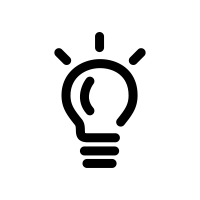
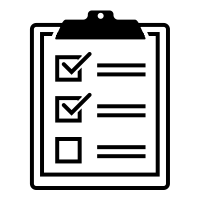


**Due Diligence Questionnaire Booklet**

***TRAIN DD Tools***

******Document Summary**

**How to use this document:** Samplequestions provided are useful resource for analyzing company performance but should be adapted to suite scope, business setting, industry of operation etc., to accurately assess the business. Due diligence goes beyond working through this list of questions. While a breadth of questions are provided across different topics, teams should determine which are most necessary for the due diligence. They should take into account information gathered during earlier screening stages, insights obtained from any previous meetings held with the company, as well as local knowledge, to determine which areas to focus on in order to derive value from in-depth conversations and site visits.

**What is included:** The document covers a menu of topics pertaining to due diligence including management, finance, operations, suppliers, and customers and key questions to guide conversations to better understand these aspects of the business. Questions are designed to assist due diligence teams to perform both qualitative and quantitative analysis across these functions, with deep dive options for further investigation.

**Overview:** Inluded in this document are sample questions on various due diligence focus areas that can be used to assess business performance during due diligence. This involves a mix of document analysis to answer key analytical questions, conversations with management and key staff, and site visits to review, confirm and clarify information gathered in the course of the engagement.

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# Introductions

*Below are a few questions to get the conversation going and understand the individual’s role and responsibilities. The goal is to make them feel comfortable and learn exacty what they are responsible for within the organization to adapt the conversation to what they are best placed to discuss.*

* Please tell us a bit about yourself, your background, and how long you have been in your current role?
* [For founders] What led you to start this company?
* [For non-founders] What drove you to join the company?
* Could you walk us through your typical workday?
  + What are your main responsibilities?
  + Who do you report to within the organization?
  + [For managers] Who are your direct reports, and what are their roles?

# Management Evaluation

*Below are sample questions that can be used to understand the company’s management team background, expertise, style and mindset. These should be adapted depending on context e.g. industry of operation, business stage, company size, previous conversations, to accurately assess management competence and ability to grow the business with strategic input from investors.*

## Company outline

### Mission and vision

*Objective:*

* *Determine if the company’s mission and vision are aligned with the investor.*
* *Establish if employees understand and relate to the mission and vision of the company.*
* *Find out if management adheres to the mission and vision of the company.*
* *Establish if company activities, products, and services are aligned with the company’s purpose.*
* *Evaluate if management has thought of any other type of support they would like from investors apart from the capital investment.*

Questions:

* Please tell us a little bit about yourself and your role in the company
* What is your mission and vision as a company?
* How do you feel the team demonstrates this on a day to day basis?
* What is your overall perspective of the business?
* Are you seeking any other support from investors apart from the capital investment?

### History/key milestones

*Objective:*

* *Determine the problem being addressed and level of innovation, i.e., determine if there would be a real market gap if the company went out of business.*
* *Determine how much traction the company has gained since its inception.*
* *Compare the company with its peers. Is it performing below expectations, at par with peers or exceeding expectations?*
* *Evaluate current key growth drivers and potential new growth drivers in the future.*
* *Determine if the business is established and capable of adapting to new market trends.*

Questions:

* What problem is the company’s service/product offering trying to address?
  + What innovation does the offering have?
* What achievements have you made as a company since inception?
* What factors have enabled you to grow this far?
* Do you think these trends will continue?
* Who are some of your competitors, and what makes you different?
  + How is their performance in terms of market share and revenues?
  + How does this compare to the company’s performance?
* What trends have you observed in the industry over time?
  + Any new trends in the market?
  + How is the company adapting to them?

