviewed?
10. Which products are the most profitable for the company?
11. What is the relationship between product profitability and incentives for salesmen?
13. How has the products price changed relative to demand and supply?
14. What is the industry's ability to meet current and future product demand?
15. Can cost increases be passed on?
16. Is the company sensitive to industry price changes?
17. Is there a price leader? Which company? Describe the circumstances?

C. Product Life and Reliability

1. When was each product introduced? Have there been any major changes?
2. What stage of the life cycle is the product in?
3. What is the estimated useful life of the product?
4. What engineering changes are planned and what will be the effect on product cost and performance?
5. How reliable is the product? Give mean time to failure or some other specific statistical measure. Determine how this measure was arrived at. Compare this measure with the competition.
6. Is the product a standard product or does it require customising? What is the cost of the basic product vs. the typical customisation cost? How is the purchaser charged for customisation? Can the product be mass-produced?
7. Is quality the key to the sale of the product?



Business Sale Report Guide to Due Diligence

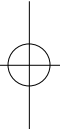
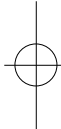
D. Product Warranty

1. What is the warranty policy?
2. What was the warranty expense for each of the past three years?
3. What is the amount of the company's present warranty reserve? Is it adequate?

E. Product Development

1. What new products are planned for the company and what are the dates when they will be available to sell?
2. Does the company have any missing product to complete the product line? If so, describe.
3. What products are needed?

H. Documentation of Products

1. Collect sales literature describing product features and applications,
 2. Collect technical literature describing product design and functioning.
 3. Obtain a picture of the product.
 4. Collect copies of any patents or patent applications.
 5. Obtain samples of the products.
 6. Get a copy of the procedures manual for the marketing department.
- 
- 

B. Personnel and Organisation

1. How many people are involved in the overall marketing function?
2. If applicable, how many sales offices are there in total and where are they located? How large a geographical area does each one serve? How many people are employed at each one?
3. What volume of sales is required to support the expenses of each sales office? Is this being achieved?
4. How many people are there at each level?
5. What is the average wage or salary rate at each level?
6. What are the most recent annual sales production and commission figures for salesmen? for sales managers?
7. What is the sales commission plan? How does this compare with competitive plans?
8. What other benefits are provided?
9. What is the relationship between past performance levels and current performance levels and how do they compare to projections?
10. What is the availability of required personnel?

11. On what credentials are hiring and firing decisions made?
12. By what methods are new employees trained? What is the cost of this training and how effective has it proved to be?
13. How is productivity measured? How long does it take a salesman to become self-sustaining?
14. How are incentives provided for salespeople? If sales quotas are used, how do they compare with sales forecasts?
15. What are the credentials for promotions and raises?
16. How frequently and by what method are performance appraisals made and how are they communicated to employees?
17. What has the rate of turnover been for each kind of employee?
18. What are the techniques by which the marketing department motivates its employees and representatives?
19. List the name, years with the company, and reasons for leaving for all salesmen and representatives who have resigned or were terminated during the past three years.
20. Perform the same analysis of marketing personnel that was used in the personnel area above.

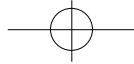
C. Documentation of Marketing Personnel

1. Obtain the c.v.'s of the all the marketing personnel.
2. Obtain an organisation chart of the marketing department.
3. Examine a typical personnel file to see how the procedures examined above are documented.

CUSTOMER DESCRIPTION

A. Customer Analysis

1. Who are the customers? Which industry segments do they come from? What are the overall trends of this consumer group? Is the buyer generally an individual or part of a corporation?
2. What is the procedure for making a buying decision?
3. How long does the purchase decision process take?
4. What are the key variables in the buying decision? For example, price, service, product features, reputation of the company selling, credit terms, brand name, delivery speed, or the relationship with a salesman?



Business Sale Report Guide to Due Diligence

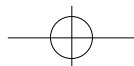
5. What is the degree of brand loyalty among customers? How is it currently measured or determined?
6. What methods are used to ensure repeat custom?
7. What would be required to persuade the user of a competitive product to switch?
8. What inconveniences, such as price, would be involved in a customer switching?
9. What is the main reason why the customer buys this product? What problem does it solve? What need does it fill? For example, does it save money, improve efficiency?
10. Can the product be considered a luxury item, or is it a necessity?
11. What alternatives does the customer have? Do any adequate substitutes for this product exist?
12. What factors affect the customers' need for this product? What factors would cause an increase in need? What would cause a decrease?
13. Are the needs of the customers or the overall customer group changing? What could be the reasons behind this change?
14. Does the company have any contracts or special arrangements with the major customers, including consignments? If so, then detail.
15. Has the company lost any major customers in the past two years, or is the company about to lose any? If so, then detail
16. What factors effect the demand for this product? What is the importance of disposable income, consumer income, industrial production levels, population growth, and other broad economic trends to the company's business?
17. How important is personal selling to sell to this customer base?

B. Customer Complaints

1. List the five most common complaints received from the customers regarding the product and an additional five regarding the service.
2. List the five most serious or costly complaints received from the customers regarding product and an additional five regarding the service.
3. Describe the procedure for handling complaints.
4. Does the company have a monthly or cumulative complaint summary list? If so, review.

C. Customer Credit

1. Who establishes the credit limits for customers?
2. Describe the credit approval process.
3. Does the company have any special credit arrangements with customers? If so, describe.



4. What role if any does the marketing department have in the account collection process?
5. What are the normal terms of sales?
6. Are any sales invoices over £5,000 and are they under dispute?

D. Documentation

1. Obtain copies of any marketing studies, newspaper articles magazine articles, etc., describing overall dimensions and configuration of the relevant market and the consumer.
2. List the ten largest customers by Sterling sales volume and the ten largest customers by unit volume. Obtain the names, addresses, and telephone numbers of the largest customers.
3. Obtain a complete customer list.

COMPETITIVE ANALYSIS

A. Competition

1. Who are the major competitors at present? Are there any new entries or other potential competitors expected in the foreseeable future?
2. What is the financial strength of the present competition?
3. What new entries are expected in the market?
4. What are the present and expected future competitive shares of market?
5. What is the relative ease of entry into the field? What are the capital and other requirements for entry? What is the importance of intangibles such as lead-time, goodwill, patents, etc.? What are the barriers to entry in this industry?
6. How does the company compare with competition in each of the following categories: product features and capabilities, price, market share, marketing capability, production capability, financial resources, financial management 'R & D' capability, overall management strength, other strategic advantages?
7. Compare the company's product with that of the competition, what is the unique selling point of the company's product?
8. Compare the company's price points against competitor's price points.



Business Sale Report Guide to Due Diligence

B. Documentation

1. Obtain a list of the company's competition with names, addresses, and telephone numbers.
2. Obtain product literature on the competitors.
3. Obtain annual reports and other literature on the competition.

INDUSTRY ANALYSIS

A. Industry Structure

1. What is the number of companies in the industry? Differentiate them by size and category, national and international.
2. To what degree is the industry dominated by one or a few companies?
3. Which way are mergers and acquisitions trending? Are they vertical, horizontal, or in some other mode?
4. What is the trend of business failures or successes? Are there a lot of failures? Find out the causes of the failures.
5. How is the industry structured in terms of geographical location, product lines, channels of distribution, pricing policies, degrees of integration, and the type of customers?

