

# Master in Finance

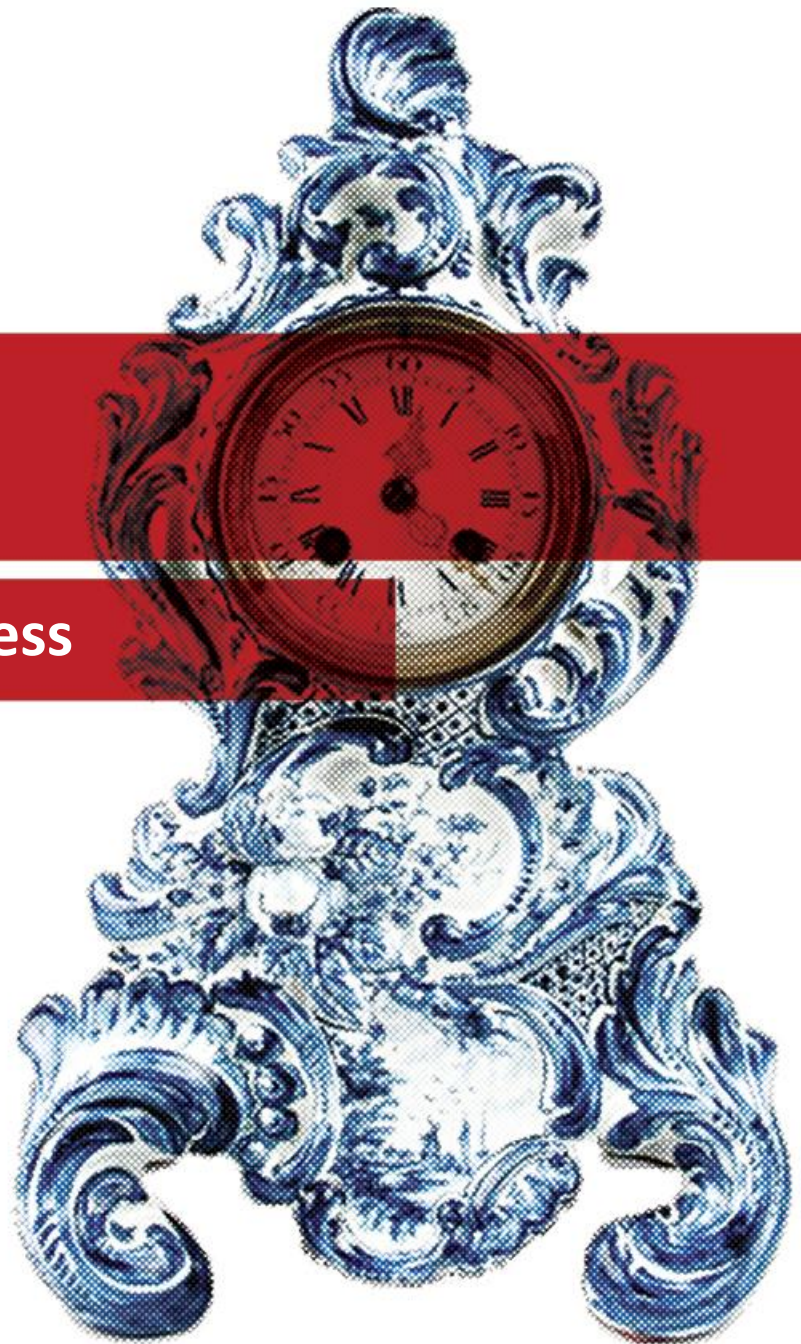
## M&A – The Due Diligence Process

2025

Telmo Francisco Vieira



Lisbon School  
of Economics  
& Management  
Universidade de Lisboa



# The Due Diligence Process



Telmo Francisco Vieira

*(CPA and Statutory Auditor)*

[tfv@iseg.ulisboa.pt](mailto:tfv@iseg.ulisboa.pt)

[Telmo.vieira@premivalor.com](mailto:Telmo.vieira@premivalor.com)

Mobile + 351 91 782 06 50

<https://www.linkedin.com/in/telmo-francisco-vieira/>

# The Due Diligence Process

## **1) *Due Diligence*: A Fundamental Step for the Acquisition Process**

- i) Definition of Due Diligence
- ii) Fundamental Areas of Analysis
- iii) Why Due diligence?
- iv) How to get advantages with the Due Diligence?
- v) The Due Diligence importance

## 2) Methodology and Components of the Due Diligence Process

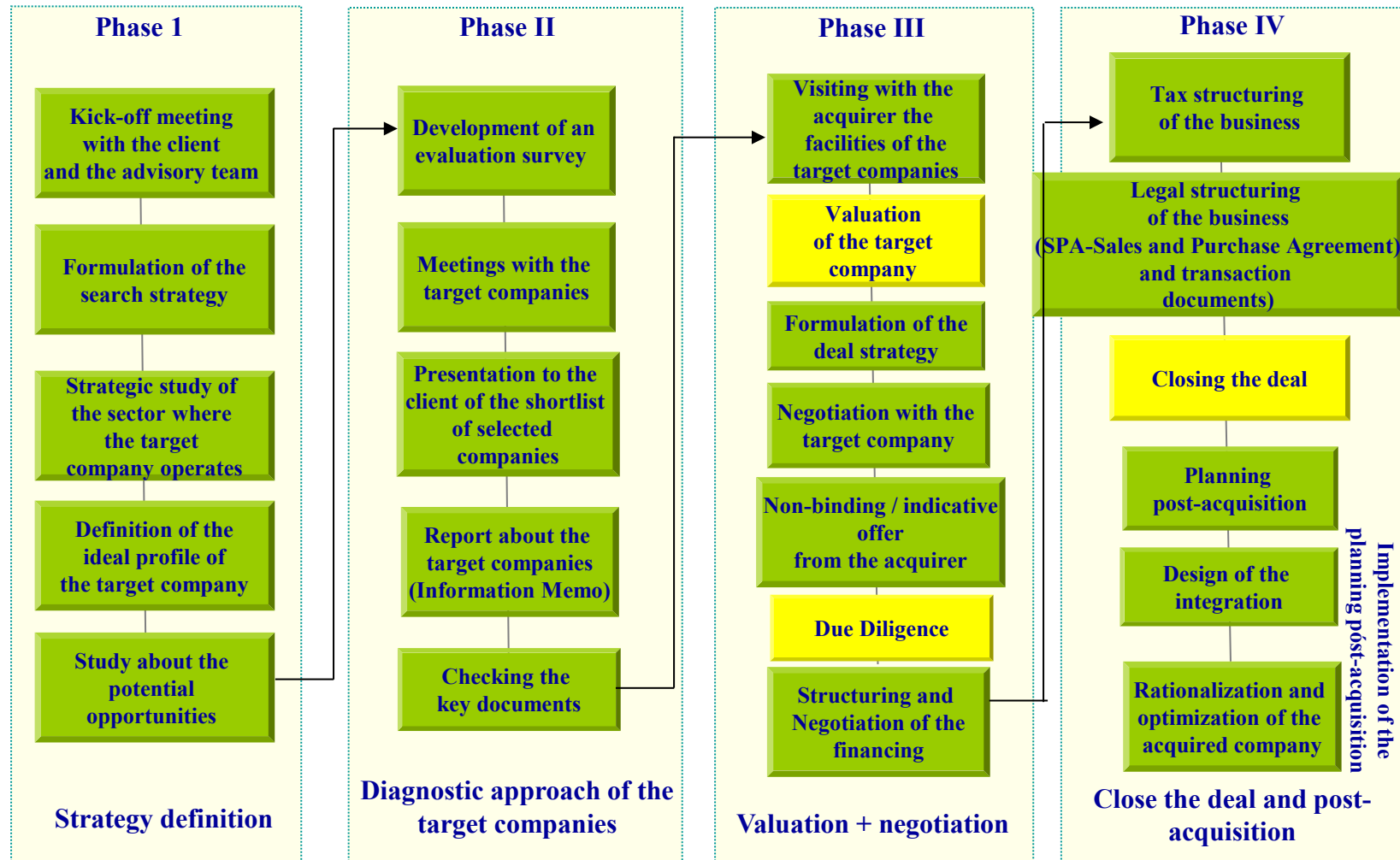
- i) The Due Diligence Planning
- ii) Criteria to estimate a profitable business
- iii) Estimation of the Risk and defining the analysis extension
- iv) Estimation of the Time and Costs spent
- v) Characteristics of who carry out the Due Diligence
- vi) Making the Due Diligence
- vii) Making the Check List
- viii) Check List for the process of Due Diligence
- ix) Difficulties with the elaboration of the Due Diligence
- x) Conclusion

