

Due diligence checklist for small and medium-sized companies

This checklist covers the main due diligence risk areas that should be analyzed before investing in companies or real estate. This list is also a guideline for the typical structure of a due diligence report. With the report, you prove that you have fulfilled your duty of care before the purchase.

The structure of a due diligence report

Before you work through the individual due diligence fields, first describe the **audit assignment** and the **extent** to which the audit was carried out in the report. Then enter the **basic data** (price, size of the purchased item, etc.) of your purchase plan. Then describe your **reasons** for the purchase. These influence the main topics of the report.

Then perform the actual **due diligence analysis**. List each topic individually and work through it in the order of the checklist. Then summarize your **results**. In the **concluding remarks**, you can assess how the risks influence the purchase price and which opportunities and risks are associated with the planned transaction. Your sources are listed in the **appendix**.

Due diligence checklist

Financial Due Diligence	
[Topic]	✓
Bank details with turnovers and loans	
List of loans received and given (contracts for details of conditions)	
Collateral (granted to third parties or taken over by third parties)	
Billy payable	
Warranties (granted to or assumed by third parties)	
Guaranteed (granted to or assumed by third parties)	
Grants received	
Subsidies received and obligations arising therefrom	
Debtor warrants	

Tax Due Diligence	
Trade balances from the last 3-5 years	
Individual balances from the last 3-5 years	
Tax balance sheets for the last 3-5 years	

Comparison of monthly and quarterly balance sheets for the current and previous year	
Accounting guidelines (if necessary)	
Reports from tax advisors and auditors	
Adjusted financial statements and extraordinary expenses/exceptions (traceable)	
Tax returns from the last 3 years	
Tax assessments from the last 3 years	
Tax payments and refunds from the last 3 years	
Results from the last audit	
Budgeting and financial planning	
In the event of deviations from target/actual figures: an explanation of the reasons	
Cash flow, listed separately	
Equity: movements due to taxes, dividends, etc.	
List of installations (if necessary)	
Financial relationships with other companies, traceable	
Current inventory results	
Changes in inventories over 3 years	
Anomalies in the development process of the inventory	
Inventory changes explained	
Fixed assets: depreciation and write-offs	
Current assets: depreciation and write-offs	
Analysis of the provisions	
Receivables management	
Other assets	
Most important debtors with time of debt (year x – current)	
Bad debt losses from the last 3 years	
Liabilities (taxes, from deliveries, etc.)	
Most important creditors with time indication (year x – current)	
Gross profit allocated to business segments (if necessary)	

Contribution margin accounting (subdivided if necessary)	
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Operational Due Diligence	
Organization of sales	
Sales partners (national and – if applicable – international)	
Sales employee profile	
Staff losses during the last 18 months	
Most important customers of the current sales year (approximately 30 in order of importance for total revenue)	
Most important clients of the last 3 years (10 by importance and in detail, risk assessment point: relationship to company, PEP, other risky actors)	
Gross profit allocated to business segments (if necessary)	
Contribution margin accounting (subdivided if necessary)	
Product sales broken down by price and quantity	
Relationships with suppliers listed (details: amounts to sales, development of business relationship)	
Purchasing: volume of all purchased goods per year for the top 10 suppliers	
Logistics: Inventory turnover frequency listed by product and supplier	
Other business relationships	
Listing of commercial agents (duration of the relationship, turnover, etc.)	
For companies with several locations: turnover by region/branch (of the last 3-5 years)	
Listing of product or service prices, discounts	
Marketing materials	
Price calculation for samples	
Customer care and service concept explained	

Commercial Due Diligence	
Market overview gained through consultants and market studies	

Stakeholder organizations surveyed and reports obtained	
Competition defined: complete profiles created and arranged according to locations and business segments	
Tracking market changes (acquisitions, bankruptcies, and new entrants)	
Market size and annual growth (by region and business segment)	
Most important clients of the last 30 years (10 by importance and in detail, risk assessment point: relationship to company, PEP, other risky actors)	
Success factors developed	
Potential risks from the market and competition	
Development opportunities	

Legal Due Diligence	
Extract from the commercial register	
List of shareholders, corresponding contracts as evidence	
Company agreements on options and participations	
General meetings: all minutes and resolutions	
Supervisory boards and advisory boards: minutes and resolutions from the last 3-5 years	
Shareholders: developments over the last 5 years	
Managing director's contracts and their procedural rules	
Managing director: investments/shareholdings in third companies	
Economic beneficiaries listed in detail	
Company capital rights owners (with documents on remuneration, options)	
Contracts for company acquisitions	
Acquisitions and mergers, spin-offs of subsidiaries or corporate restructuring: all contracts, including declarations of intent	
Contracts with third parties	
List of procurations and powers of attorney	
Buildings, land including rental agreements and leases, also for pro rata relationships, as well as copies of contracts that have not yet been fulfilled	

Moveable goods: rental, leasing and maintenance contracts	
Assets: leasing contracts	
Employment contracts, freelance contracts	
Notices of termination and termination agreements of the last year	
Dismissal protection lawsuits from the last two years	
Pension obligations	
Contracts and obligations outside the ordinary course of business	
Consultants from the last 5 years	
Company agreements and collective agreements	
Permits and releases of individual persons or groups relevant to the business	
Insurances	
Supply contracts with customers and suppliers	
Litigation, both active and passive, as well as out-of-court proceedings	
Impending litigation for damages, warranties, or product liability (list specific risks and precautionary measures)	
Restrictions and prohibitions of competition	
Forms (terms of use and general terms and conditions, invoices, etc.)	

Legal Due Diligence: Intellectual Property	
Industrial property rights like patents and trademarks	
Licenses for third-party property rights	
Licenses granted by the company (methods or industrial rights)	
Business name or trade name	
Copyrights	
Open or threatened proceedings for infringement of industrial property rights	

Human Resources Due Diligence	
Employee structures in an organizational chart	

Development of different departments by number of staff, listed for the last 3 years	
Separate list of employees with salary information, sorted by department and task	
List of employees at managerial level (specify qualifications and seniority)	
Short profile of all employees at management level	
Executive pay	
Applicable works agreements and basic information on the works council, if available	
Proof if you are a member of the employers' association	

IT Due Diligence	
Testing of equipment (hardware and software)	
Investments in the company's own IT structures with annual data	
Internal systems check	
IT security check by external specialists	
In-house software solutions: quality inspection	

Technical Due Diligence	
Detailed list of all properties, plots of land, rental items with detailed plans	
Land register excerpt for each object	
Building encumbrances (as a list with confirmation of completeness from the responsible municipality)	
Indication of all environmental burdens and possible liability risks	
Planned new buildings: all permits and contracts obtained, cost calculations and plans	
Investments in buildings or equipment (done or planned)	
Listing of all plants, machines, and inspections by independent experts	