B. Size and Nature of Market

1. How big is the overall market, both domestic and international?
2. What is the overall market annual growth rate for each product category?
3. How is the market segmented? geographically, by type or size of customer, by applications, etc.?
4. How is growth expected to be distributed among different market segments?
5. What do you obtain the source of data on market size, growth rate, and market shares? i.e. Company information? An independent report? Published data from other sources?
6. What are the forecasted future trends in the market? For example, greater concentration of market share? More price competition? Why could this be?
7. What are normal terms of sale?
8. Is this market typically a seasonal or cyclical one? What reasons are behind this?

C. Industry Growth

1. Find out the annual growth rate for the industry for the past ten years.
 - a. What has the sales growth been each year?
 - b. What has the profitability of other companies in the industry been like each year?
 - c. In what ways has market share changed over this period?
2. What is the estimated annual growth rate for the industry as a whole for the next ten years?
 - a. What market share changes are predicted for the industry in the foreseeable future?
3. What factors might affect growth in the future? For example:
 - a. What demographic changes have occurred?
 - b. What are the general economic trends?
 - c. How might varying levels of disposable income affect the industry?
 - d. How will fluctuations in interest rates affect the industry?
 - e. How will the composition of the industry change with respect to new business or failing businesses?
 - f. How will the market size change?
 - g. What technological innovations are likely to trigger growth and productivity?
 - h. What economies of scale in the industry are likely to affect growth?
 - i. What products are likely to be priced differently?
 - j. How might foreign imports and exports affect the growth of the industry?
 - k. How will advertising and other forms of market development affect growth?
 - l. How might government regulations affect the industry?
 - m. How will government financial policy affect the industry?
 - n. How might consumer buying power change and how will this affect the industry?
 - o. What environmental considerations could change the growth patterns of the industry?

D. Competition

1. Define the sales strategy of other companies in the industry.
2. What competition might the industry have from substitute products from other industries?
3. To what extent could trade practices and co-operation among businesses change the industry?
4. What barriers to entry might change in order to increase competition?

E. Customers of the Industry

1. List all the major industries in which this product is sold.
2. How stable are these industries?
3. What major impacts on the industries to which these companies sell will change this industry directly or indirectly?
4. Has there been any significant growth in new customers in the past five years?
5. Has there been a trend toward integration of customers within this industry?

F. Suppliers of the Industry

1. List all the major company suppliers.
2. How have the supplier's industries changed over the past five years and what does the future outlook look like?
3. Has there been any significant growth in new suppliers for this industry for the past five years?
4. Has there been a trend towards the forward integration of suppliers during the past five years?
5. Does this industry depend on a few key suppliers?

G. Labour of the Industry

1. Is there an adequate supply of skilled labour for this industry?
2. Are the pay rates in this industry competitive with those of other industries? Are people leaving to join other industries and if so why?
3. To what degree is the industry as a whole unionised?
4. How influential is the union as a whole in the industry?

H. Government Regulation of the Industry

1. To what extent is the company regulated by the government? You should describe this in detail.
2. What regulatory agencies are responsible for regulating this industry?
3. Is there a trend toward more government involvement and regulation in this industry?
4. Are there any unique reporting requirements by this industry to government agencies?

I. Patents, Trademarks, Copyrights, and Other Intellectual Properties

1. Are any patents, trademarks, and copyrights important to the company's line of business?
2. To what degree do these patents, trademarks, and copyrights determine which company in the industry will succeed?
3. Are there any "household names" in this industry?

J. Cyclical Factors

1. What kind of cycles does the industry go through?
2. What factors determine the changes that occur in cycle?
3. How easy is it to predict a cycle upturn or downturn?

K. Industry Associations and Trade Periodicals

1. Is the company a member of any trade or industry association? If so, list the name, address, phone number, and association manager.
2. Is the company represented at any trade shows or conventions? If so, list.
3. List the names of the three most important trade periodicals in the industry.

L. Documentation of the Industry

1. Obtain government data and publication and census studies that provide background information on the industry and the competition.
2. Determine who the trade associations are for the industry and contact them to obtain industrial information.
3. Determine who the experts are in the industry and contact them for additional information.

MARKETING STRATEGY

A. General Strategy

1. What is overall objectives in the marketing area? What are considered the top three objectives?
2. By what strategy are the objectives to be implemented?
3. What marketing effort is required? For example: Is it a new product that requires extensive customer education and training?
4. Does the product replace a competitor's product or is it new?
5. Who does the marketing department consider to be the company's strongest competitors?
6. Obtain historical and projected percentages of sales to original equipment manufactures (OEMs), distributors, and end users.
7. What are the strengths and weaknesses of any OEMs or distributors?
8. How are potential customers identified? How are leads developed? What is the ratio of leads followed up to leads closed?
9. What are the average price and time requirements to close a sale? How do these compare with projected sales levels and marketing expenses?
10. What is the size of a typical order? What has been the trend and what might be the reasons behind it?
11. What is the frequency and amount of repeat or follow-on customers? How many of the company's sales have been made as a result of such repeat orders?

B. Sales Projections

1. What amount of input does the marketing department have in assisting the company in establishing budgets and forecasts?
2. How frequently are these budgets and forecasts reviewed?
3. What is the marketing department's projection for sales in the next five years?
4. What are the arguments behind this forecast?
5. What backlog does the company have by product or product line? What has it been in the past? Is it increasing or decreasing? Why?

C. Advertising and Public Relations

1. Obtain the name and address of the advertising firm that the company uses.
2. Obtain a copy of the year's advertising plan.
3. What were the company's advertising expenditures for this year and how does this compare to the past 3 years?

D. Documentation

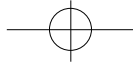
1. Obtain a copy of the marketing plan.
2. Obtain any recent promotional literature produced by the company.

F. Promotion

1. What is annual advertising expenditure levels?
2. What is the advertising policy?
3. How well does this relate to overall marketing strategy and objectives?
4. What other kinds of promotion are utilised such as PR?
5. What is the argument behind the overall mix of promotional activity?
6. How thoroughly are the results of advertising and other promotional expenditures evaluated?

G. Product Packaging

1. What kind of packaging does the product have? Is the packaging a crucial part of the promotional image?
2. What evidence is there that the projected image is successful?
3. What is the cost of the packaging? Does the packaging cost more than the product itself?
4. How could the packaging of the products be enhanced?



Business Sale Report Guide to Due Diligence

BASIC INFORMATION

A. Marketing Reports

1. Obtain copies of the reports used by the marketing department to run their department.
2. Obtain copies of marketing reports given to top management.
3. Obtain a copy of the budget used in the marketing department.

B. Ratio Analysis

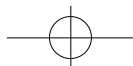
1. Calculate sales per salesman, by dividing total sales by number of salesmen. This will measure the salesmen's productivity.
2. Calculate selling expense as a percentage of sales by dividing selling expenses by sales. This will measure the cost related to obtaining a sale.
3. Calculate salaries and commissions as a percentage of sales by dividing total salaries and commissions by total sales. This will tell you what percentage of total sales accounts for payroll and will give you an indication of the human cost of a sale.
4. Calculate gross profit as a percentage of marketing expense by dividing gross profit by total marketing expense. This will give you a measure of the effectiveness of marketing.
5. Calculate discounts as a percentage of sales by dividing total discounts by total gross sales. This will indicate the discounts the company must be giving in order to accomplish sales.

C. Strengths and Weaknesses

1. Identify the five major strengths the company has in marketing.
2. Identify the five major weaknesses the company has in marketing.

D. Summary Analysis

1. Upon investigation, how do you feel about the overall handling of the marketing of the company?
2. Can the people operating the marketing section of the company accomplish their objectives?
3. Will this marketing strategy work?