# The Due Diligence Process

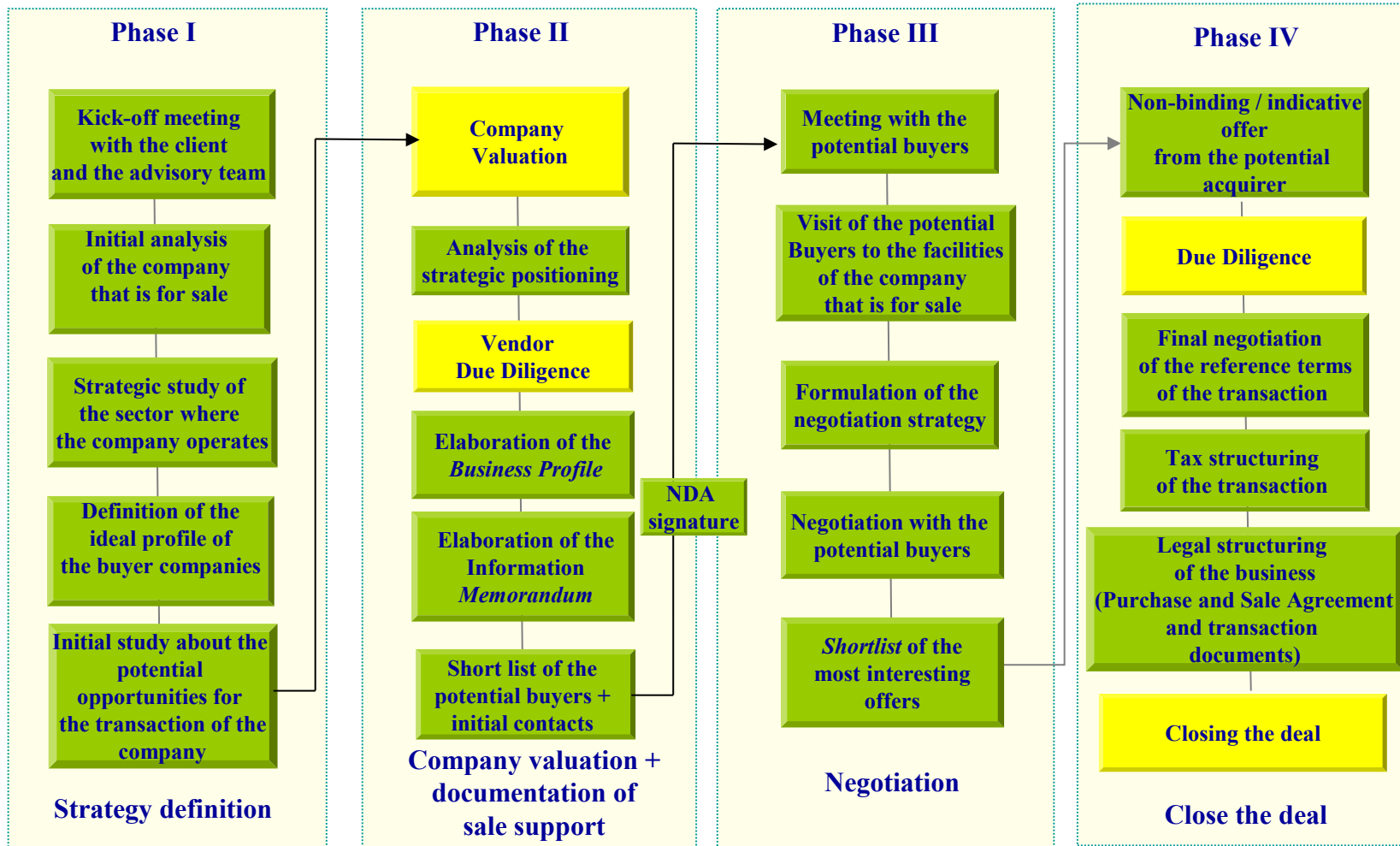
## 1) Due Diligence: A Fundamental Step for the Acquisition Process