### Company ownership

*Objective:*

* *Identify shareholders: amounts invested (monetary vs. sweat equity), type of shares, and percentage ownership.*
* *Establish the shareholders’ involvement in the business and review ownership agreements.*

Questions:

* Who are the founders of the company?
* What are their areas of expertise and experience?
* What is the current firm ownership structure?
  + What is the founders’ investment in the business so far? (*monetary, sweat equity*)
  + What is the profit-sharing agreement among shareholders?
  + What percentage of profits is reinvested in the business?
* How involved are the owners in the day-to-day running of the business?
* What is their role in decision making?
* Could you share with us any documents on ownership agreements?

## Management team

### Management approach

*Objective:*

* *Determine management approach: entrepreneurial, authoritative, or management by objectives?*
* *Evaluate the extent of centralization or decentralization of authority.*
* *Understand the problem-solving and decision-making process.*
* *Explore collaborative efforts between different management team members/any disagreements.*
* *Evaluate the culture created by management in the company.*
* *Assess management staff retention levels. If low, investigate the reasons behind it.*
* *Evaluate decision making process to create a RACI matrix.*

Questions:

* How is the management team structured?
  + Who is part of the management team? Would everyone agree with this or is there confusion? Is there a middle-management team?
  + How often do the roles overlap, require consultation/consensus on decisions?
  + How would you describe your management style? Other managers' management style? How do different styles result in collaborative efforts?
* How often do you have meetings with your team, and how are they structured?
  + What is the reporting structure within the company?
  + How are tasks delegated from management to junior staff?
  + Which types of decisions can junior staff make without management approval vis-à-vis those that require management approval?
* Could you walk through a recent difficult situation you experienced in your role and the steps you took to solve it?
* What is the process of developing strategic plans?
  + How is strategy communicated within the company?
* How do you handle disagreements within the team?
  + What channels are there for staff members to air their opinions and grievances?
* How would you describe your company culture?
  + How often do you have team building activities?
* How are decisions made? Do you delegate any decision making to your team? Who is responsible and accountable for key decisions? Who is consulted and informed?

### Management competency

*Objective:*

* *Is there competent and sufficient C-suite to drive operations.*
  + *Identify any gaps and the plan to fill these roles.*
* *Is the CEO the right person to be leading the business today? In five years?* 
  + *Determine if the CEO is a leader, manager, or both.*
  + *Determine the CEO’s management style and its effectiveness.*
  + *Explore the CEO’s achievements in prior businesses.*
* *Will a drastic change in the company’s management be necessary to meet investor expectations?*
* *Identify succession planning.*

Questions:

* What are some of the milestones you’ve achieved so far?
* What are some of the challenges the company has overcome, and what did you learn from them?
* What are some of the company initiatives you have spearheaded in the past few years?
  + How did they affect operations, and how did employees react to them?
  + What are some of the challenges you experienced when embedding these initiatives, and how did you address them?
* What expertise do different managers bring to the team?
  + What type of new expertise (if any) is needed in the management team today? In five years?
* Are there any changes you would like to see in the management team going forward?
  + How will these changes affect the operations of the company?
* Who are the star employees? Who would the CEO leave the company in the hands of if he went on a trip? Is there any form of succession planning?

## Organization structure (for HR manager)

*Objective:*

* *Analyze roles within the organization and identify any redundancies and inefficiencies.*
* *Identify any gaps in the present management structure.*

Questions:

* Could you describe the organization structure?
  + Is the company adequately staffed? Where are the gaps?
  + Are reporting lines clearly defined?
  + Do all staff members have job descriptions? How do these compare with their respective day to day activities? If there are any large discrepancies between their JD on paper and day to day activities, why do you think this is the case (*do staff have clarity on their roles & responsibilities*)?