This is the main part in many ways, or so your accountant will tell you. Effectively it can tell you the bottom line, how well is the company doing in money terms. That is the main reason to be in business in the end. However, past performance is no guarantee of future performance. But a good financial analysis will show how well the company is geared for growth and what financial dangers may be around the corner

A. Management, Personnel, and Organisation

1. You should ask the same question about personnel and management structures here that you asked in the personnel area above.

B. Management Reports

1. What financial reports are produced for the Chief Executive and the top management?
2. Who is responsible for the compilation of these management reports?
3. Are they conclusive and are they prepared regularly and on time?
4. Are performance reports prepared for all major areas of accountability? Do these reports relate actual performance to plans and budgets? Is adequate information provided to manage effectively and make informed judgements?
5. Describe how the financial and management reporting systems work.

C. Budgeting and Controls

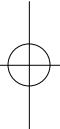
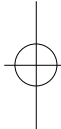
1. What are the company's budgeting procedures?
2. How are budget figures derived? What supporting schedules are available?
3. Is the budgeting process an interactive one that allows for feedback and co-ordination between top management and line managers?
4. How has historical performance compared with budgets?
5. What kind of variance analysis does the company use? How does this help to improve its budgeting process?
6. How is overall co-ordination between budgeted goals and operations achieved?
7. How often is performance relative to budget measured?



Business Sale Report Guide to Due Diligence

8. What kind of procedures does the company employ? Who is held responsible for deviations from budget? What corrective procedures are utilised?

D. Cash Management

1. What is the amount of cash flow handled by the company each month?
 2. How many collection accounts does the company have?
 3. How many depository bank accounts does the company have? What is the average amount of cash account?
 4. What is the average amount of collected cash that is in the "float" and unavailable for company use?
 5. What procedures does the company utilise to minimise the transfer time for collected cash balances?
 6. Who is authorised to make payments of company funds and what amounts are they authorised to disburse?
 7. What procedures are utilised to ensure proper adherence to disbursement limits and authorisation procedures?
 8. Does the company take advantage of discounts when available?
What procedures are utilised to avoid loss of discount due to late payments?
What is the effective annual cost of funds when the discount is not utilised?
 9. What is the minimum amount of cash balance, which the company needs to maintain for transactions purposes? How was this amount determined?
 10. How much is kept in short-term marketable securities? How are the amounts and maturities of the marketable securities determined?
- 
- 

E. Receivables Management - Credit and Collection Policy and Procedures

1. What percentage of the company's sales are on a credit basis?
2. What are the normal credit terms?
3. How do these terms compare with competition?
4. What are the reasons for the credit terms being established?
5. What credit information and credit analysis does the company use to determine the eligibility and amount of credit for individual customers.
6. How are credit extension procedures co-ordinated with sales activities?
7. How frequently is customer credit information updated?
8. What is the pounds amount and number of orders which have been declined for credit reasons? How are these divided between existing customers and new customers?
9. Does the company have a historical analysis with respect to the pounds amount and number of accounts on which credit losses have been incurred?

10. What percentage of sales have credit losses amounted to in each previous year? How does this compare with present and projected levels of bad debt expense?
11. How long are accounts permitted to go unpaid before being considered a bad debt?
12. What collection procedures does the company employ? What are historical and projected costs of collection?
13. What Portion of the company's credit and collection procedures utilise electronic data processing techniques?

F. Inventory Management and Control

1. What procedures are utilised to minimise the cost of funds tied up in inventory?
2. How is this co-ordinated with the production manager's need for maximum flexibility? What are the tradeoffs between these two? Is the company able to quantify them?
3. How is the responsibility for inventory control divided between finance and production?

G. Investment Management

1. What capital budgeting procedures does the company employ?
2. Who makes the order decision for production equipment and machinery?
3. What is the minimum acceptable investment return on capital items?
4. To what extent is leasing utilised? How are lease vs. purchase decisions evaluated?
5. What is the amount of capital expenditures budgeted for the coming year? How is this different from past years?

H. Debt Management

1. Who is the company's lead bank? How many banks does it have relationships with?
2. Who in the company is responsible for banking relationships? Investment banking? Financial public relations?
3. Can all debt be assumed in the case of an asset purchase or liquidation? State restrictions on debt assumptions, if any.
4. What assets, if any, are pledged as collateral against the liabilities?
5. Does the company have an analysis of short-term borrowing for the past five years (minimum and maximum levels, average amount, weighted average interest rate, etc.), and how does it compare to the cyclical nature of sales, inventory and production levels? Indicate interest rate and security required, if any?

Business Sale Report Guide to Due Diligence

6. Is there any "off-balance-sheet" financing and if so, obtain a summary of terms and restrictions.

1. Documentation

1. Organisation chart and salary structure.
2. Chart indicating cost and profit-centre structure.
3. Number and location of cash collection points and depository accounts.
4. Credit analysis forms.
5. Historical data on credit approvals and credit losses.
6. Copy of auditor's "management letter."
7. Copy of company operating manual indicating control procedures to be utilised - cash, credit, receivables, inventory, etc.
8. Obtain a complete history of all previous financing indicating date, amount, type of instrument, and price,
9. Obtain a complete list of all shareholders.
10. Obtain or assemble a complete description of the company's present capitalisation.
11. Obtain a list of all common shareholders, the number of shares they hold, the price paid and the date acquired.
12. Obtain a list of all options or warrants.
13. Obtain a list of all preferred stock.
14. Obtain a list of all convertible debt.
15. List restrictions placed on equity securities.
16. Is any stock owned by management and other major stockholders (10% or more) pledged? List.
17. Any restrictions against the company repurchasing any of its equity?
18. List treasury stock. How and when acquired? Price? Reasons for acquisition?
19. Has the company ever filed SEC registration? if so, describe the circumstances.
20. Obtain the corporate policies and procedures manual, if any, and broadly assess comprehensiveness. Determine how compliance with these policies and procedures is enforced.
21. Obtain independent accountants' memorandum on accounting procedures and internal controls for the past three years.
22. Obtain internal audit department reports for the past three years and management response thereto.
23. Obtain a copy of the most recent ageing schedule

24. List all banks with whom the company maintains a borrowing relationship by bank name, location, type of credit, maximum size, terms of commitment, interest rate, collateral and other significant terms.
25. Obtain loan agreements
26. Describe financial covenants, and attach latest compliance computations and auditor's/officer's certification.

ANALYSIS OF FINANCIAL OPERATIONS

A. Accounting Policies

1. Have there been any significant changes in accounting principles, policies or estimates over the past three years?
2. Are any accounting policies unique to the company's industry?
3. What are the accounting policies that differ from industry practice, represent alternative methods where other preferable methods exist, or are excessively conservative or aggressive?
4. Are the interim financial statements prepared on a basis consistent with that of the annual report? Describe any differences.
5. Are there any proposed accounting pronouncements or government regulations that may have a significant impact on the company?

B. Accounting Methods and Costing Practices

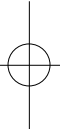
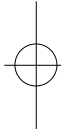
1. What accounting procedures does the company use with respect to the recognition of revenue and expense? How does revenue and expense reporting compare with cash flows?
2. Are there any deferred costs or other intangible assets on the company's balance sheet? Over what period are they amortised? Obtain both amortisation amounts and the amount of increases in deferred costs before amortisation for the last three years.
3. What inventory valuation method does the company use? Has there been any recent change in inventory accounting practices? What was the effect of this change on reported earnings and net worth?
4. When was the book value of the inventory last reconciled with the present market value of the inventory? Is any information available on the age of items presently in the inventory?
5. How is the inventory divided between raw materials, work in progress, and finished goods? What have recent trends been with respect to the amount of inventory in each of these categories?