## Stages of an acquisition process

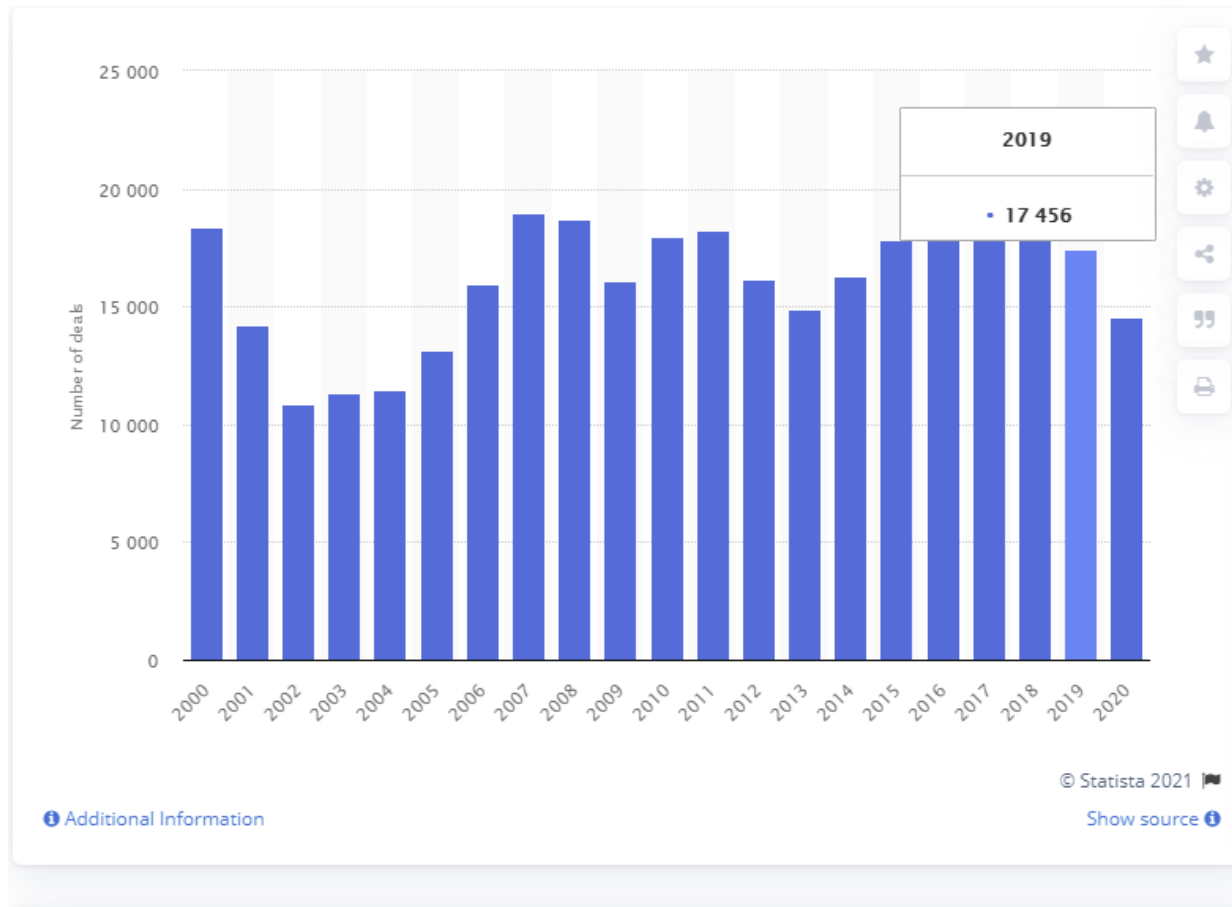


## Stages of a sale process



# Number of M&A deals in Europe

## Number of merger and acquisition (M&A) deals in Europe from 2000 to 2020

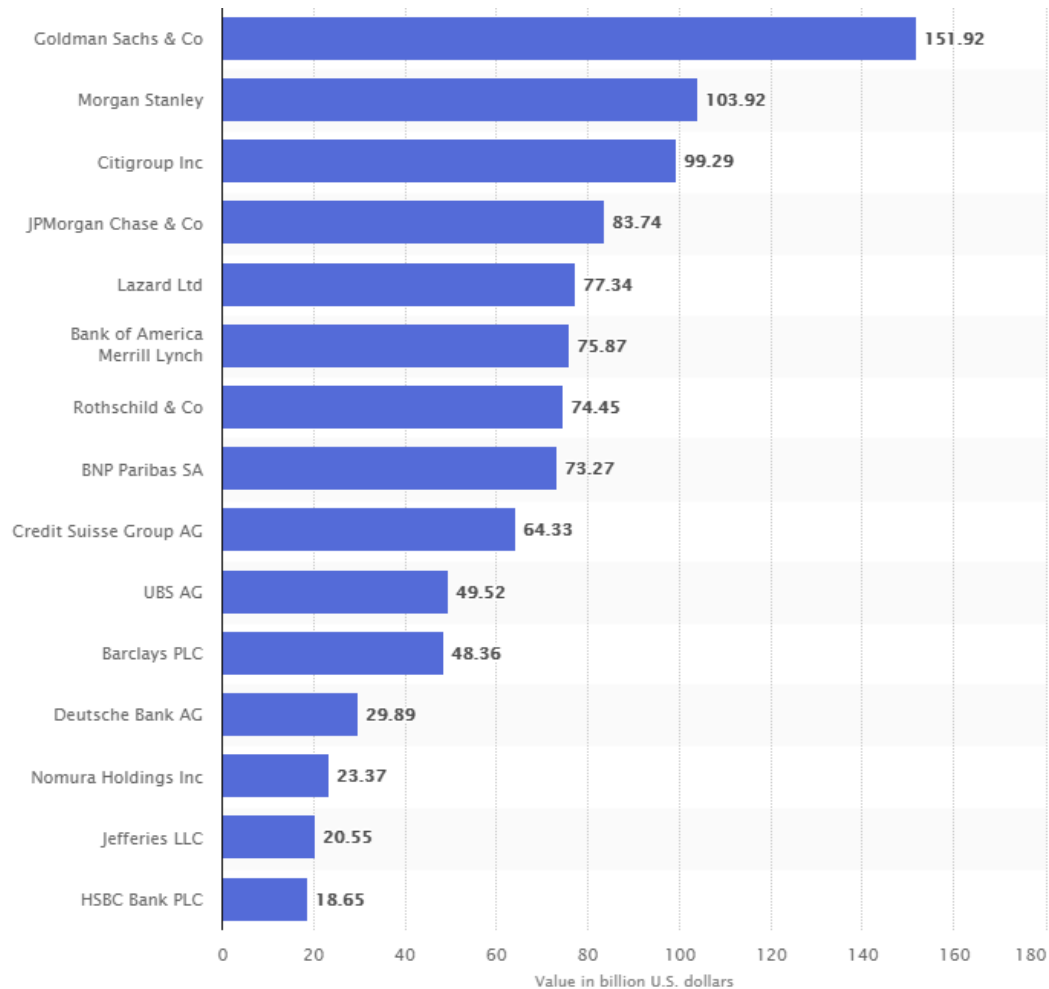


**Volume of European M&A transactions 2000-2020**

Published by [Jennifer Rudden](#), Feb 4, 2021

# Leading financial advisors of M&A

## Leading financial advisors to merger and acquisition deals in Europe in 2019, by deal value *(in billion U.S. dollars)*



## Mergers & Acquisitions Consultant Salaries

### Mergers And Acquisitions Consultant Salaries

7,574 Salaries Updated Feb 11, 2021

 Very High  
Confidence

All industries

All company sizes

[No Title]

All years of Experie...

Average Base Pay

**\$58,643** / yr

Not enough reports to show salary distribution



Additional Cash Compensation ?

Average No Reports

Range No Reports

How much does a Mergers and Acquisitions Consultant make?  
The national average salary for a Mergers and Acquisitions Consultant is \$58,643 in United States. Filter by... [More](#)

Salaries for Related Job Titles

No related titles found.

As we collect more salary reports, we will be able to display related salaries for this job title.

[Submit your salary](#)



How much should you negotiate?

See how your offer stacks up to other pay packages and negotiate confidently.

[Analyze Offer](#)

Open Mergers And Acquisitions Consultant Jobs

[See All Jobs >](#)

0% de comissão durante os  
três primeiros meses  
quando mudar para a

**marketso**  
part of markets.com

**Mudar agora**

Fonte de dados: Reuters Eikon

O valor dos investimentos tanto pode diminuir como aumentar e o investidor pode ter um retorno inferior ao investimento inicial. O

# Salaries on M&A sector

## Salaries by Company

Sort: **Popular** | Most Reports | Salary

Filter by Location



or

Search for Specific Employer



| Company                                                                             |                                                                                       | Average Base Salaries in (USD)  | Low    | High   |
|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------|--------|--------|
|    | <b>Mergers and Acquisitions Consultant</b><br>Mercer<br>1 employee salary or estimate | About<br><b>\$106K - \$116K</b> | \$106K | \$116K |
|    | <b>Analyst, Mergers and Acquisitions</b><br>The Blackstone Group<br>6 salaries        | <b>\$72,823/yr</b>              | \$69K  | \$93K  |
|    | <b>Mergers &amp; Acquisitions, Analyst</b><br>Rabobank<br>5 salaries                  | <b>\$89,289/yr</b>              | \$61K  | \$117K |
|  | <b>Vice President, Mergers and Acquisitions</b><br>J.P. Morgan<br>5 salaries          | <b>\$240,043/yr</b>             | \$229K | \$255K |
|  | <b>Vice President, Mergers and Acquisitions</b><br>Rabobank<br>4 salaries             | <b>\$137,457/yr</b>             | \$96K  | \$181K |

# Assignment – understanding the market for M&A

## Exercise 4 – understanding the market for M&A



- a) Make a research to understand who are the leading financial advisors to mergers and acquisitions in your home country.
- b) Identify some open positions in sell side and buy side of companies for M&A in your home country.

# *Due Diligence:* A Fundamental Step for the Acquisition Process

## Definition of Due Diligence

Consists of the pursuit of relevant information about all company's resources, businesses opportunities and risks, associated to the company's past, present and future that have the capacity of affecting, in some way, the company's cash flows.



## Fundamental Areas of Analysis

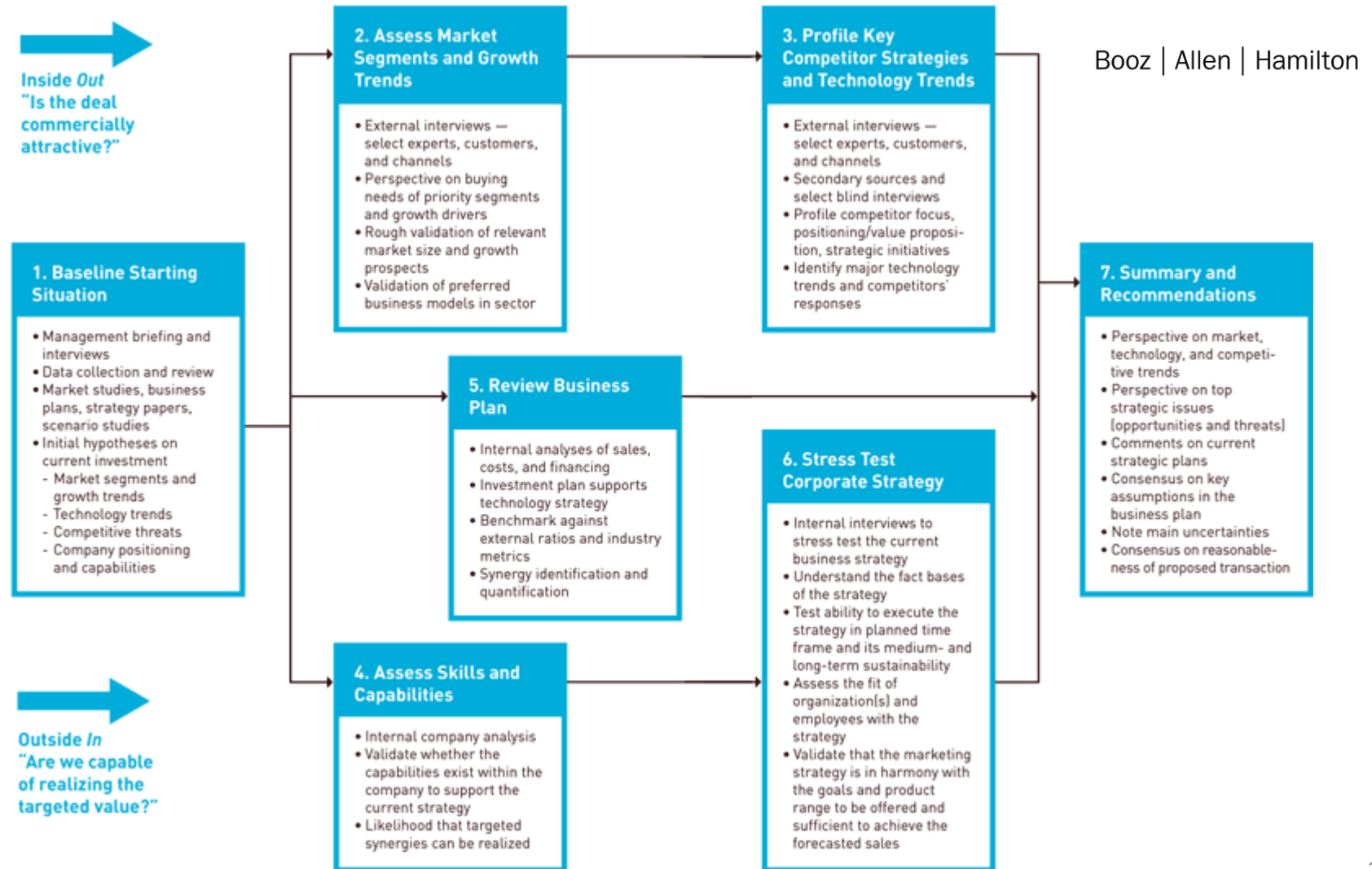
- Strategic Diagnostic (analysis of the opportunities and threats of the competitive environment in which the company is involved);
- **Marketing and Distribution Auditing** (analysis of the strong and weak points at level of *marketing*, distribution lines, products, etc.);
- **Technology and Operations Auditing** (analysis of the adopted technology, the productive *lay-out*, efficiency of the production, etc.);
- **Staff and the Organizational Culture Auditing** (analysis of the human resources quality, formation level, age, etc.);

## Fundamental Areas of Analysis

- **Fixed Assets Auditing** (analysis of the tangible assets);
- **Financial Auditing** (analysis of the company's financial situation, its assets, liabilities and equity);
- **Tax Auditing** (analysis of the company's tax situation);
- **Legal Auditing** (legal structure of the human resources, verification of the assets' ownership, etc.);
- **Environmental Auditing** (analysis of the legislation in which the company is, trends of its evolution, etc.).

