



DEAL CHECKLIST

Due Diligence

I. Business Organization and History

1. Business description of each geographic location
 - (a) size
 - (b) markets served
2. Sales five years and YTD
 - (a) by location, if possible
3. Organization Chart and backgrounds of key managers.
4. Operational information:
 - (a) size and age of facilities
5. Number of employees
 - (a) by function, if possible
6. Management team quality and experience
7. Openness to new senior management as needed with growth of the business
8. Corp. mission, purpose, values, vision, culture and generative qualities or potential and alignment

II. Financial Information

1. Detailed gross margin and operating profit 5 years
 - (a) aggregate and by geography
2. Balance sheets or working capital detail five years and YTD
 - (a) by geography, if possible
 - (b) seasonality and impact on cash flow
3. Business Plan/Budget with financials, by geography
4. Long-Term Financial Plan for five years
 - (a) key assumptions for growth and profitability
5. Capital expenditure detail
 - (a) historical and forecast

III. Cost Breakdown

1. Breakdown of cost structure (include fixed, variable, direct, indirect).
 - (a) for each product line
 - (b) for each plant
 - (c) allocation system for overhead and indirect costs
2. Cost drivers
3. Manufacturing
 - (a) minimum efficient scale (by product line)
 - (b) plant capacity & utilization (for each facility)
 - (i) run time vs. setup, maintenance
 - (c) inventory levels (raw materials, WIP, finished goods)

- (d) capital spending plan
- 4. SG&A
 - (a) detailed breakdown and drivers
 - (b) overhead allocation
 - (c) potential to combine functions across facilities
- 5. Profitability analyses
 - (a) PLP
 - (b) customer profitability
- 6. Other businesses
 - (a) what are synergies? Value of synergies?
 - (b) potential cost reduction if spin off newly acquired businesses?

IV. Customer Overview

1. List of information available in customer database
(eg. name, address, type, purchases, ...)
2. Customer segments
 - (a) size and “power”
 - (b) products purchased
 - (c) key purchase criteria (price? quality? availability? service?...)
 - (d) retention
3. Pricing structure
 - (a) by product
 - (b) by customer segment
4. Customer profitability analysis?
5. Distribution Channels
 - (a) direct sales vs distributor mix and strategy (where focus direct sales?)
6. Forecasted demand by customer segment
 - (a) new customer segments? Opportunities to add?
 - (b) do forecasts match trends in customer industries?
 - (c) existence of any long-term agreements with customers
 - (d) ability to expand revenue per customer
 - (e) scalability of business

V. Supplier Overview

1. Purchases from each of top ten suppliers by product category 5 years
 - (a) Units and price per unit if available
2. For top ten raw materials (by cost):
 - (a) suppliers used
 - (b) supplier industry description and trends (consolidation, costs, availability, alternative uses,...)
3. Description of any long-term purchasing agreements
4. Description of all exclusive distribution agreements with suppliers
 - (a) including a description of products covered

VI. Competitive Position

1. Who are competitors?

- (a) per product line?
- (b) per customer segment?
- 2. Competitor Overview
 - (a) description and strengths/weaknesses
 - (b) relative prices (by product line)
 - (c) relative cost position (by product line)
 - (d) barriers to entry
- 3. Substitutes
 - (a) per product line, per customer segment
 - (b) strengths/weaknesses
 - (c) relative prices
 - (d) relative costs
 - (e) trends
 - (f) demand and need for product, solving a solution, better tech., lower cost, better economics, expands growth and revenue opportunity.

VII. Market Overview

- 1. Industry information
 - (a) size of markets
 - (b) market shares
 - (c) historical and forecasted growth rates
 - (d) market or industry trends
 - (e) determine need
 - (f) articles of interest, etc.

VIII. Accounting Information

- 1. Accounting Policies and Procedures
 - (a) Company's significant accounting policies and procedures including revenue recognition, costing of work in process, and basis for cost allocations
 - (b) Details and narratives, flowcharts, etc. of management reporting system
 - (c) Chart of accounts
 - (d) Year-end and nonrecurring adjustments
 - (e) Latest monthly financial reporting package distributed to senior management
- 2. Accounts Receivable
 - (a) Schedule of accounts receivable by categories (trade, non-trade, other, etc.)
 - (b) Credit Policy
 - (c) Aging analysis and trends
 - (d) Allowance for uncollectable accounts and past write-offs
 - (e) Collection procedures
 - (f) Discounts, returns, and allowances schedules
- 3. Inventory
 - (a) Inventory balances by location and product line
 - (b) Obsolete, slow-moving or older generation inventory
 - (c) Inventory write-offs
 - (d) Inventory management and control procedures
 - (e) Book to physical adjustments
- 4. Property, Plant and Equipment