Business Sale Report Guide to Due Diligence

6. How are work in progress inventory levels monitored? When was the work in progress inventory last evaluated? How are work in progress or other inventory adjustments accounted for?
7. How are product costs established? Does the company utilise a job-order costing system or a standard costing system? Trace the flow of paperwork involved in establishing product costs and the relationship between paperwork and the manufacturing process.
8. Are burden rates used for indirect manufacturing expenses? How are burden rates determined? What is the rationale?
9. How are overhead expenses allocated to productive departments?
10. What depreciation method is used for fixed assets? Is the same method used consistently? What is the rationale for any difference in methods?
11. Have there been any recent changes in depreciation methods? What was the effect on reported net income?

C. Leverage Analysis

- 
1. What are the average historical turnover rates for inventory, receivables, and accounts payable? How do these compare with projected levels?
 2. What is the relationship between working capital needs and sales expansion based on these three turnover rates? That is, what is the effect of a \$1 increase in sales on working capital needs?
 3. What is the relationship between capital required for fixed assets and sales expansion?
 4. What is the minimum feasible increment in the expansion of production capacity?
 5. What is the incremental sales volume required to break even on incremental production capacity?
 6. What is the incremental profit at full capacity?
 7. What is the gross margin on sales?
 8. What is the incremental pre-tax profit on a £1 increase in sales? How does this relationship change as volume increases?
 9. What are the fixed and variable components of marketing costs and other overhead expenses?
 10. Can these relationships be expressed as mathematical equations or put into chart form?
 11. How does each expense category in past financials and projections compare with the sales figures suggested by this analysis?
 12. What are the front-end costs required for an expansion of the marketing effort? How long does it take to recover these Costs?
- 

D. Lease Analysis

1. What percentage of the company's products are leased?
2. What is the typical term of a lease? Is it a full-payment lease?
3. How many months of lease payments are required for full recovery of product costs? Of products plus marketing and financing costs? Of full list price?
4. Does the company have any third-party leasing agreements at present? How many times monthly rental does this agreement call for? How are lease payments beyond this amount divided between the company and the leasing company?
5. What are the cash requirements for financing the company's leased products over the period for which projections have been provided? How are they to be financed?
6. What is the projected "if sold" value of equipment to be leased? What multiple of monthly rental is used?
7. How does the present value of any leases compare with current market prices?

E. Energy Intensiveness

1. What percentage of operating costs is accounted for by energy purchases? What portion of this is used directly in the manufacturing process?
2. What is the outlook for energy supplies in areas where the company operates?
3. Are any major customer groups significant energy users?
4. Is the processing of any raw materials heavily dependent on energy?
5. What ability does the company have to pass increased costs on to its customers without losing market share?

F. Impact of Inflation on Operations

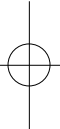
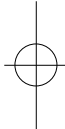
1. Where FIFO is used to value inventory, has the company estimated the impact of restating costs based on current prices (i.e., elimination of "inventory profit") for each product line in order to determine the real gross profit?
2. Have sales price increases during the past year (and projected for the next year) been enough to offset the increase in costs? Has the gross profit percentage been maintained?
3. If depreciation or rental expense was calculated on the estimated replacement cost of property, plant, and equipment and leases rather than on the book value, what impact would this have on net income?
4. If interest on all long-term debt was at a current rate rather than the existing rate, what impact would it have on net income?
5. How does the company manage each of the following to ensure that current inflation is taken into account:



Business Sale Report Guide to Due Diligence

- a. Sales price increases to pass through increased costs?
- b. Speed in billing receivables, the use of lock boxes in key geographical areas, discount policy, and collection efforts?
- c. Fixed assets: financing methods, major replacement or expansion needs, appropriation procedures, and increasing/decreasing fuel costs on older, less efficient facilities?
- d. Accounts payable and accrued liabilities: deferral of payments, cash discount policy, and pension and tax payment timing?
- e. Labour costs: competitiveness of wages, influence of unions, pension-funding assumptions, and impact of possible relocation?
- f. Frequent review of insurance coverage?

G. Documentation

1. Obtain documentation on actual historical profit-and-loss, cash flow, and balance sheet together with supporting schedules and list of assumptions.
 2. Obtain a copy of recent audited statements, and audits for the past three years.
 3. Obtain stock market reports if it is a public company.
 4. Obtain details of any bank loan agreements.
 5. Compile a list of all shareholders by number of shares and price paid.
 6. Company chart of accounts and accounting policy manual.
 7. Copies of typical lease agreements.
 8. Obtain a summary of significant accounting policies and procedures.
 9. Obtain auditor's report and management's representation letters for the past three years. Did any issues or events result in other than an unqualified opinion?
- 
- 

FINANCIAL STATEMENT ANALYSIS

A. *Financial Statement Records*

1. Does the company have monthly financial statements for the past thirty-six months?
2. Are there annual audited statements for the preceding three years?
3. Are any interim financial statements for the past months older than one month?
4. Are there individual financial statements for each major business segment, product line, or geographical location?
5. Does the company have a prospectus, annual report, or other filings?

B. *Assets*

1. *Cash*

- a. What are the names and checking account numbers of all disbursement accounts?
- b. What has been the average cash balance in each account for the last year?
- c. Have all bank accounts been reconciled? Have unusual reconciling items been properly explained

2. *Receivables*

- a. What is the recognition policy for recording revenues and establishing receivables?
- b. What are the credit terms given to purchasers?
- c. Describe the collection of accounts receivable.
- d. What is the discount policy?
- e. What is the returns policy?
- f. Which receivables are discounted or factored, and with whom, cost, terms, purpose, etc.?
- g. List all major receivables for amounts over 20% of the total.
- h. Are there accounts receivable that represent conditional sales?
- i. Does the company have a list of accounts receivable thirty, sixty, and ninety days old? Obtain an explanation of why accounts receivable over ninety days have not been collected. Are those over ninety days worthless?

3. *Notes Receivable*

- a. Is there a list of notes receivable, indicating the terms, such as interest rate, terms, etc.?
- b. Why was each material note receivable incurred?



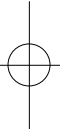
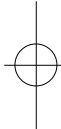
Business Sale Report Guide to Due Diligence

- c. What is the company's bad debt reserve policy?
- d. What is the bad debt experience for the past three years and most recent interim period?
- e. Is the reserve balance adequate?
- f. Is there a list of receivables for the past three years?

4. Investments

- a. Is there a list of all marketable securities by original cost and carrying value?
- b. Why does the company hold these securities?