# Due Diligence: A Fundamental Step for the Acquisition Process

Exhibit 1: Strategic Due Diligence Methodology



Source: Booz Allen Hamilton

# Due Diligence: A Fundamental Step for the Acquisition Process

## Why Due Diligence?

- Due Diligence will take part in the valuation process and in the elaboration of the company's integration planning after the acquisition.
- However, this is an aspect that is not taken into account in some of valuation processes.
- So, *“the big mistakes of valuations happens not because it was used a wrong discount rate, but because the managers were not worried to know if the pensions planning was financed correctly, if there was environmental risks, etc..”*

## **Why Due Diligence?**

- The analysis of the financial data is a very important factor for the company's survival although, according to most investors, the analysis of these data is not enough.
- Financial data reflect the present situation of a company, and it may just help on making a short-term forecast.
- However, some kind of future information concerning the company, the sector and the environment in which it is involved, could predict an eventual success or failure of the company.

### **Why Due Diligence?**

- It is necessary to obtain information about the most critical factors that can affect a business:
- Competence and stability of management;
  - **Market trends;**
  - Capacity and quality of the production;
  - Staff rotation;
  - Agreements with suppliers;
  - etc.

### Why Due Diligence?

- The **investors would make better decisions** if they had more information about the really important factors.
- A suitable Due Diligence is appropriated and applicable to investors and buyers in any kind of business, either if it is focusing on production or services and also if it is a **large or small business**.

### How to get advantages with the Due Diligence?

- **Investors:** could make a deeper valuation on both financial and not financial aspects of a future investment;
- **Intermediaries:** could understand faster and efficiently the business that represent;
- **Credit Institutions:** could make a better valuation of the requested loan;
- **Consultants:** could protect themselves better and improve their valuations in all kind of aspects;

### How to get advantages with the Due Diligence?

- **Accountants:** could prepare their reports in a more accurate way;
- **Directors and Board Members:** could perform better their functions focusing on the duties they want to approach.

### The Due diligence Importance

→ It helps, in the process of a company's evaluation, getting assistance, suggestions and a deeper knowledge of the important factors for the investor.

## **The Due diligence Importance**

- As every business is unique, it will also be the rates, standards and objectives used on making the valuation.
- In this way, an acceptable condition in a small business could be unacceptable in a large business and vice versa.
- The Due Diligence will have to be improved in quality and quantity focusing on the specifications of the business in question.

# The Due Diligence Process

## 2) Methodology and Components of the Due Diligence Process



### The Due diligence Planning

- The Due Diligence is one of the procedures that we use to study, search and make an evaluation of a business opportunity and usually it will happen after the parts involved, agree that the business is financially viable, and a pre-contract has been signed.
- If we want the Due Diligence to be successful, it must be planned carefully beforehand.

### **The Due diligence Planning**

- The first steps of the Due Diligence Planning consist of:
- checking that the business is what it seems to be (through interviews, analyzing documents, etc.);
  - checking that the investment is matched to the criteria of the investor;
  - quantifying the main key aspects of the **Balance Sheet** (and not just identify the value of the assets, liabilities and equity);
  - preserving all documents, reports, information and data available to resolve possible problems that can appear after the deal.

### **Criteria to estimate a profitable business**

- Performance obtained;
- Financial Ratios;
- Potential forecasted performance;
- Comparison between the book value and the market value;
- The management quality;
- Type of business.



## Estimation of the Risk and defining the analysis extension

- The investor should estimate, at the beginning of the process, the **level of risk** that he/she is willing to take;
- If the investor is just willing to take low risk, the Due Diligence should be carried out with **more detailed procedures** and vice-versa;
- The investor should consider that if a Due Diligence is not approached in a detailed way, relevant aspects of the business may be misinterpreted or just ignored.

### **Estimation of the Risk and defining the analysis extension**

→ Nevertheless, a Due Diligence well developed does not guarantee a successful investment. We must always consider that the risk exists;

## Estimation of the Risk and defining the analysis extension

→ *“The only way to avoid the risk completely is not making business at all.”*



### ***Exercise 5 – How to deal with risks***

**Do you agree or disagree with the above phrase?  
Provide the rationale for your answer.**

## Estimation of the Risk and defining the analysis extension

→ Factors which indicates a reduced risk:

- Stable and experienced management;
- Audited accounts;
- Continuity of the operational activity;
- Strong position on the market;
- Absence of litigations;
- **Independence from the clients;**
- Reduced extraordinary incomes and expenses;
- etc.

### **Estimation of the Risk and defining the analysis extension**

→ However, a really deep study of Due Diligence could discourage the investment even in an attractive business because, the more information we have the higher the number of defects found in the business.

### Estimation of the Time and Costs spent

- As a whole, the **pre-agreements** define a period of time in which the final deal will be signed, so the investor has the opportunity to manage the Due Diligence.
- Its important **not to spend too much time** on the Due Diligence because meanwhile another investor could make another proposal and we lose all the time and costs that had been spent on carrying out the Due Diligence.

### Estimation of the Time and Costs spent

- The Due Diligence should start as soon as possible.
- Some investors continue not taking the option of making the Due Diligence due to the **costs that are associated with the study**.
- However, there are investors that make sure that the **cost spent** on the study of the Due Diligence is **compensated** with the “guarantee” of doing a good investment, minimizing therefore the future risks and losses.

## Exercise 6

The failure to do an exhaustive Due Diligence can be very serious.

- a) Based on public information identify situations of Mergers & Acquisitions where the **Due Diligence failed**.
- b) Search and characterize also the cases of:
  - 1. Hewlett-Packard (2012) acquisition of UK software maker Autonomy - \$11.1 billion
  - 2. Facebook acquisition of Oculus (2014) - \$3 billion



## Exercise 7

a) Provide a definition of **Vendor Due Diligence** and what are the potential benefits associated to it

**Vendor**  
Due Diligence



# Due Diligence: Exercise

## A video about Due Diligence

<https://www.youtube.com/watch?v=w6eruKsOjx8>



Vendor due diligence is a Due diligence review, which is commissioned by the vendor and conducted by independent lawyers, tax advisors and auditors.

The results of the vendor due diligence are summarized by the auditors in a **Vendors Due Diligence Report**.

This VDD Report is made available to potential buyers in a **virtual data room** (or electronic data room, or digital data room).

It has several benefits, e.g.

- several potential buyers can look check the documents at the same time
- faster due diligence process by the buyers
- the seller retains control over confidential information because no documents are provided, only the result of the VDD review

- potential buyers save time and money for the audit
- the **seller** gets an early indication of weak points and can either fix them or pro-actively disclose them to potential buyers before the Letter of Intent phase
- Sellers have control over which people have read through which information in the electronic data room and can exploit this knowledge in contract negotiations

It is therefore especially interesting for company's who want to benefit from having the control over the due diligence, get rid of weak points before the buyers and want to get a fast acquisition process and to attract more potential buyers by taking over the due diligence.

### **Characteristics of who carries out the Due Diligence**

- Must have a wide knowledge of the industry;
- Must have a wide knowledge about the investor and know how to defend his/her interests;
- Must have accounting and financial knowledge;
- Must not be intimidator;
- Must not compromise the investor;
- Must have the knowledge about business politics and culture;
- Must have a strong and mature presence;
- Must be open-minded.

### Characteristics of who carries out the Due Diligence

- As always as possible the Due Diligence should be made by a qualified person and **not by the own investor**.
- Then, it should be made by a company or person in the **auditing, consulting** or **accounting** area.

### Acquiring information:

- All the information obtained orally, must be rapidly reported and **written down**;
- The target company must be informed of who is going to make the Due Diligence, its duration, the people who will be involved and all the general information that will be required;
- It is essential to **visit the target company**.

### Acquiring information:

- Proceed to a **check list well organized**, containing all the necessary information and documents in order of avoiding the repetition of questions and the need of coming back to the company, which is quite annoying for the people who supply the information;
- Obtaining the highest quantity of information in the shortest time, without interruptions;
- From the beginning, accept the information with minimal comments, taking it as real, and after checking if it is right;
- Consultants must obtain all information requested, and all that could be relevant to know;

### → Acquiring information: (cont.)

- When there are negative points, and the informant pretends to explain the origin of these points, the consultant must listen to it, and limit his/her comments;
- The consultant must keep in mind that some question are inappropriate, so it could annoy and being understood as a disrespect, such as:
  - ❖ Ask something which was answered before;
  - ❖ Ask for documents which were previously delivered.