## Talent management (for HR manager)

*Objective:*

* *Determine retention levels of employees in the organization.*
* *Interview employees to determine how they feel about the company’s direction.*
* *Evaluate compensation/incentive schemes and map against performance.*
* *Are there any employment contracts? Have key employees signed non-competes?*

Questions:

* What is the level of employee retention?
  + Which roles/departments have the highest and lowest retention rates?
  + Why do you think this is the case?
  + How does this compare with peer companies in the same industry?
* What is the general employee sentiment towards the company?
  + How would you define the company’s culture?
* Are talent management processes defined, e.g., periodic staff appraisals, leave approvals? Where do we see room for more formal processes?
* What compensation/incentive schemes are in place for different staff?
* Could you describe, at a high level, the different types of staff contracts in place? Are there any non-competes?

## Board of Advisors/Directors

*Objective:*

* *Layout the Board of Directors members.*
* *Describe governance of the Board.*
* *Expound on the board’s role and involvement in the company.*
* *Describe the relationship between the Board and company management.*

Questions:

* Do you have a Board of Directors or Advisors?
  + Who is on the Board, and what is their expertise?
  + What was the selection process?
* What are the board governance procedures?
  + How often do they meet?
  + How often do you appoint a new board?
  + Are there any company decisions that must be approved by the Board?
* How often does management meet with/send them updates?
* [if no Board] Are you planning on having a formal Board of Directors or informal Advisors in the future? What would you look for them to do?

# Operations Evaluation

*The objective of this questionnaire is to understand various functions within the business including production, sales and marketing, supporting research and development and systems. Teams should evaluate various internal controls and processes to identify bottle necks and where there is room to increase efficiency in the organization*

## Production

*Objective:*

* *Clearly define the company’s production process from sourcing to the end-product*
* *Identify potential areas to increase efficiency in production*
* *Identify pain points or bottlenecks in the company’s production process*
* *Explore supporting functions:*
  + *Evaluate internal controls, i.e., adequate accounting systems, documented policies, and procedures*
  + *Determine IT use in increasing efficiency for applications, operating systems, production processes, etc. Explore the company’s short term and long-term technology plans*

### Production process

* Could you walk us through the production process from sourcing to end-product?
  + What raw inputs do you use and where do you source them from?
  + What is the step-by-step process for the entire production process (e.g., melting, molding, drying, packaging, storage)?
  + Where are the main pain points/bottlenecks in this process?
* What technology is used in the production process?
  + Is there any proprietary technology?
  + How does this compare with companies in the same industry?
* Who are the key input suppliers and which materials do they supply? (Ask follow-up questions to get you the information you will need to fill the table below)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Supplier 1** | **Supplier 2** | **Supplier 3** | **Supplier 4** |
| **Materials supplied** |  |  |  |  |
| **Annual/monthly amounts supplied** |  |  |  |  |
| **% of total supply** |  |  |  |  |
| **Price** |  |  |  |  |
| **Quality** |  |  |  |  |
| **Lead times** |  |  |  |  |
| **Etc.** |  |  |  |  |

* + How is the company’s bargaining power with these suppliers?
* What are the key risks regarding supply?
  + Do you experience any seasonality in supply? How does the business adapt?

## Products/services

*Objective:*

* *Describe the full range of products/services* 
  + *Identify any new offerings in the pipeline, and any that are missing to complete the product line*
* *For each product/service determine:*
  + *Contribution to total revenue*
  + *Cost of production per unit*
  + *Profitability*
* *Determine competitive advantage*
* *Determine the estimated useful life of products*
* *Compare the products/services with competitors’ offerings on price, packaging, quality, target market, shelf position in retail outlets, etc.*
* *Understand how customers use the company’s products; is the need real or imagined?*
* *Describe any R&D that the company has undertaken and any future considerations* 
  + *Review quality of product, process and market research in the company*
  + *Determine product/services changes that the company has made to keep up with changing trends in the market*
  + *Determine if the product has any proprietary features, review any patents and trademarks*

Overview of products and services:

* Describe the full range of products/services
  + What are the key differences between the different products/services?
  + Do they target different customer segments?
  + How do they compare to each other in terms of profitability, fast/slow-moving, volumes, vis-à-vis premium price points, etc.?
  + Are there any new products in the pipeline?
  + Which additional products/services do you think would be useful to add on?
* What is the estimated useful life of the products/how often do customers seek these services?
* How do the products compare to competitors on the following metrics? (Ask follow-up questions to get you the information you will need to fill the table below)?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Product (s)*** | **Product 1** | **Competitor 1** | **Competitor 2** | **Competitor 3** |
| **Price** |  |  |  |  |
| **Packaging** |  |  |  |  |
| **Quality** |  |  |  |  |
| **Target market** |  |  |  |  |
| **Shelf position in retail outlets** |  |  |  |  |
| **Etc.** |  |  |  |  |

## Research & development

* What R&D has the company undertaken in the past?
  + Please describe the R&D process and where it's applied in the company
  + Do the products have any proprietary features and any patents and/or trademarks?
  + How do you envision the R&D process changing in the future?
* What is the driving factor for R&D? e.g., meeting market demands, securing supply, increasing efficiency
* Is there an annual budget for R&D?
  + How is it set and managed?

## Sales, marketing and distribution

*Objective:*

* *Describe the principal avenues through which the company generates new business and the marketing effort required*
  + *Review opportunities in the pipeline*
  + *Analyze risks in current and future sales, marketing, and distribution strategies*
* *Review the sales cycle: average time to make a sale, post-sales support efforts needed*
  + *Identify any inefficiencies and opportunities to improve the process*
* *Review distribution strategies:*
  + *Does the company do it inhouse or outsource distribution of products?*
  + *Evaluate domestic and international distribution channels and relative importance*
  + *Determine how the company addresses last-mile distribution challenges*

Sales, marketing, and distribution:

* How does the company generate new business?
* What marketing channels does the company use?
  + Which ones have proved to be the most effective? Why do you think this has been the case?
  + How much do these marketing channels cost, e.g., monthly, quarterly, yearly?
  + How does this compare with competitors?
  + Which channels are the company looking to use in the future?
* Describe the sales cycle?
  + What is the average time it takes to make a sale?
  + What post-sales support is needed?
* How does the company distribute its products/services?
  + Is distribution done in house or outsourced? How is this expected to change in the future?
  + How does the company address last-mile distribution challenges (any partnerships, innovative channels in place)? How is this expected to change in the future?

## Supporting systems

* What operational IT systems (e.g., ERPs, accounting software, business intelligence software) do different departments in the company use?
  + What are their current functionalities?
* What functions or approval processes use manual versus automated systems?
  + What factors are limiting the complete transition from manual systems?
* What is the ease of sharing information among departments?
* What is the largest scale that the current systems can support?
* What are the short term and long term plans for tech usage?
  + What investment is required to achieve these objectives?

# Social Impact Evaluation

*This questionnaire can be used to assess the company’s social impact philosophy and how the business operates to meet desired impact. Due diligence teams can review how impact is measured, review impact achieved in the past, and assess the company’s ability to scale impact in future*

## Impact thesis

*Objective:*

* *Expound on the company’s impact thesis and how they have achieved it so far*
* *Investigate alignment with investor’s goals*
* *Outline the company’s theory of change*

Social impact thesis:

* As a business, what impact are you hoping to achieve?
* What is the company’s theory of change?
  + Who are your target customers, and why? Who are you trying to impact, and why?
* What impact has been achieved to date?
  + What has driven this growth?
* How do the company’s products/ services impact your target group?

## Impact metrics

*Objective:*

* *Describe the metrics the company uses to measure impact. If such metrics are not in place, include metrics that could be potentially be used to do so*

Social impact metrics:

* What metrics does the company use to measure social impact (e.g., no of women, youth, farmers impacted, etc.)?
* How are these metrics measured and monitored?
* What challenges do you face in measuring impact?
* (If these metrics are not in place) What is the largest social impact that the company has achieved to date?
  + Could these be used as metrics for social impact?
  + If not, which metrics do you think would be suitable to track impact? How can these be embedded in your current business model?