5. Inventories

- a. What is the breakdown for each major component such as raw material, work in progress, and finished goods, by each product line?
 - b. What is the location of inventory (on hand, in transit, at outside warehouses, etc.)? Is it owned, on "bill and hold," or on consignment? Is it pledged as collateral for outstanding borrowing?
 - c. Is labour and overhead counted in the pounds amounts for inventory? What are the percentages of material, labour, and overhead in inventory?
 - d. How was the value placed on inventory? value, replacement value, or cost?
 - e. How was the physical inventory that you saw on your tour?
 - f. How are the inventory accounting records? Do perpetual inventory records exist?
 - g. What are the dates of the last physical inventories? What were the amount and nature of adjustments? Are there book-to-physical reconciliations and analyses?
 - h. What parts of the inventory are identified as excess, slow-moving, or obsolete? How do they identify such inventory?
 - i. How do they determine realisable value of the inventory?
 - j. What have the writedowns been for the past three years and most recent period?
 - k. What are the seasonal inventory requirements?
 - l. Is a standard or actual cost system used for inventory?
 - m. How is job costing accomplished?
 - n. What costs are included in overhead, and what overhead allocations are made to inventory?
 - o. What capacity assumption is made about absorbing overhead costs into inventory?
 - p. How are returns, overruns, and scrap costs calculated?
 - q. Have variances been significant if a standard cost system is used? What have the variances been by product line for the past three years.
- 
- 

- r. How reliable is the inventory valuation procedure?
- s. Are there open long-term contracts? If so, what are their prices, terms, profit recognised, and total estimated cost? Have there been any variations in the open contracts?

6. *Property, Plant, and Equipment*

- a. For each piece of land and building held, list the following location, description, cost, current value on balance sheet, current market value, and liens.
 - b. For each piece of equipment list the following: location, description, age, cost, book value, estimated market value, and liens.
 - c. What significant plant, property, and equipment additions have occurred during the past three years? Are there any projects currently under construction or committed to?
 - d. Is there a list of all significant leasehold improvements, including original cost, accumulated amortisation, and the period of amortisation?
 - e. What is the accounting policy for depreciating capital assets? What changes have occurred in the policy during the last three years?
7. Does the company have a description and explanation of how other assets arose, capitalisation and amortisation policy, liens, and appreciation for each of the following: goodwill, deferred charges, research and development, organisation costs, contract rights, patents and trademarks, and names?

C. *Liabilities*

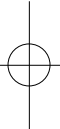
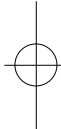
- 1. Accounts Payable
 - a. Which companies constitute 5% or more of the current total accounts payable, or accounted for 5% or more of the average annual balance during the past year?
 - b. What are the regular and unusual credit terms (such as value discounts or extended payment terms) that exist with the companies listed?
 - c. Are discounts taken on normal credit terms?
- 2. Accrued Liabilities
 - a. What are the accrued liabilities outstanding and how did they arise?
 - b. Have all items been accrued? Look at professional fees, employee benefits, payroll, taxes, vacation pay, claims, severance and retirement benefits, warranty costs, pension liabilities and utilities.
- 3. Look at the notes payable. Does the company have a payee, description, interest rate, date, original amount, current amount, payment schedule, and explanation of why incurred?



Business Sale Report Guide to Due Diligence

4. Look at the long-term liabilities. Does the company have a payee, description, interest rate, date original amount, current amount, payment schedule amount, and explanation of why incurred?
5. Do any defaults or violations exist in any of the company's corporate obligations including loan agreements, notes, leases, etc.?

D. Shareholder Equity and Net Worth

1. Does the company have a list of all classes of stock in terms of type, shares authorised, shares outstanding, voting rights, liquidation preferences, dividends, terms of warrants and options outstanding, major owners, date acquired by major owners, major owner cost basis, market price range, and special terms?
 2. Does the company have a complete shareholders' list?
 3. Does the company have any stock option or purchase plans? If so, obtain details concerning each.
 4. Do any restrictions exist on any of the company's common stock?
 5. Do any pre-emptive rights exist on the company's stock? If so list the dates and findings.
 6. Do any options or rights of first refusal exist on any of the company's common stock?
 7. Does the company have more than one class of stock?
 8. Does the company have any stock purchase warrants, options, subscriptions, convertible instruments, contracts, or agreements for issuance of common stock, puts, calls, or other equity related instruments?
 9. Does the company have any treasury stock?
- 
- 

OTHER ASSETS AND LIABILITIES

A. Unrecognised Liabilities

1. Is there a current review for unaccrued and unrecorded liabilities performed by the company?
2. Are there any truth-in-advertising problems?
3. Are there any product liability claims?
4. Are there adequate reserves for warranties?
5. Are there service guarantees?
6. Are there any employee-related deficiency letters issued by governmental agencies?
7. Are there any employee violations? What actions has the company taken to resolve them?

8. Are there any employee occupational hazards inherent in the industry such as "black lung" found in coal mining?
9. Is the company a member of a pension plan, and if so have the funded and unfunded benefits been calculated?
10. Is the union due compensation for a planned plant shutdown?
11. Does the company have any unfunded pension costs or plans?
12. Have any environmental regulation violations or warnings been given to the company? If so, what actions does the company plan to take to resolve them, and what will the related cost be?

B. Contingent Liabilities and Commitments

1. Does the company have a list of all leases by description, years remaining, minimum annual payment, maximum annual payment, escalation's, adjustments, renewals, and options to purchase?
2. Does the company have a list of the capital lease payments due for the next three years, and the imputed interest to derive the present value of such future lease payments? Has such amount been reflected as a liability? How has the related asset been reflected?
3. How does the present value of capital leases compare to their fair market value?
4. Are there sublease terms?
5. Has the company been involved in any significant litigation in the past three years? Is it threatened by pending or unsettled claims? Does the company have a list and description of the nature of those claims and the current status?
6. Are there any legal problems or potential litigation presently facing the industry (such as the asbestos industry), and if so, what effect might this have on the company?
7. Are there any potential antitrust problems?
8. Does the company have a list of all loans for which the company is a guarantor? What is the financial condition of the related companies?
9. Do subsidiary loans, guarantees, or exchange laws restrict dividend payments to the parent company?
10. Has the company promised to do other things or made any type of performance guarantees? What warranty guarantees exist?
12. Has the company entered into any guarantee to buy or sell merchandise? Are there contractual agreements to buy other companies? Sell or merge this company?
13. Does the company have any contingent liabilities, including but not limited to warranties, patent infringements, loss contracts, compensation for services, contracts subject to termination or re-negotiations, etc.?



Business Sale Report Guide to Due Diligence

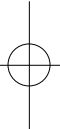
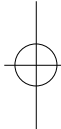
14. Does the company have a list of all open contracts? Describe the nature and potential cost, including informal agreements.

C. Undervalued Assets

1. Does the company have any patents, trademarks, copyrights, or licenses that are undervalued?
2. Does the company have a priority process that others would pay to know?
3. Does the company have undervalued real estate or equipment?
4. Are inventories understated?
5. Is the pension and profit-sharing plan over funded? Can money be taken out?

TAXES

A. Taxes

- 
1. In general, what are the applicable Corporate, property, excise and other taxes paid by the company?
 2. What examinations have been conducted by the Inland Revenue?
 3. What is the last year examined by the government?
 4. What is the amount of deficiencies and nature of adjustments in last years examined?
 5. Have the results of the above reviews been reflected in the current reserve for taxes?
 6. What is the status of the current examinations?
 7. What are the tax years open and closed to future tax authority examination?
 8. What tax loss carried forward does the company have? Describe the amounts by year of expiration. Identify the type
 9. Describe any special industry tax considerations such as depletion allowances, special credits or deductions, etc.
 10. What are the deferred tax provisions for the past five years?
 11. What are the current corporation tax requirements compared with the current corporation tax reserve?
 12. What are the components of the deferred income tax reserve, and are they reasonable, and what are the future cash requirements?
 13. Is the company current on all taxes owed?
- 

C. Tax Planning and Preparation

1. Is the company's tax planning adequate?
2. Has the company taken advantage of all potential tax savings?
3. Are aggressive interpretations adequately reserved for?
4. Does the company maintain adequate tax basis records?