# *Due Diligence:* A Fundamental Step for the Acquisition Process

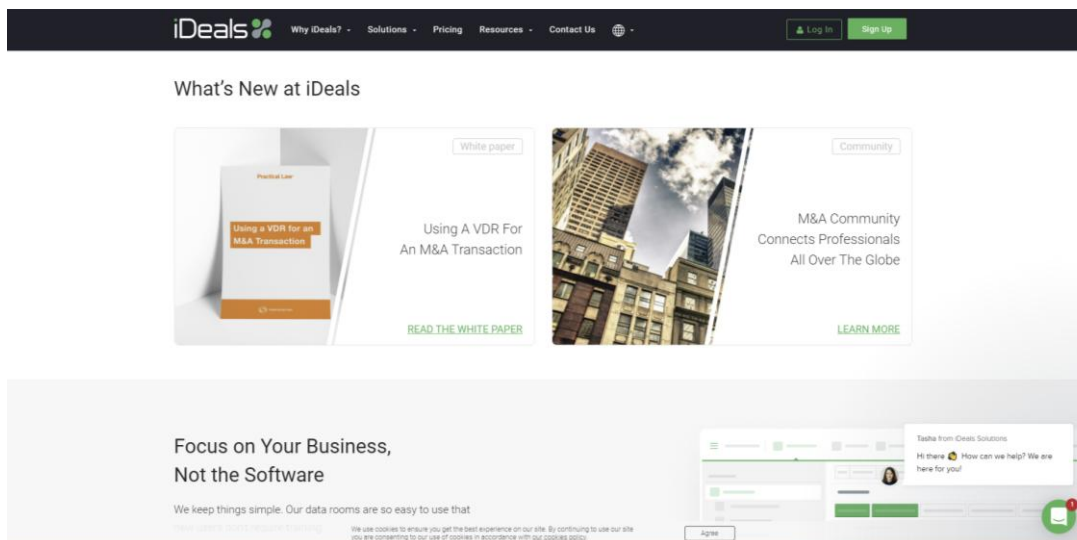
## Virtual Data Room

More deals utilize the Virtual Data Room (VDR).

It is an online site used for storage and distribution of documents during the Due Diligence process.

Data Security is the number one challenge in using VDRs.

### Example of one platform for Virtual Data Room:



### IDEALS

<https://www.idealsvdr.com/>

# Due Diligence: A Fundamental Step for the Acquisition Process

## Virtual Data Room

The screenshot shows the iDeals website. The header is dark with the iDeals logo and navigation links: Why iDeals?, Solutions, Pricing, Resources, Contact Us, and a globe icon. There are 'Sign In' and 'Sign Up' buttons. Below the header is a 'TRUSTED BY' section featuring logos for Deloitte, EY, KPMG, citi, BDO, and accenture. The main content area is titled 'What's New at iDeals' and features two cards. The left card is for a 'Report' titled 'Renewable Energy M&A Outlook: Iberia 2022' with a 'GET REPORT' button. The right card is for a 'Product' titled 'Multi-Project Management And Other Product Improvements' with a 'LEARN MORE' button. At the bottom, there is a cookie consent banner.

**iDeals** Why iDeals? Solutions Pricing Resources Contact Us Sign In Sign Up

TRUSTED BY Deloitte. EY KPMG citi BDO accenture

### What's New at iDeals



**M&A OUTLOOK**  
SPAIN & PORTUGAL  
2019-2022  
TTR DATA

[Report](#)

Renewable Energy M&A Outlook: Iberia 2022

[GET REPORT](#)



**Product**

Multi-Project Management And Other Product Improvements

[LEARN MORE](#)

We use cookies to ensure you get the best experience on our site. By continuing to use our site [Settings](#) [Aagree](#)

# Due Diligence:

## A Fundamental Step for the Acquisition Process

### Virtual Data Room

**ideals.**

Why Ideals Solutions Customers Pricing Blog Contact

Log in Get started

# Where vision meets precision

Secure your project's success with a trusted and intuitive data room

Get started

Financial Services  
M&A sell-side  
M&A buy-side  
M&A advisor  
Fundraising

Trusted by 2M+ leading

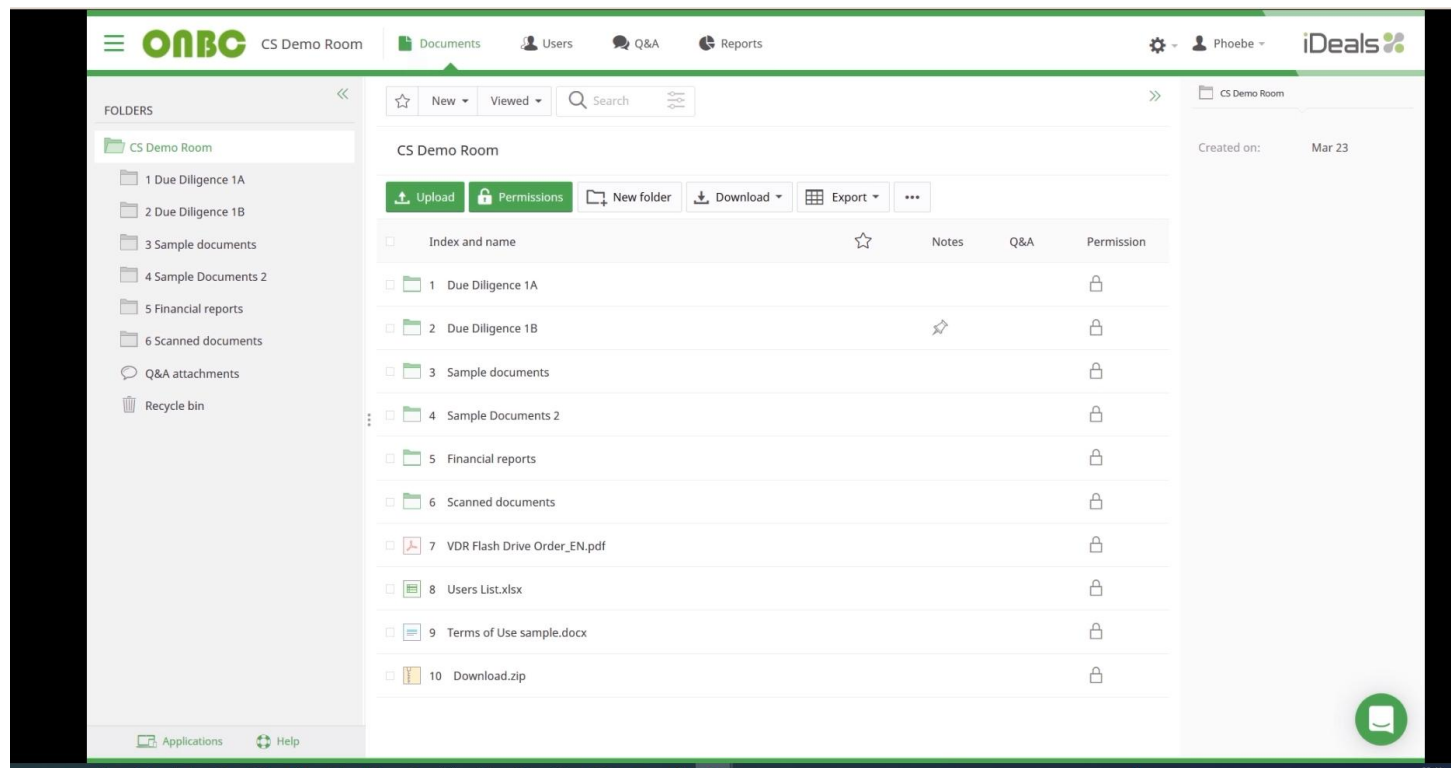
<https://www.idealsvdr.com/#>

# Due Diligence: A Fundamental Step for the Acquisition Process

## Virtual Data Room

Watch the video to see an example of a Virtual Data Room and how it works:

<https://www1.idealsvdr.com/Tutorials//iDeals%20Solutions%20Data%20Room%20Demo%20Final.mp4>



# Due Diligence: A Fundamental Step for the Acquisition Process

## Virtual Data Room

The screenshot displays the ONBC Virtual Data Room interface. The top navigation bar includes the ONBC logo, 'CS Demo Room', and tabs for Documents, Users, Q&A, and Reports. A user profile for 'Phoebe' is visible on the right. The left sidebar contains a search bar and a list of navigation items: Groups overview, Folder access (highlighted), Files and folders, Groups and users, Q&A activity, History of actions, Over files and folders, Over users and groups, Over permissions, All actions, and Data storage usage.

The main content area shows the 'FOLDERS' section with a list of folders under 'CS Demo Room':

- 1 Due Diligence 1A
- 2 Due Diligence 1B
- 3 Sample documents
- 4 Sample Documents 2
- 5 Financial reports
- 6 Scanned documents

Below the folder list, the 'Folder access' table is displayed, showing access percentages for various user groups. The table has columns for Folder/Group, Administrators, Investors VII, Finance Team, Restricted admini..., and Copybara.

| Folder/Group         | Administrators | Investors VII | Finance Team | Restricted admini... | Copybara |
|----------------------|----------------|---------------|--------------|----------------------|----------|
| CS Demo Room         | 36.4%          | 0%            | 0%           | 0%                   | 0%       |
| 1 Due Diligence 1A   | 0%             | 0%            | 0%           | 0%                   | 0%       |
| 2 Due Diligence 1B   | 0%             | 0%            | 0%           | 0%                   | 0%       |
| 3 Sample documents   | 33.3%          | 0%            | 0%           | 0%                   | 0%       |
| 4 Sample Documents 2 | 0%             | 0%            | 0%           | 0%                   | 0%       |
| 5 Financial reports  | 0%             | 0%            | 0%           | 0%                   | 0%       |
| 6 Scanned documents  | 0%             | 0%            | 0%           | 0%                   | 0%       |

The bottom of the interface shows a video player with a pause button and a timestamp of 10:51 / 13:47.

# Due Diligence: A Fundamental Step for the Acquisition Process

## Virtual Data Room

The screenshot displays the ONBC Virtual Data Room interface. The top navigation bar includes a menu icon, the ONBC logo, and tabs for CS Demo Room, Documents, Users, Q&A, and Reports. The right side of the header shows a settings gear, a user profile for Phoebe, and the iDeals logo.