## Impact forecasts

*Objective:*

* *Review any impact targets the company has set, how these relate to past performance and any changes required to meet these targets*

Social impact forecast:

* What level of impact does the company expect to achieve in the next year, three years, five years?
* What assumptions have been used to arrive at these forecasts?
* What factors need to grow or change internally to achieve this impact?
* Are there any external factors that could limit this growth, and how does the business plan to adapt?

# Financial Evaluation

*The questions below can be used to assess the company’s historical performance and financial management processes, and analyze projected performance as anticipated by management. This includes understanding key business drivers, financial controls, budgeting processes and, key growth assumptions and capital need required to meet growth targets.*

## Financial evaluation

### Historical performance

*Objective:*

*Ideally, the company should share all historical financial statements for the last three years (audited if available) in advance, and the DD team should review them in detail to identify any areas that require clarification/specific questions for the finance team*

* *In-depth analysis of the company’s financial history*
* *Review revenue growth trends; understand costs and potential savings*
* *Review tax and insurance history*
* *Review the company’s assets and liabilities including terms for long term debt*
* *Analyze the company’s current and future cash position*
* *Analyze quality of earnings*

#### Profit and Loss Statement

1. **Revenues**

Drivers:

* How have revenues changed over the past three years?
  + What factors drive revenues?
  + What have been the key drivers of revenue growth so far?
  + How have product/service volumes changed?
  + By what percentage do you expect product/service volumes to grow each year? What is the basis for this? (Historical performance, market growth, etc.)

Pricing:

* How are products/services prices set?
  + Have these prices been revised in the past two years?
  + What led the company to make these adjustments, and what was the effect?
  + How do you anticipate prices changing in the next three years?
* Which products/services, customers, or geographical regions generate the bulk of revenues?
  + Are these expected to continue constituting a large percentage of revenues in the future?
* What percentage of revenues are cash versus credit sales?
  + What are the Days Sales Outstanding/receivable days, and how do these vary by product/service lines?
* Does the company have any non-operating revenues?
  + What percentage of total revenues does this constitute?
  + How is this expected to change in the future?

Customers:

* Who are the key customers, and what are their revenue contributions? (Ask follow-up questions to get you the information you will need to fill the table below)?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Customers*** | **Customer 1** | **Customer 2** | **Customer 3** | **Customer 4** |
| **Customer segment** |  |  |  |  |
| **% of revenue** |  |  |  |  |
| **Location** |  |  |  |  |
| **Etc.** |  |  |  |  |

* What arrangements do you have with retail outlets and other customers?
* How many days does it typically take them to settle payments?
  + How does this differ among customer segments, product/service lines?
  + How has this changed over time? How is it expected to change in the future?

1. **Costs**

Input costs:

* For each product/service, what are the main raw inputs?
  + How much is needed to produce one unit?
  + What is the cost of each input per product/service unit?
* How do you project these costs growing or reducing with time?
* What’s the current daily output, i.e., we produce X units of Product A/we offer X no of Services A, etc.

Supplier terms:

* Who are the key suppliers, what inputs do they supply, % of total supply, etc. (Ask follow-up questions to get you the information you will need to fill the table below)?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Suppliers*** | **Supplier 1** | **Supplier 2** | **Supplier 3** | **Supplier 4** |
| **Materials supplied** |  |  |  |  |
| **Annual/monthly amounts supplied** |  |  |  |  |
| **% of total supply** |  |  |  |  |
| **Price** |  |  |  |  |
| **Quality** |  |  |  |  |
| **Lead times** |  |  |  |  |
| **Etc.** |  |  |  |  |

* What are their respective credit terms, i.e., how many credit days are you provided with?
* Could you share with us a sample of the supplier contracts?

