



A Business
Sale Report
Guide

Due Diligence

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

SAMPLE PAGES
Full edition available to
subscribers

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Dear M & A Professional

Have you been involved in due diligence on a company for a complete trade sale or for investment reasons? Have you been worried that perhaps all areas have not been covered prior to the purchase?

If the answer is yes to any of these questions then it may be that the Business Sale Report guide to due diligence could be helpful. Below is a list of some of the topics that have been covered and finally an example of one of the sections that covers personnel to give you an idea of the scope.

Commercial Due Diligence

including

- Management
- Personnel
- Production
- Manufacturing Process
- Distribution
- Customer Service
- Efficiency Analysis
- Research and Development
- Marketing

Financial Due Diligence

including

- Financial Operations
- Financial Management
- Statements
- Assets and Liabilities
- Taxes
- Analysis of Projections
- Ratios
- General Questions
- Questions to ask people outside the company

Environmental Due Diligence

Technological Due Diligence

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.

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?

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.