The left sidebar contains a search bar and several menu items: Groups overview, Folder access, Files and folders, Groups and users, Q&A activity, History of actions (highlighted with a green box), Over files and folders, Over users and groups, Over permissions, All actions, and Data storage usage.

The main content area is titled 'GROUPS' and lists several groups with checkmarks: All groups, Users groups, Copybara, Finance Team, Investors VII, Administrators groups, Administrators, and Restricted administrators. Below this, the 'Q&A activity' section is displayed, showing a table of activity for three groups: Administrators, Finance Team, and Restricted administrators. The table includes columns for Threads, Posts, and Attachments, with values represented by green bars.

**Q&A activity** [Export](#)

| Group                            | Threads | Posts | Attachments |
|----------------------------------|---------|-------|-------------|
| <b>Administrators</b>            | 5       | 2     | 1           |
| <b>Finance Team</b>              | 1       | 2     | 0           |
| <b>Restricted administrators</b> | 2       | 5     | 3           |

The bottom of the interface shows a video player with a pause button, a timestamp of 11:29 / 13:47, and a volume icon.

## Elaboration of the Check List

- When an investor decides to consider seriously a business opportunity, he/she must require a **list of the necessary information** and documents;
- A *check list* is a guide for gathering information in an evaluation process;
- The acquisition of **superfluous information (\*)** will only confuse, delay and distract the consultant;
- As a rule, when it is impossible to recognize a topic or a document as an important point, it is better to include it than remove it.

(\*) the case of a Facility Services company where tones of info was provided to distract consultants from what was the critical aspects.

## Elaboration of the Check List

→ Some questions to help preparing the *check list*:

- There is **enough information** to understand the business?
- The information that was already asked will be **necessary later**?
- Did the information asked, **avoid mistakes** and misunderstandings?

### Check List for the process of Due diligence

#### Financial Information:

- Annual reports of the last 3 to 5 years;
- Balance sheet, income statement, cash flow statement for the last 3 to 5 years;
- Annual and quarterly financial results from the last 3 to 5 years until the current date;
- Analytical trial balance (\*) for the last 3 to 5 years;
- Fiscal documents or fiscal dossiers of the years which we are analyzing;
- Financial projections;
- Equity structure;
- Composition of the equity. What part belongs to whom, and their rights;
- Detailed analysis of the amounts of debts;
- Annuals budgets.

(\*) Balancete analítico

### ***Check List* for the process of Due diligence**

#### **Fixed Assets:**

- Description of all assets that belong to the company;
- Description of all assets in leasing;
- Contracts related to fixed assets;
- Amortizations and depreciations from the last 3 years until the current date;
- Amortization policy;
- Analysis of the investments which were made every year and the new investments planned;
- Insurance contracts.

### **Check List for the process of Due diligence**

#### **Products:**

- Description of every product in each segment of the market, considered turnover and **gross margin**;
- **Unit cost** of each product and perspectives about the future evolution or trend of these costs;
- Comparison with the competition;
- List of the major raw materials and packaging materials in the last fiscal year;
- Information about the **critical point of the sales**: mix of products, fixed and variable costs;
- List of the main suppliers;
- Copies of the main services contracts and the guarantees related with these services.

### ***Check List* for the process of Due diligence**

#### **Information about clients:**

- List of the most important **clients** in relation to the turnover;
- List of the strategic relationships;
- **Gross margin *per* client**;
- Description of the most relevant **commercial relationships**.

### ***Check List*** for the process of Due diligence

#### **Competitors:**

- Analysis of the competitive environment in every segment of the market;
- Annual reports of the direct competitors.

### ***Check List* for the process of Due diligence**

#### **Marketing, sales and distribution:**

- Strategy and implementation;
- List of the main clients;
- Total sales and percentages by client and/or group of clients;
- Perspectives of development of new businesses;
- Analysis of productivity of the sales force;
- Identification of the key sales force staff;
- Information on the *marketing* campaigns undertaken by the company;
- Results of market research already carried out;

### ***Check List* for the process of Due diligence**

#### **Marketing, sales and distribution: (cont.)**

- Accounts receivables average period;
- Discounts Policy;
- Sales statistics (day, month, year) of the last 3 to 5 years;
- List of the main competitors by each market segment.

### ***Check List* for the process of Due diligence**

#### **Research and Development (R&D):**

- New products/services introduced by the company;
- **List of patents**, **brands**, names, *copyrights* and corresponding contracts;
- Description of the R&D organization.

### ***Check List* for the process of Due diligence**

#### **Management and policy of Human Resources:**

- Organization chart;
- Information concerning the full staff with the corresponding labor specifications, namely, the role, **seniority**, age, **wages and salary** and **education**;
- Curriculum Vitae of the management team;
- Employment contracts;
- List of the conditions applied in the employment contracts in general;
- Work insurance contracts;

### ***Check List* for the process of Due diligence**

#### **Management and policy of the Human Resources: (cont.)**

- Incentives, *stock options* and **golden parachutes**;
- Labor problems;
- **Costs of the staff**;
- Health and working accidents insurance;
- **Pension funds** (retirement payments).

### ***Check List* for the process of Due diligence**

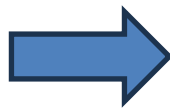
#### **Liabilities:**

- Analysis of the provisions policy, namely, pensions, taxes, ongoing litigations and others;
- Analysis of the loan contracts;
- Analysis of the leasing contracts;
- Analysis of the debts to the State (for example to tax authorities);
- Social Security debts;
- Analysis of current legal processes.

### ***Check List* for the process of Due diligence**

#### **Environment:**

- Analysis of the current **legislation** for the **sector**;
- Analysis of the situation of the company towards environmental aspects;
- Analysis of the **future trends** of regulatory and the implicit impact on the company.



In more detail ...

# ***Due Diligence:*** **A Fundamental Step for the Acquisition Process**

***Check List*** for the process of Due diligence

## **ESG Due Diligence**



### Check List for the process of Due diligence

## ESG Due Diligence Questionnaire

**Source:**

[https://www.investeurope.eu/  
media/1777/invest-  
europe\\_esg\\_dd\\_questionnaire.  
pdf](https://www.investeurope.eu/media/1777/invest-europe_esg_dd_questionnaire.pdf)



# Due Diligence: A Fundamental Step for the Acquisition Process

## Check List for the process of Due diligence

## ESG Due Diligence Questionnaire



3 | Invest Europe ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies

### SECTION 1

#### GENERAL

##### Business overview

Describe the geographical location/key countries you operate in. Please provide details of operations in emerging markets.

[Answer]

Describe the type of operations associated with the business e.g. office, manufacturing/production, warehousing, logistics etc.

[Answer]

List the countries your key suppliers/distributors operate in.

[Answer]

Please provide details of the total number of employees (split by permanent/full-time equivalent (FTEs) and part-time). If your operations use a significant number of contractors, please also provide a breakdown.

[Answer]

What does the company consider to be the material risks and opportunities in relation to ESG for the business?

[Answer]

Source: [https://www.investeurope.eu/media/1777/invest-europe\\_esg\\_dd\\_questionnaire.pdf](https://www.investeurope.eu/media/1777/invest-europe_esg_dd_questionnaire.pdf)

# Due Diligence: A Fundamental Step for the Acquisition Process



Lisbon School  
of Economics  
& Management  
Universidade de Lisboa



## Check List for the process of Due diligence

### ESG Due Diligence Questionnaire

#### ESG / SUSTAINABILITY GOVERNANCE

**Source:**  
[https://www.investeurope.eu/media/1777/invest-europe\\_esg\\_dd\\_questionnaire.pdf](https://www.investeurope.eu/media/1777/invest-europe_esg_dd_questionnaire.pdf)

#### ESG/SUSTAINABILITY GOVERNANCE

##### Maturity of ESG systems and processes

What is management's view of the overall maturity status of its existing ESG policies, processes and systems, where 1 = mature (policy, procedures, systems are coordinated centrally, are well established and embedded, reviewed and continuously improved; management system certification e.g. ISO); 2 = partly developed and implemented at a departmental level (developed and implemented within departments but not centrally coordinated, and are not subject to regular review and improvement, and not consistently applied; 3 = immature (no formal policies and systems in place).

[Answer]

##### Resources (roles & responsibilities)

Have you assigned a designated point person for day-to-day ESG matters? Please provide details.

[Answer]

##### Competence and training

What relevant experience/qualifications do they have? Is this person specifically trained in ESG?

[Answer]

Do you provide ESG training to staff? If so please provide details of the type of training, how often, whether it includes senior management.

[Answer]

##### ESG committee/ steering group

Have you established an ESG committee/steering committee to monitor performance and if so who is it chaired by and how often does it meet?

[Answer]

##### Corporate risk register

Please summarise the key ESG issues which are included within the corporate risk register.

[Answer]

##### Monitoring & reporting

Please describe arrangements in place for monitoring and reporting ESG issues and performance to senior management/the Board. In your response please confirm what KPIs are monitored (if any) and how frequently reporting is undertaken and how information is collated and stored (e.g. use of IT systems etc.?).

[Answer]

Do you publish an external ESG/CSR/Sustainability report or a designated section in your annual accounts? If yes, please provide a copy.