Labor costs:

* How many staff members are involved in direct production? What are their salaries?
* Going forward, how many more direct staff hires do you anticipate?

Other direct costs:

* Are there any other cost items associated with direct production, e.g., transport (for raw materials), cleaning, etc.? If so, can you provide us a breakdown with the monthly budget for such costs?

Overhead costs:

* Would you mind sharing with us the current staff compensation for both permanent and temporary staff?
  + How much does management earn as a proportion of all salaries?
  + Are any adjustments to be made to their salaries going forward?
  + Over the next five years, which key hires do you plan to make and what will be the compensation be per hire?
* What marketing initiatives do you foresee and what’s the expected cost for each initiative, e.g., advertising costs, activations, events, sales team recruitment, etc.? Have you received any quotations from Advertising agencies?
* Do you own or rent the production facilities? If rent,
  + How much do you spend on rent and utilities?
  + How is this likely to change in the future?
* How much do you spend on insurance?
  + Is this likely to change in the future?
* Are there any personal expenses paid for by the company?

Taxes:

* What taxes is the company subject to? How often are these taxes paid?
* What amounts has the company paid for in the past three years?
* Does the company benefit from any tax breaks?
* Which licenses are the company subject to? How often are these taxes paid?

Potential savings:

* Are there any inefficiencies (bottlenecks/pain points) you have identified in the production process? How can these be addressed?
* Are there any potential savings you’ve identified, e.g. alternate suppliers who offer inputs at a lower price while maintaining the same high quality?

### Balance Sheet Statement

1. **Assets & liabilities:**

Assets:

* Could you provide a summary of year-end fixed assets by major asset category (fixed assets movement schedule) showing age, useful lifetime, cost, depreciation, additions and disposals, impairments and net book value for the past two years? Any plans for disposals/replacements/acquisitions in the near term?
  + What is the accounting method for valuing assets?
* Does the company own or rent production facilities? How is this expected to change in the future?
* How do cash balances compare month to month?
  + Are there any unusual fluctuations in monthly cash balances?
* Are there any prepayments or deposits made during the year?
* What percentage of each product do you hold in inventory every month?
  + What is the accounting method for inventory? Describe the inventory system, valuation, and treatment of overheads
* Could you provide an aging analysis of receivables for the last two-year end dates?

Liabilities:

* Could you provide an overview of the company’s accounts payable and accrued expenses?
* Any there any provisions, and what do they relate to?
  + What accounting method is used to recognize these?
* Which loans are you currently servicing, and what are the terms?
  + Any creditors who have the first right of refusal?

1. **Off-balance sheet items:**

* Are there any significant off-balance sheet items (e.g., committed capital expenditures, guarantees, warranties, contingent liabilities, commitments, etc.)?
* What is the likelihood of the above items becoming material?

### Cash Flow Statement

* So far, what has been the flow of cash within the company? What have been the trends in covering working capital needs?
  + How do you expect this to change in the future?
* So far, how has the company been financed?
  + Internally or by external investors? In what form of capital (equity, debt, grant, etc.)?

### Financial projections

*Objective:*

* *Understand company growth plans in the near, medium, and future term. Evaluate procedures and processes in place to support this process (e.g., new hires). Assess whether the growth is strategically planned for or happenstance?*
* *Evaluate projections including worst, best and most probable results*
  + *Understand and assess the reasonableness of assumptions for projections based on company capabilities, market size and demand*
  + *Evaluate consistency with the industry and overall business expectations*
* Understand key drivers of financial projections

**Projections:**

* What are the key drivers of financial projections? E.g., prices, volumes, expansion strategy, etc.
* What growth plans does the company have in the near, medium, and future term?
  + What factors are driving these growth plans?
  + What was the process of arriving at these growth plans?
  + How often are they reviewed to see if the company is on track?
* What additional resources will be required to achieve growth plans, e.g. machinery, land, etc.
  + What additional staff and respective skillsets will be required to drive this growth?
  + What is the envisioned process for acquiring additional assets, staff?
* Are there any projections on how many units the company expects to sell in the next year?
  + What are the worst, best, and base case scenarios? (If these aren’t built-in to projections, discuss changes to assumptions to gauge the three scenarios)
  + What assumptions have been made to arrive at these figures?
* What risks exist that could potentially make it difficult to achieve these figures?
  + Are there any mitigation strategies that are in place to manage such risks?