D. Other Tax Considerations

Are there any other significant tax planning considerations of interest; include potential tax savings not currently achieved but that could be achieved, e.g., LIFO, accelerated depreciation, instalment sales, accelerated pension or other expensing, etc., or proposed legislation that may adversely affect the company?

E. Buyout Specials Tax Questions

1. Does the company have an analysis of the tax basis of assets being acquired and an estimate of the fair value of the assets being acquired and liabilities assumed? What is the estimated capture tax liability, assuming that such is triggered? Consider the following:
 - a. Depreciation
 - b. Tax credits
 - d. Research and development
 - f. Previously expensed items, e.g., supplies, tools and dies, etc.
2. Are there deferred inter-company gains or non-deductible write-offs that may result in additional taxes?
3. What is the expected transaction effect on net operating loss and tax credit carry-overs?
4. What are the expected benefits of a taxable vs. non-taxable transaction?
5. Has the present value of step-up benefits been compared to the recapture and related tax liability cost?
6. What expense items can be added back to the income statement because the owner has been taking out excessive compensation?

Consider:

- a. Salaries
- b. Bonuses
- c. Pension and profit sharing
- d. Loans
- e. Airplanes
- f. Expense accounts.

F. Documentation of Taxes

1. Obtain copies of tax returns for the last three years.
2. Obtain evidence that taxes have been paid.

PLANNING AND PROJECTIONS

C. Long-Range Budgetary Planning

1. Do the managers develop the objectives and plans for their area and communicate them to the appropriate personnel?
2. Does the budgeting system monitor the accuracy of forecasts? Are there explanations of major variations (actual versus budget) on a current basis and over the past three years?
3. Does the company have a contingency plan in the event actual results will vary significantly from the budget?
4. Is profitability of individual business units and product lines monitored? Are financial ratios, controllable expenses analyses, contribution to overhead analyses, direct costing and other performance techniques employed?

D. Procedures and Organisation Manuals

1. Does the company have procedures and organisational manuals? If so, provide a brief description, including the use of these manuals and personnel responsible for preparation.

A. Basic Assumptions

1. How were the projections and the assumptions put together? Are they realistic?
2. How much should they be discounted?
3. Has an accountant reviewed the numbers and assumptions?
4. Why do you believe they are achievable projections?
5. When you compute basic ratios in the projections, are they consistent? Does gross margin change year by year?
6. Are basic ratios consistent with industry figures? If not, why not?
7. How do these assumptions and projections differ from past projections?
8. Has the company achieved its projections in the past? If not, why not? If not, will it achieve its projections in the future?
9. Is there a model for this kind of growth in this industry, or are we being pioneers here?

10. Are there significant details in the Projections to make them believable?
11. Is there enough reliable information behind the assumptions to make them believable?

B. Projected Financial Statement Analysis

1. What methodology is the forecasted growth based on (e.g., regression analysis, trend projection and extrapolation, economic or industry indicators, market studies, management estimate)?
2. Are the assumptions concerning sales growth (volume and price), gross margins, working capital requirements, operating expenses, capital expenditures, financing requirements and terms reasonably based on historical results, trends, industry, and overall business expectations?
3. Do the basic financial ratios (i.e., profit to equity and sales to assets) indicate that projected levels of growth are feasible without significant infusions of outside capital or changes in historical financial ratios? If not, how will increased financing, faster asset turnover, and improved profit margins be accomplished?
4. Identify and describe any items that may not be recorded at fair market value:
 - a. Lease agreements
 - b. Long-term receivables
 - c. Plant, property, and equipment
 - d. Inventory
 - e. Intangible assets, patents, copyrights, computer software
 - f. Distribution agreements, customer lists, licenses
 - g. Pension obligations and assets
 - h. Severance costs (anticipated layoffs)
 - i. Customer lists, licenses, franchises, air rights, easements
 - j. Net-of-tax valuation adjustments (resulting from different tax accounting valuations)
5. Identify potential future earnings adjustments:
 - a. Excessive expenses incurred to reduce tax liability, i.e., personal expenses, excessive owner compensation, etc.
 - b. Functions performed by parent for which no cost has been allocated
 - c. Salary adjustments required for a more competitive wage, other employee benefit requirements
 - d. Expected changes in material or other costs
 - e. Incremental depreciation and amortisation charges resulting from expected asset/liability revaluation, other effects of asset/liability revaluations



Business Sale Report Guide to Due Diligence

- f. Different tax provision due to new ownership) structure and tax basis
 - g. Cost savings from elimination of duplicate facilities, overhead, and "synergy"
 - h. Reduction in interest income from excess cash
 - i. Expected sales of facilities.
6. What are the anticipated industry changes/trends in accounting principles, and effect upon present and future operations?

C. Sensitivity Analysis

1. What effect does variation in key assumptions underlying financial projections have on P&L, cash flow, and projected balance sheet? Look at key assumptions: inventory and receivables, turnover rate, gross margin on products, amount of sales expense required, rate of market penetration, variation in sales/lease ratio, variation in product mix, delay in production build up, etc.
2. What are realistic best-case and worst-case projections?
3. Was a computer model used for this analysis?
4. Can the results be expressed in graph form?



D. The Risk



1. What is the probability that the company can meet its projections?
2. What major obstacles does the company have to overcome and what is the probability that they will?
3. What time pressures are management under and can they meet them?
4. Can you structure the investment as a debt instrument? As a secured debt instrument?
5. What collateral is available for your investment?
6. If the company is liquidated, what will you get?
7. Can the company be sold if it gets in trouble? Is there a ready buyer?
8. Who will put up more cash if the company needs it?

E. The Return

1. What is the valuation placed on the company under present investment terms? Pre-money and post-money? How does this value differ from other companies in this industry?
2. What are the best-case, worst-case expected returns, and you (vs. the company's) most likely projections?
3. What are the ROI, IRR, or NPV calculations based on your projected cash returns! Is this return sufficient for the risk you must take?

4. What return will the entrepreneur enjoy if the company meets projections? What about other investors?
5. What is the probability that you will make the stated return?

REFERENCE

A. Documentation of Finance

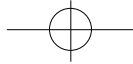
1. Be sure you obtain the documents listed under documentation in other sections above.
2. Obtain a detailed schedule of the use of proceeds for the first six-to twelve-month period for one to three years.
3. Obtain P&L and cash flow projections for the next three to five years together with supporting schedules.
4. Obtain a complete list of all the -assumptions used by management to make projections and budgets.
5. Obtain a sensitivity analysis of management's projection, so that you can understand their projections.
6. Obtain a complete written analysis of the return of the investment or internal rate of return on this business proposition.

B. Financial Reports

1. Obtain copies of reports used by financial people to "run" their department.
2. Obtain copies of reports given to top management by the finance department.
3. Obtain a copy of the budget used in the finance department to control costs.

C. Financial Ratio Analysis

1. Gross margin percentage can be calculated by dividing gross profit by sales.
2. Profit margin percentage can be determined by dividing net income before taxes by net sales.
3. Return on equity can be determined by dividing net income by total shareholder equity.
4. Return on assets can be calculated by dividing net income by average total assets out during the year.
5. The current ratio can be calculated by dividing current assets by current liabilities.
6. Quick ratio can be calculated by dividing current assets minus inventories by current liabilities.