[Answer]

##### Memberships

Is the company a member of the PRI, UN Global Compact or the Institutional Investors Group on Climate Change, or any other relevant organisation?

[Answer]

# Due Diligence: A Fundamental Step for the Acquisition Process

## Check List for the process of Due diligence

### ESG/Sustainability Governance:

#### E - Environment



#### ENVIRONMENT

##### Environmental Policy

Does the company have an environmental policy which sets out clear commitments and targets to improve the company's environmental footprint? Does this also cover climate change issues that could be relevant to the company? Please provide details and indicate who in the organisation signs off the policy e.g. CEO or equivalent.

[Answer]

How often is the policy reviewed and updated?

[Answer]

##### Organisational arrangements/ resources

Please provide details of who is responsible for environmental management on a day-to-day basis including key roles and responsibilities, if different to the above (e.g. Board member responsibility, ESG/Sustainability manager).

[Answer]

##### Training

Please provide detail of any environmental induction/training provided to staff and senior management.

[Answer]

##### Certification/ standards

Has the company implemented an environmental management system to manage environmental matters and has this been externally certified e.g. to ISO 14001 or equivalent standard?

[Answer]

##### Environmental improvements

Provide details of any significant projects/initiatives that have been implemented to improve environmental performance/standards/compliance at the company; for example: waste/energy projects that have resulted in carbon/consumption reductions as well as cost savings; enhanced communications to improve environmental awareness.

[Answer]

##### Permits/licences/ consents

Please confirm that the company is fully compliant with all relevant environmental permits/licences/ consents and that there have been no regulatory issues/cases of non-compliance/enforcement action in the last three years.

[Answer]

# Due Diligence: A Fundamental Step for the Acquisition Process

## Check List for the process of Due diligence

### ESG/Sustainability Governance:

#### S - Social

| SOCIAL                                    |                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Health and Safety (H&amp;S) Policy</b> | Does the company have a H&S policy which is signed off by the CEO or equivalent?                                                                                                                                                                                                                                                |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |
|                                           | Does the company have a H&S risk register and is this reviewed on a regular basis? If yes state how often it is reviewed and by whom.                                                                                                                                                                                           |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |
| <b>Accidents/incidents</b>                | Has the company implemented a formalised H&S management system, which sets out clear organisational responsibilities and management arrangements for implementing the H&S policy? Has the management system been certified by a third party? Please provide a high-level overview of the key elements of the management system. |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |
|                                           | Does the company have formal processes for undertaking workplace risk assessments, providing communication and training to employees, and conducting audits? How often are these risk assessments reviewed/updated?                                                                                                             |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |
| <b>Enforcement</b>                        | Does the company monitor incidents/accidents? If so please provide a breakdown of statistics for the last three years, including near misses, number of lost days, frequency rates etc.                                                                                                                                         |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |
| <b>Social related claims</b>              | Has the company been subject to enforcement action by the regulators for breaches of relevant H&S legislation in the last three years? If so please provide details of the nature of the incident, enforcement action, fines, remedial actions and lessons learnt.                                                              |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |
| <b>Social related claims</b>              | Have you had any serious social related complaints/claims/enforcement actions over the last three years, associated with employees or key stakeholders such as customers or suppliers? If so, please provide details.                                                                                                           |
|                                           | [Answer]                                                                                                                                                                                                                                                                                                                        |

# Due Diligence: A Fundamental Step for the Acquisition Process

## Check List for the process of Due diligence

### ESG/Sustainability Governance:

#### S - Social

#### SECTION 1 (CONTINUED)

##### Human Resources

Do all employees have a formal contract of employment?

[Answer]

What is the minimum age of workers and contractors?

[Answer]

Provide details of the company's grievance mechanism for its employees and contractors.

[Answer]

Please provide evidence that the company adheres to local minimum wage standards.

[Answer]

Does the company have any involvement in employment practices of sub-contractors? What is done to ensure their fair and ethical treatment; are any minimum standards applied?

[Answer]

Does the company employ migrant workers and if so, please describe details of the processes used to ensure minimum standards of human rights are adhered to. In your response, please detail any associations/NGOs you are associated with in relation to migrant workers e.g. Migrants' Rights Network (UK).

[Answer]

##### Anti-discrimination Policy

Do you have a policy that supports anti-discrimination? If so, please provide details of your key commitments/control measures.

[Answer]

##### Diversity Policy

Does the company have a policy that supports diversity and equal opportunity? If so, please provide details of your key commitments/control measures.

[Answer]

##### Data privacy and security

Please provide details of the company's data security policy. Have there been any breaches in cyber security within the last three years?

[Answer]

##### Certification/ standards

Has the company implemented an IT security management system? Is it certified to the international standard ISO 27001 for information security?

[Answer]

##### Responsible Purchasing Policy

Does the company have a responsible purchasing policy/Code of Conduct for suppliers? If so, please provide details of this and evidence of how this is being applied/monitored.

[Answer]

# Due Diligence: A Fundamental Step for the Acquisition Process



## Check List for the process of Due diligence

### ESG/Sustainability Governance:

#### G - Governance

| GOVERNANCE                         |                                                                                                                                                                                                                                                |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Corporate governance</b>        | How is corporate governance managed across the company and its operations? Please provide details of any associated key policies.<br>[Answer]                                                                                                  |
| <b>Board structure and role</b>    | How is the composition of the Board determined? Please provide details.<br>[Answer]                                                                                                                                                            |
|                                    | How is diversity taken into consideration when appointing members?<br>[Answer]                                                                                                                                                                 |
|                                    | Are shareholders consulted in relation to Board composition? If so, how?<br>[Answer]                                                                                                                                                           |
|                                    | Is a member of the Board assigned responsibility for ESG/sustainability/CSR matters within the company? If yes, please state the individual responsible and details of any relevant training.<br>[Answer]                                      |
|                                    | How many of the Board are Executive Directors and Non-Executive? Please provide names/positions of each individual.<br>[Answer]                                                                                                                |
|                                    | Is there an independent Chairman of the Board?<br>[Answer]                                                                                                                                                                                     |
|                                    | How are issues raised by the Board communicated with management?<br>[Answer]                                                                                                                                                                   |
|                                    | How many women are on the Board?<br>[Answer]                                                                                                                                                                                                   |
|                                    | Is ESG discussed at the Board level? If so, how often does this take place and does this follow a set agenda/terms of reference? Provide details of the key issues regularly discussed.<br>[Answer]                                            |
|                                    | Is there a remuneration committee in place? Does this committee engage with the Board?<br>[Answer]                                                                                                                                             |
|                                    | What other committees are in place e.g. Risk, Audit, ESG/sustainability/CSR? Are these championed by a dedicated person? Please provide details.<br>[Answer]                                                                                   |
| <b>Corruption/ fraud detection</b> | What does the organisation currently do to safeguard against illegal practices? Has the organisation had any issues in relation to illegal practices (i.e. corruption/fraud) in the past? How has this been detected and resolved?<br>[Answer] |

### ❖ Services that a Management Consulting company can provide regarding ESG DUE DILIGENCE

Management consulting companies can provide a range of services related to **ESG (Environmental, Social, and Governance) due diligence**, which is a critical component of assessing the sustainability and ethical performance of organizations.

ESG due diligence services typically include:

- 1. ESG Risk Assessment:** Evaluating and identifying potential ESG risks and opportunities within a company's operations, supply chain, and industry. This involves assessing environmental, social, and governance factors that could impact the company's financial performance and reputation.
- 2. Regulatory Compliance Review:** Analyzing the company's compliance with relevant ESG regulations and standards, both at the national and international levels. This includes understanding and advising on reporting requirements and disclosure frameworks.

### ❖ Services that a Management Consulting company can provide regarding ESG DUE DILIGENCE (cont.)

**3. ESG Data Collection and Analysis:** Gathering and analyzing ESG-related data and metrics, such as carbon emissions, diversity and inclusion statistics, labor practices, and board diversity, to assess the company's performance and benchmark it against peers.

**4. Materiality Assessment:** Identifying the ESG issues that are most material to the company's business, stakeholders, and long-term sustainability, which informs strategy and reporting priorities.

**5. Stakeholder Engagement:** Facilitating engagement with key stakeholders, including investors, customers, employees, and communities, to understand their ESG expectations and concerns, and to develop strategies to address them.

### ❖ Services that a Management Consulting company can provide regarding ESG DUE DILIGENCE (cont.)

**6. ESG Strategy Development:** Assisting in the development of an ESG strategy that aligns with the company's overall business goals, including setting targets, developing action plans, and integrating ESG considerations into decision-making processes.

**7. ESG Reporting and Communication:** Helping the company create transparent and effective ESG reports and communications to stakeholders, ensuring that the information is accurate, relevant, and impactful.

**8. Supply Chain Assessment:** Evaluating the ESG performance of a company's suppliers and partners to identify potential risks and opportunities throughout the supply chain.

**9. Due Diligence for Mergers and Acquisitions:** Conducting ESG due diligence as part of the assessment of potential acquisition targets or merger partners to understand the ESG risks and opportunities associated with the deal.

### ❖ Services that a Management Consulting company can provide regarding ESG DUE DILIGENCE (cont.)

**10. Training and Capacity Building:** Providing training and building internal capabilities to enhance the client's understanding of ESG issues and their ability to manage them effectively.

