



M&A Due Diligence

By Gary Papay, M&AMI

Merriam-Webster Dictionary defines due diligence as “research and analysis of a company or organization done in preparation for a business transaction.” Some even look at it as a pre-marital background check and counseling. But it should be noted that dissolving a merger is much more difficult than ending a marriage if things aren’t as they appear.

Ultimately, due diligence is the process of being sure that things are as they appear before a deal is sealed. For someone considering a merger or the purchase of an existing business, the review of documentation and the answers to your due diligence questions are critical. There’s no doubt it is a complex process that can be time-consuming. But with so much on the line with any merger or acquisition, you don’t want to make a decision without all of the information. You want to be sure everything is reviewed and all questions are answered to your satisfaction.

During the due diligence process, an often lengthy list of documents should be provided. The list of documents should cover a range of areas, including:

- Legal structure and incorporation of the company
- Internal Revenue Service (IRS) records
- Insurance policy information
- Organizational structure
- Personnel policies
- Operations
- Capital and real estate
- Contracts, licenses, agreements and affiliations
- Technology and Intellectual Property
- Current or potential legal liabilities
- Marketing materials

Today more than ever, buyers are putting more emphasis on the due diligence process. And while the financial aspect is a key component, the due diligence process should also consider organizational items. Be sure to seek documentation and ask important questions about the company’s culture, strategy, leadership and competencies.

To properly address and evaluate all of the areas of the due diligence process, you want to assemble the best possible team of people. Work with that team, including your business intermediary, throughout the process to review and evaluate the documents and information you receive. It’s also important to keep an open mind. Be sure that you get all of the information you need, but don’t assume that you will find something wrong.

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Although the due diligence process may take considerable time, it's a critical part of any transaction and should be considered the foundation of the entire deal.

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