Business Sale Report Guide to Due Diligence

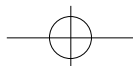
7. To calculate the working capital as a percentage of assets divide working capital by total assets.
8. Liquidity ratio can be calculated by dividing total assets by total liabilities.
9. Debt equity ratios can be computed by dividing total debts outstanding by total stockholders equity.
10. A similar ratio is total liabilities to stockholders equity, which can be computed by dividing total liabilities by stockholders equity.
11. The working capital to net sales can be computed by dividing net sales by working capital.
12. Debt coverage ratio is calculated by dividing earnings before interest and taxes by total annual debt service.
13. Cash flow debt coverage ratio is calculated by dividing earnings before interest and taxes plus depreciation by interest and principal due on all of the company's debts.
14. Percentage fixed charges of earnings is calculated when you divide the fixed charges by earnings before interest and taxes plus fixed charges.
15. Cash flow cycle can be calculated by dividing receivables plus inventory by the cost of goods sold.
16. Calculate the receivables cycles by dividing net credit sales by average trade receivables.
17. The past due index is calculated by dividing total receivables past due by total receivables.
18. Calculate the bad debt expenses as a percentage of sales by dividing bad debt expenses by total credit sales.
19. Inventory turns can be calculated by dividing cost of goods sold by the average inventory outstanding in a year.
20. Percentage of cash flow to total assets can be calculated by dividing net cash flow by total assets.

D. Strengths and Weaknesses

1. Identify the three major strengths the company has in finance.
2. Identify the three major weaknesses the company has in finance.
3. What could go wrong in the finance area?

E. Summary Analysis

1. In a very few words, how do you feel about the finance side of the business?



REFERENCE AREA

You still need to develop many other pieces of information. Some of it is general information and some is specific and can be obtained from various references. This is where you go outside the company to verify what you have learned about the company.

A. General

1. What is the exact corporate name and address?
2. Where and when was the company incorporated?
3. Where are the minute books, bylaws, and certificate of incorporation?
4. List any predecessor organisation or prior names of the corporation.
5. List corporate organisations - subsidiaries, division, and branches. Give name and location and describe operations. Draw a box chart to show relationships.
6. What is the fiscal year end for the company?
7. What is the Standard Industrial Classification Code for this company?
8. Have you reviewed the corporate minutes for the past three years?
9. Have you reviewed all past business plans? Operating plans? Marketing plans?
10. Does the company need approval of any entity other than the board of directors regarding this financing?

B. Reference List

1. Bank: List the bank's name, address, telephone number, and account officer for all banks the company has done business with for the past five years.
2. Other institutional lenders: Provide the same information as in item I for lenders who have loaned the company £100,000 or more.
3. Accounting firm: List the firm's name, address, telephone number, and account manager for all accounting firms the company has used in the past five years.
4. Law firm: List the firm's name, address, telephone number, and individual attorney for all law firms the company has used in the past five years.

Business Sale Report Guide to Due Diligence

5. Suppliers: List the supplier's name, address, telephone number, and contact person for the company's ten highest-volume suppliers and ten others.
6. Customers: List the customer's name, address, telephone number, and contact person for the company's ten highest-volume customers and ten others.
7. Competitor: List the competitor's name, address, telephone number, and chief operating officer for the company's five strongest competitors and five others.
8. Independent sales representatives: List the firm's name, address, telephone number, and representative name for your independent sales representative organization.
9. Independent service representative: List the firm's name, address, telephone number, and representative's name for your independent service representative.
10. Directors: List the names, addresses, and telephone numbers of all directors.
11. Officers: List all names, home addresses, and home telephone numbers of all officers.
12. Principal stockholders: List the names and addresses of every stockholder owning more than 5% of the company's common or preferred stock, or anyone who has an option to buy more than 5% List all dissenting stockholders.
13. Dissenting shareholder.
14. Investment banker: Get the names of all those used and call and discuss the company.
15. Institutional industry analysis: Get the name of the person in any large City brokerage house who follows this industry.
16. Industry consultants: Obtain the names of industry consultants or "gurus" who are quoted frequently and are knowledgeable about this industry.
17. Trade associations: Obtain the names of trade association executives in this industry.
18. Trade publications: Obtain a list of trade publications in this industry and any newsletters covering this industry.
19. Venture capital investors in the industry: Find out who else has invested in this industry.
20. Public companies: Obtain public information on the public companies in this industry.
21. Financial or business broker: Obtain the name, address, and telephone number of any broker involved in this transaction.

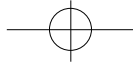
B. Insurance

1. Does the company have a list of policies in force. If so, describe significant conditions, benefits, and frequency of review.
2. Does the company have a self-insurance plan?
3. What claims have been filed over the past five years?
4. What is the estimated replacement cost of assets held?
5. Are there adequate coverage for contingent liabilities?
6. Are there significant unaccrued costs on incurred but not reported claims?
7. Are increased premiums anticipated as a result of unfavourable trends or the need for increased coverage?
8. Are significant retroactive premium adjustments anticipated?
9. Does the company have life insurance on its key officers? Does it have disability insurance for the key officers?
10. What other insurance policies are in force, e.g., professional indemnity, product liability, medical, etc.?
11. Is there sufficient cover in place in the event of irrecoverable loss of mission-critical data from the computer system.

QUESTIONS TO ASK PEOPLE OUTSIDE THE COMPANY

D. Questions to Manufacturing Representatives

1. What products do you represent for the company?
2. How long have you been their representative?
3. What other products not made by the company do you represent?
4. How many of the company's products did you sell during the past twelve months? What does that represent in pounds?
5. Does the company have good-quality products? Do the customers like the products?
6. Have you had complaints about the products? If so, what kind of complaints?
7. How does the product compare in quality with competitor's products in the market?
8. Is the product priced right? Is it too high or too low compared with the competitor's prices? What price do you think the product should have?



Business Sale Report Guide to Due Diligence

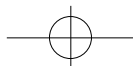
9. Can you continue to sell the product? How many units can you sell in the next twelve months (pounds volume)?
10. How has the company treated you as a rep? Does it give you good support?
11. Has it paid commissions on time? How long does it take the company to pay commissions?
12. What changes would you like to see the company make?
13. What do you think of the management of the company?

E. Questions to Lawyers

1. Who is the lawyer? How long has he been on this client's work?
2. Any litigation against the company outstanding?
3. Any litigation against the company in the last two years?
4. Any potential litigation against the company?
5. Has the company filed writs against others that are still open?
6. Has the company filed writs against others in the last two years?
7. Does company plan to file writs against others?
8. Any product liability problems?
9. Any union writs or legal problems?
10. Any patent writs or problems?
11. If there is a suit then specify the following:
 - a. Maximum settlement amount
 - b. Minimum settlement amount
 - c. Most likely settlement amount
 - d. When it will be settled
 - e. The nature of the case
 - f. Whether the case has merit.
12. Is the company in compliance with laws and with all rules and regulations by agencies and commissions thereof, including but not limited to safety and health, consumer products safety, environmental (water, sewer, air, land) that are relevant to the ownership of its properties or operation of its business?
13. Are there any legal problems whatsoever?
14. What do you think of management?

F. Questions to Accountants

1. Verify the numbers in the audit on assets, sales, and profits.
2. Did they issue a management letter? If so, get a copy from the accountant or management.