## Financial management

*Objective:*

* *Understand the budgeting process: “top-down” or “bottom-up” approach*
* *Assess past discrepancies between budgeted numbers and actuals*
* *Assess overall credibility and reliability of accounting and reporting systems*
* *Assess financial controls and identify key gaps and possible risks*

### Budgeting

* What is the process for developing annual budgets?
* What kind of inconsistencies has been experienced between budgeted and actual figures in the past? On average to what percentage are the budgeted figures different from the actuals?
* What are some of the unforeseen circumstances that have caused such discrepancies?
* How do you plan for new sales when budgeting?

### Reporting

* What is the financial reporting flow in the company?
* What systems do you use for accounting, and what are its functionalities?
  + What approvals are done manually versus on the system?
* Are the company accounts audited? If not, why not? If yes:
  + When does this happen?
  + What adjustments are usually made to the accounts?

### Controls

* What internal controls are in place to manage cash (accounting, sales, receipt & spending of cash)?
  + Are these documented as company policies and procedures?
  + How are these enforced within the company?
  + What are the recourse measures for non-implementation/compliance?
  + Where in the process, is there an opportunity to enhance or enforce controls?
* Who in the team is involved in managing cash movements in the business, and what are their respective roles and responsibilities?

## Transaction overview

*Objective:*

* *Evaluate the size, timing, use of funds*
* *Analyze any deal dynamics such as other investors involved, key terms and structure*

**Transaction overview:**

* How much are you looking to raise?
  + What are the specific needs of this amount? E.g., Capex, working capital, etc.
* Are you interested in raising capital in the form of debt, equity, or a mix of both?
* If debt, is this a cost the company can bear, and to what extent?
* By when do you target to raise the required funds for growth?
* Have you conducted any rounds of capital raise in the past?
  + (If so) what was the capital type?
  + What was the ticket size, and for what purpose?
  + If you have raised funds through debt, who are the financers and what were the terms?
  + Are the repayments ongoing/completed?
* Have you conducted any rounds of capital raise in the past year?
  + (If so), what were the terms, ticket size, and type of capital raised?

## Key ratios

*Objective:*

* *Based on a review of financial statements calculate key ratios and compare them with industry averages*
* *Confirm with finance staff:* 
  + *Ratios based on financial statements and obtain any additional information*
  + *Industry averages*

**Ratios:**

* *Fill in the ratios in the table below (the ratios are only representative and not comprehensive; select ratios on a case by case basis)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Formula** | **Result** | **Industry average** | **Comments** |
| **Net profit margin** | Profit after tax/total revenue |  |  |  |
| **Quick ratio** | (current assets – inventory)/current liabilities |  |  |  |
| **Cash conversion cycle** | (Inventory days + receivable days) – payable days |  |  |  |
| **Debt to Equity ratio** | Debt/Equity |  |  |  |
| **Operating cashflow/sales ratio** | Operating cashflow/sales |  |  |  |
| **Etc.** |  |  |  |  |

# Customer Evaluation

*The sample questions provided below may be used to gauge how customers perceive the brand and product while understanding terms of engagement and gathering some intelligence on how the company is positioned in the market relative to competitors*