- (a) Schedule of fixed assets including date acquired, original cost, accumulated depreciation, net book value, and appraised value
 - (b) Depreciation methods used for book and tax purposes
 - (c) Building and equipment leases
 - (d) Construction in progress
- 5. Prepaid expenses and other assets
 - (a) Schedule of prepaid expenses and other assets (example, deferred charges and intangibles and amortization criteria)
- 6. Debt
 - (a) Summary of short-term and long-term debt showing principal holders, interest rates, maturities, amortization schedules
 - (b) Principal features of loan agreements including convertibility, collateral, restrictions on Company's activities, events of default, and prepayment premiums
- 7. Accounts Payable and Accrued Liabilities
 - (a) Detailed schedule of accounts which comprise accounts payable and accrued expenses
 - (b) Schedule of roll forward of reserves, including litigation
 - (c) Details of reserves held in subsidiaries, associates and overseas entities
 - (d) Identification of other current and non-current liabilities
 - (e) Allowable trade discounts
- 8. Cost of Goods Sold
 - (a) Cost of goods sold by product and component (fixed and variable with sufficient details of types of expenses in each category)
 - (b) Description of cost accounting system (job costing, process costing, etc.) Allocation methods for overhead and indirect labor
- 9. Operating Expenses
 - (a) Operating expenses by significant category and as a percentage of revenues
 - (b) Expense budgets
- 10. Employee Information
 - (a) Headcount by department
 - (b) Compensation system
 - (c) Trade union - including number of unionized employees, and details of significant agreements, disputes, and work stoppages
 - (d) Severance policy

IX. Legal Information

- 1. Basic Corporate Documents
 - (a) Charter, by-laws and other basic corporate documents of the Company, including all their amendments (in the case of amendments that have not been yet recorded with the Registry of Commerce, evidence of submittal for their registration);
 - (b) Minutes of (i) meetings of the board of directors, (ii) meetings of executive committee of the board of directors, if any, (iii) meetings of shareholders, and (iv) meetings of the board of syndics, of the Company for the last 3 years;
 - (c) Copies of the stock registry of the Company;
 - (d) Shareholders' agreement[s];
 - (e) Management or Consultancy Agreement[s];
 - (f) Any agreements entered into by the Company for the issuance of additional stock and a list of the shareholders or other persons, if any, who have made irrevocable advance payments on account of future subscriptions of shares, including the amounts thereof;

- (g) Any fiduciary agreements under which share of the Company may be held;
- (h) Accountant's responses thereto, including reports about the lawsuits and administrative procedures in which the Company is a party;
- (i) Letters to auditors from counsel with respect to litigation and administrative procedures for the last 3 years.

2. Other

- (a) Any Collective Bargaining Agreement entered into by the Company and all correspondence with unions and labor authorities relating thereto for the last three years
- (b) List of any outstanding or threatened litigation and administrative investigations or proceedings to which the Company is or could be a party.
- (c) Any agreements of the Company with agents, distributors, suppliers or dealers.
- (d) Any royalty or license agreement entered into by the Company.

X. Valuation and Exit – Review Applicability

- (a) attractive investment valuation and entry point- significant upside upon exit
- (b) risk assessment, risk management, contingency plans
- (c) foresight and vision and posturing for future liquidity event
- (d) liquidity – acquisition/sale of co., employee buy out, IPO?, retain values, vision and spirit / heart of business
- (e) value we add in addition to \$, relationships, mgmt. experience, industry contacts, corp. strategic relationships, corp. culture /values, bringing in additional investors
- (f) referral source of investment idea-credibility, relationship base, track record.
- (g) economic opportunity- revenue ramp, high margins, cash flow, premium valuation upon liquidity

XI. Potential Control Rights – Review Applicability

- (a) appointment, removal or replacement of company officers and senior management
- (b) adoption of business plan, capital expenditure program, dividend policy, marketing plan or financing plan
- (c) adoption of annual budgets
- (d) appointment, removal or replacement of external auditors
- (e) approval of accounting, administrative, procurement, contracting, employment or treasury policies or practices of the company
- (f) increases or decreases in capital
- (g) incurrence of indebtedness
- (h) capital expenditures
- (i) investments or acquisitions
- (j) settlement of claims
- (k) transfers, sales, dispositions, pledges or leases or assets
- (l) execution of material agreements by the company and subsequent modifications
- (m) insurance arrangements
- (n) application for or amendment to concessions or other licenses or permits
- (o) appointment, removal or replacement of an operator for specified facilities
- (p) granting powers of attorney
- (q) delegation of powers of board of directors

- (r) amendments of by-laws
- (s) mergers and dissolutions
- (t) notices for board meetings
- (u) number of board members, changes
- (v) issuance of options, warrants, convertibles