

CHECKLIST: Due Diligence

The success of a merger is dependent upon many factors. The failure of a merger can often be linked to one factor—lack of due diligence. Usually, aggressive due diligence will let both businesses know if the merger will work before the final decision to merge is made. Due diligence includes finances, production, human resources, and the risk involved in the merger. Failure to exercise due diligence may result in the failure of a merger to take place after it is announced. This can do great harm to the businesses' reputations.

- Major issues include:
 - _____ Evaluating the market. Is the market growing or is there increasing competition that threatens to shrink the market? Will the merger give the businesses the advantage of a stronger market share?
 - _____ Evaluating the customers. Will the merger bring advantages to the customers of each business and make it more likely that these customers will continue to purchase the goods and services? Will the merger result in a greater ability to meet the needs of customers and develop new products and services for them?
 - _____ Evaluating the competition. Will the merger result in less competition? Will the merger change the competitiveness within the industry?
 - _____ Evaluating legal issues. What legal problems might result from the merger (e.g. liabilities, lawsuits)? Is there pending litigation against either company? Is one business more prone to being sued than the other?
- Due diligence should also include an investigation of the targeted businesses. Examine:
 - _____ Corporate records.
 - _____ Financial records.
 - _____ Tax records.

- ___ Regulatory records.
- ___ Debt and loan records.
- ___ Employment records.
- ___ Property records.
- ___ Other written agreements.
- Due diligence should ascertain the realistic value of the targeted business by discovering:
 - ___ Hidden liabilities.
 - ___ Overvalued receivables.
 - ___ Overstated inventories.
 - ___ Understated liabilities and hidden liabilities (e.g. lawsuits).
 - ___ Overvalued securities.
- Due diligence should lay the framework for post-merger integration by determining:
 - ___ A pay and benefit structure for the newly merged business.
 - ___ A plan to retain essential personnel.
 - ___ A plan to integrate the benefits of both businesses (e.g. pension plans, severance pay, etc.).
 - ___ A plan to merge the different cultures of the businesses.