## Customer perspective

*Objective:*

* *Understand the customer problem solved by the company’s products/services and how much of a problem it is (real need, minor issue)*
* *Identify substitute products available in the market and key differentiating factors*
* *Profile customers into customer segments, contribution to revenue, location, etc.*
* *Understand the customer life cycle for different categories of customers*
  + *Identify the percentage of repeat customers*
* *Determine the convenience of distribution channels to customers*
* *Analyze the company’s customer pipeline*
  + *Research potential customer growth*
* *Explore customer perception of the brand, products/services*
  + *Explore potential product/service features for improvement to increase customer satisfaction*

### Purchasing preferences

* Why do you purchase this product/service?
  + What need does it meet for you?
  + How big is this problem for you? (determine if the need is vital, a huge annoyance or minor)
  + What were you using before to solve this need, and why did you switch to this product/service? (understand the differentiation between substitutes or alternatives)?
* How did you hear about this product/service?
* Which companies do you buy from?
  + How often do you purchase their products/services?
* Where do you go to purchase this product/service?
  + Would you purchase it more often if it were in a different shop or store?
* Have you ever bought a similar product/sought a similar service from another company?
  + If yes, why did you switch brands?
  + If no, why do you prefer this brand?
  + How do you determine which brand to purchase?
  + What would drive you to switch from one brand to another?

### Pricing

* What is your typical budget for this product/service?
  + Do you consider this affordable?
* How much do you buy the product for currently? How does this compare with other companies?
* Have you noticed any price changes in these products in the past?
  + What is the maximum you would spend on this product/service? (gauge price sensitivity among customers)
  + What would you use if this product were unaffordable to you?

### Product features

* What do you think about the product/service in general? (packaging, features)
* How long have you been using this brand/seeking services from this company?
  + What do you like about this brand/company that makes it better than others?
* Are there any changes you would like to see as improvements to the product/service?
* How long does the product typically last?
* Would you recommend this product/service to a friend?

## Customer service

* Have you ever interacted with members of the team directly?
  + What was the nature of your interaction?
  + What is your opinion on the quality of their customer service?
  + How can this be improved?

# Supplier Evaluation

*The questions provided below are designed to help due diligence teams determine security of a company’s supply, understand market dynamics and trends, identify supply chain risks, and determine potential to improve terms of engagement.*

*Objective:*

* *Understand the supply chain and who the key players are at each step*
  + *Determine how prices are set*
  + *Determine lead times*
* *Identify supply chain risks*
* *Determine the bargaining power between the company and its respective suppliers*
* *Identify pain points or bottlenecks in the supply chain*
* *Understand any trends in the industry*

## Background

* Could you provide a brief overview of your business
  + How long have you been in operation?
  + What types of products/services do you provide?
* How long have you worked with this company?
  + Which products/services do you supply this company?
  + How much do you supply them on a monthly/annual basis?

## Supply

* Where do you source the products/services from?
  + What challenges do you experience while sourcing?
* Are there any shortages in supply in recent times/during different periods of the year?
  + What drives these fluctuations, and how do you respond?
* How do you price your products/services?
  + How does this fluctuate depending on the season, demand?
  + Do you foresee any significant changes in supply and pricing in the next two to three years?
* Which other companies offer similar products, and what would you describe as your competitive advantage?
  + Do you face any competition from international suppliers?
  + How do your terms differ?

## Customer engagement

* What type of businesses do you supply?
* How much do they purchase in comparison with this company?
* How is your relationship with these companies in comparison with this company?
  + Does the company consistently pay you on time?
* What are your terms of engagement with businesses?
  + Do you extend credit terms to the company? What are the terms and do they differ by customer?
* Are there any flexible terms of engagement with your customers?
  + Which parts of the contracts are negotiable and which ones are fixed?
* Have there been disagreements with this company in the past, and how were they resolved?
* How long does it take for the delivery of goods from the moment an order is placed? Who incurs the delivery cost?

## Industry trends

* What changes have you seen in the industry over the past few years?
  + How have they affected demand as well as the price and quality of products?
  + Are there any new technologies that could potentially lower costs or increase the quality of your products?