3. Are the books and records in good condition for easy audit or do they need improvement?
4. Are adequate controls in place to foil misuse of funds?
5. How long have they been the auditors?
6. How long has the individual auditor been handling or working on the annual audit?
7. Is the financial officer good?
8. Is the company having operating problems?
9. Any significant or material changes in the numbers set out by management and the final audit such as:
 - a. Disagreement over inventory value?
 - b. Disagreement over quality of accounts receivable?
 - c. Disagreement over work in progress and cost of goods sold?
 - d. Other material differences?
10. Did anything come to your attention during the audit that would indicate the company is having operating problems?

G. Questions to Suppliers

1. What do you supply the company?
2. What is the annual pounds volume you supply?
3. What credit limit do you have for the company?
4. Do you anticipate any shortage in the items you supply to the company?
5. How promptly are you paid by the company? Is it ever a problem?
7. What do you like about the company?
8. How would You describe your relationship with the company? How are you treated as a supplier?
9. Will you continue to supply the company?
10. Any other comments?

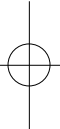
H. Questions to Customers

1. What products or services have you purchased from the company? How long have you been buying from the company?
2. How long ago did you purchase it?
3. What is your current outstanding order? Confirm this with the company's backlog of orders. Also confirm that the order in the backlog will be shipped/undertaken in the next thirty, sixty, or ninety days. Are you a repeat user?

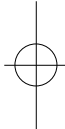


Business Sale Report Guide to Due Diligence

4. Do you like the product/service
5. Has the company's product/service lived up to the quality that you had originally perceived? Does the product/service perform as well as you expected?
6. Have you ever been shipped faulty goods? What happened?
7. Has the company lived up to the service representations it made to you before you bought the product?
8. Was the product/service overpriced or was it a bargain?
9. Do you think the product/service has brand-name recognition?
10. Have you purchased products from competitors of the company or other manufacturer brand names similar to the company's product/service?
11. How does the company's product/service compare in quality/service to products of competitors that you have either purchased or looked at?
12. Do you intend to buy from the company again?
13. Estimate how much you will purchase in the next twelve months.
14. What changes would you like to see the company make in the product/service?
15. What do you think of the people that you had contact with in the company?
16. Any other comments?



I. Questions to Landlords

1. How long have you been renting to the company?
 2. How many square feet do they rent from you?
 3. Where is the rental property located?
 4. What is the monthly rental for property?
 5. How timely are their payments?
 6. Ever had to contact for failing to pay the rent?
 7. What condition is the property kept in?
 8. Would you rent to them again?
 9. Who is your contact?
 10. Any general comments?
- 

J. Questions to Advertisement People

1. How long have you been advertising for the company?
2. How often do they advertise?
3. What is the average cost of their advertising?
4. Do you have a standing order?
5. What is the average cost of their advertising?
6. How timely are their payments?

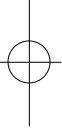


Environmental Due Diligence

7. Have you ever had to contact them for failing to pay?
8. Will you continue to run their ads?
9. Who is your contact?
10. Any general comments?

K. Questions to Bankers

1. How long has the company been banking with this bank?
2. Who did it bank with before?
3. What amount of credit (high and low) has the bank extended to the company?
4. What is the collateral for the loan?
5. Does the company pay as agreed? Has it ever been in default on a loan?
6. Has the company ever asked for credit and been denied? What was the amount?
7. Does the company have operating problems?



The ultimate objective of undertaking environmental due diligence should be the full awareness of all the environmental facts surrounding the target company so that a full assessment can be made on the risk of any environmental liabilities.

1. Would you have exposure to liability for payment? If the polluter is a corporate body - or company- the law will normally place liability solely on the company. However, certain provisions of statute law provide that specific members of the company, such as directors, line management and/or shareholders can have personal liability.
2. Are you protected from environmental damage caused by any tenants?
3. Are you aware of any damage caused by the previous occupier/management, for which you may be held liable?
4. Have any warning notices been issued to the company in the past? Is there any prosecution history?
5. Are any assessed environmental risks capable of being covered by insurance?
6. Is the organisation run in accordance with a recognised environmental management system?

Information Technology is a very complex and fast moving sector and it is essential that professional advice is sought on this. A large plc company will need management consultants to analyse the set up but even with a small company it is useful to get a technology specialist to give things a once over as it may save a lot of headaches in the future.

An efficient IT system can make workers much more productive, efficient and well informed. It is also an excellent tool for monitoring the companies activities especially in the areas of revenue/cost analysis. If the company can monitor the effectiveness of advertising very quickly.

1. What is the data processing equipment configuration? Is what is the hardware and software setup? Is data held centrally or do different offices have their own server for instance?
2. How do the computer systems compare to other companies in the same industry.
3. What room is there for expansion/upgrading of the current system before a complete replacement is needed in order to take advantages of new technologies.
4. Does the company rely on data processing from an outside company like payroll? If so what are the terms of the contract and is the relationship a good one?
5. What backups are made of crucial data and what would be the estimated damage done if for instance the invoice database was suddenly corrupted.
6. How secure is data against unauthorised access or damage by third parties?
7. Does the company have a complete technical description of the systems that have been computerised; i.e., suppliers, contacts, sales, inventory, accounts receivable, accounts payable, payroll, general ledger and projections, etc. Who owns the software code for bespoke software solutions
8. Is there a service level agreement with technicians and engineers who work on the systems. Are they available 24 hours
9. Is the information produced by the computer systems accurate, reliable, and useful?
10. If the users were allowed to make one big improvement what would it be?
11. Does the company plan to make more extensive use of computerisation? If so, describe areas in which computerisation will be expanded.
12. Describe the workstations by type of machine, ownership, date installed, location

- and its application. Are they adequate for the users needs?
13. How much information is shared between users and departments? Is the sales department aware when contacting a customer that the customer hasn't paid their bills at all for instance? Or that another member of staff is in contact with them.
 14. How do users perceive the IT Department? How do user and IT department perceptions differ? How effective is communication between the IT department and user personnel?
 15. Does the company have a recent evaluation of the IT Department function and note significant weaknesses, problems and/or opportunities?
 16. What is the companies view of the internet? Does it have a web site? Is this visited much? Who by? How often is the site updated? Could the company sell its products via the internet and/or keep in touch with its customers?
 17. Is employees access to the internet monitored? Does the company have a policy on email management?
 18. Is their a sufficient training program in place for the staff to keep abreast of new technologies.

© Business Sale Report Ltd.

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher.



Business Sale Report Guide to Due Diligence

“Thoroughly comprehensive book, no area is left unturned and all types of business are covered, it was a great help to me”

Mr Stuart, MD, PLF Construction Services Ltd.

“All the questions are relevant and up to date, no person considering buying or selling a business should be without it”

Mr K. Greenwood, Kent.

“Following those questions certainly gave me a far greater knowledge of my own company’s strengths and weaknesses. The book is a must-read, even if you’re not considering buying or selling a business”

Mr F. Phillips, Managing Director

“Carrying out effective due diligence has always been a bit of a vague area to me. Now that I’m aware of all the questions that we need to consider, I’m far more confident that our company will make a successful acquisition.”

Mr Peter Cox, Systems Unlimited Ltd.

“This book was recommended to me by my accountant, now I feel that I don’t need him any more!”

Mr Paul Andrews, Brighton.

“As a major investor in a company, I feel I now know all the right questions to ask in board meetings!”

Ms. Jenni Davison, London.

“It took us over six months to carry out our due diligence and we found ourselves frequently referring to the book. It really guides you through all the necessary areas of analysis including management, production process, financial performance, personnel, even going as far as supplying environmental due diligence questions. The book certainly aided our recent merger.

Mr C. Chandler.