**11. Benchmarking and Peer Comparison:** Benchmarking the client's ESG performance against industry peers and best practices to identify areas for improvement and differentiation.

**12. Sustainability and Impact Measurement:** Developing and implementing metrics and KPIs to track progress toward ESG goals, as well as assessing the social and environmental impact of the company's activities.

### ❖ **Services that a Management Consulting company can provide regarding ESG DUE DILIGENCE (cont.)**

Management consulting companies assist their clients in navigating the complex landscape of ESG issues, providing guidance to improve ESG performance, mitigate risks, and enhance their reputation as responsible and sustainable organizations.

These services are crucial for companies looking to integrate ESG considerations into their business strategies and demonstrate their commitment to sustainability.

### *Difficulties with the elaboration of the Due Diligence*

#### **→ A hostile environment:**

- Delivery of only old financial results, or in a brief way, showing that information is being hidden;
- Information restricted concerning taxes, fearing a governmental action;
- Who opposes, or is directly affected by the transaction, in a hostile attitude, can refuse cooperation, or cooperate in a misleading way;

### *Difficulties with the elaboration of the Due Diligence*

#### **→ A hostile environment: (cont.)**

- The lack of uniformity on the financial indicators, is a constant source of confusion that may lead to wrong conclusions;
- The existence of a **fake document** indicates that much more can exist;
- The delivery of fake documents is a heavy and strong reason to finish with the Due Diligence;
- Another relevant problem may appear when the information or the documents that are required, are lost or do not exist. When unacceptable for the consultant, he/she must demand this information or finish with the Due Diligence.

### ***Conclusion***

- Making business is quite complex, and depends on several interrelated functions and activities;
- Potential buyers or investors, need to be able to identify, understand and make evaluations of *pros* and *cons* of every aspect of the investment, and being as much efficient as possible;
- **Due diligence** supplies knowledge and a **strong position** on the business;

### **Conclusion**

- The Due diligence is the pursuit of surprises, and normally the business is seen in a different way after performing the Due Diligence;
- In the Due diligence conclusions, the **secrets of the target company must be minimized**;
- It is very probable that surprises or unknown characteristics of the company may appear, being necessary to ask for additional information to understand in a whole sense its nature and for making an evaluation of its impact on the company;

### **Conclusion**

- As our society is becoming more and more competitive, the Due Diligence is becoming more essential in cases of a business transaction;
  
- The failure of an appropriate Due Diligence, can represent:
  - A **Civil Responsibility**, as a consequence of losses that can be of millions of euros for the investor;
  - A **Criminal Responsibility**, as the **consultant/auditor** can be exposed to criminal prosecution, for not having done a rigorous Due Diligence.

# *Due Diligence:* A Fundamental Step for the Acquisition Process

## *Conclusion*

→ The Due Diligence should avoid these two statements:

- *“If we had the knowledge of this, we would never have invested!”*
- *“If we had known this, we would have invested with no doubt!”*

## References

- **DePamphilis, D. (2025).** *Mergers, acquisitions, and other restructuring activities: An integrated approach to process, tools, cases, and solutions.* **12th ed.** London: Academic Press. ISBN 9780443161063. | (September 15, 2025)
- **DePhamphilis, Donald M., (2021),** *Mergers, Acquisitions, and Other Restructuring Activities,* Academic Press, **11<sup>th</sup>** edition.
- M. DePamphilis, Donald (2018) *Mergers, Acquisitions and Other Restructuring Activities*, pp.179-182
- Howson, P. (2017) *Commercial Due Diligence: The Key to Understanding Value in an Acquisition.* 2nd ed. Abingdon: Routledge. ISBN 9781138203002.
- **NEVES, João Carvalho** (2002). *Avaliação de Empresas e Negócios,* McGraw-Hill
- **BING, Gordon** (1996). *Due Diligence – Techniques and Analysis,,* Quorum Books

## Exercise 8

- Consider that you were just hired by the **Hilton Worldwide Holdings Inc.** to study the acquisition of a 5-star hotel located in Algarve, Portugal.
- Prepare a **list of information** for the **Due Diligence** concerning the target company which is the owner of the hotel in Algarve.



# Due Diligence: Exercise

## Exercise 9

→ 9.1. Assume that you are asked to perform a **Due Diligence** regarding a **Bank** that is under an acquisition process.

One of the areas concerns **cybersecurity**. Please indicate how you would proceed to perform a **Due Diligence** on the **cybersecurity** area.

9.2.1. If you are asked to **evaluate** from an **economic** and **financial** point a view an **investment** of a company on **cybersecurity** area, how would you proceed?

9.2.2. What indicators(\*) could you use?

9.2.3. Indicate pros and cons of those indicators?



(\*) Hint – ALE – Annual Loss Expectancy; ROSI – Return on Security Investment, NPV; IRR; Payback period

# Appendix

<https://www.corporatefinanceineurope.eu/due-diligence/vendor-due-diligence.htm>

## Some references

<https://www.firmex.com/resources/uncategorized/top-10-due-diligence-disasters/>

<https://www.accountingweb.co.uk/business/finance-strategy/hps-cfo-admits-to-never-reading-the-due-diligence-on-autonomy>

<https://internationalhub.org/going-global/managing-global-environment/hp-autonomy-accounting-finance/>

## Vendor due diligence (vendor DD)

We want to help you in structuring your vendor due diligence plan. What is vendor due diligence? An experienced team prepares an effective due diligence review. This will give you the comfort that your company is well positioned for a business sale. Here is an overview of the vendor due diligence page:

- What is vendor due diligence?
- The objectives of vendor due diligence
- How does vendor due diligence differ from sell-side due diligence?
- When to start vendor due diligence
- The various parts of vendor due diligence

### What is vendor due diligence?

Vendor due diligence (VDD) is a different term for sell-side due diligence. It is similar to buy-side due diligence but is originated by the seller. Hence, it is often also called sell-side due diligence. In the end, it is a full and independent review of a company before it will come up for sale. In the past, this used to be done by each buyer independently. However, over the last few years, sellers have learned it can be useful to do their own due diligence on their company. By doing VDD, the seller learns a lot about their company. Vendor due diligence can be described as the investigation and analysis of the seller's company. A strong focus is on the financial business drivers that determine the future results. For this reason, the investigation can help with increasing the sales price for the company. In practice, most often the people that do the vendor due diligence also defend and explain the due diligence performed to the buyers. We are able to help you with vendor due diligence in Europe.

### The objectives of vendor due diligence

Vendor due diligence is important and can be very useful. As a business owner, you can benefit tremendously by having VDD done. This process can provide valuable information to a seller which can sometimes be the difference between a successful or failed business sale. At the minimum, it can help in support of the proposed acquisition and possibly a better price. Briefly, vendor due diligence has the following objectives:

## Some references

<https://www.corporatefinanceineurope.eu/due-diligence/vendor-due-diligence.htm>

# Due Diligence Disasters

Comprehensive due diligence is essential to any successful M&A activity.

Getting a complete and transparent view of the financial, operational, and cultural characteristics of potential acquisition target isn't easy though. We've brought together a few examples of what happens when stakes are high and the diligence process breaks down.

To learn more about due diligence visit: <http://www.firmex.com/blog/category/due-diligence>

|                                                                                     | YEAR | PRICE   | INTENTIONS                                                                                          | DUE DILLIGENCE OVERSIGHT                                                          | LOSS   | AFTERMATH                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------|------|---------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    | 2012 | \$11.1B | Part of HP's overall plan to move away from computer hardware to more profitable computer software. | Inaccurate income statements, balance sheets, cash flows, and footnotes.          | \$5B   | HP was then sued by shareholders in federal court for negligence in missing red flags and not performing adequate due diligence related to the Autonomy purchase.                         |
|    | 1994 | \$1.7B  | Quaker wanted to enjoy similar success to their acquisition of Gatorade.                            | Intellectual property and competitive analysis.                                   | \$1.4B | Quaker took a loss of \$2M a day for each day they owned Snapple.                                                                                                                         |
|  | 1994 | £800M   | BMW wanted to diversify its product offerings and increase sales volumes.                           | Financial information, inaccurate information on sales & accounts, cultural clash | £790M  | BMW sold Rover to Phoenix Consortium for £10M in a complicated deal in 2000.                                                                                                              |
|  | 2011 | \$793M  | Caterpillar was attracted to ERA for their coal mining equipment factories in China.                | General accounting policies of ERA subsidiary (revenue recognition, etc.)         | \$580M | Caterpillar's fourth-quarter earnings were reduced by about 87 cents a share and senior managers at an ERA subsidiary found to be responsible for the accounting misconduct were removed. |

<https://www.firmex.com/resources/uncategorized/top-10-due-diligence-disasters/>

# HP's CFO admits to never reading the due diligence on Autonomy

by [Francois Badenhorst](#)

19th Jun 2019 8 comments



iStock\_JasonDoiry\_AW

<https://www.accountingweb.co.uk/business/finance-strategy/hps-cfo-admits-to-never-reading-the-due-diligence-on-autonomy>



## HP's blockbuster civil suit against Autonomy's founder took a strange turn when its former CFO admitted she had not read any due diligence before the US software giant splurged \$11bn on the acquisition.

Back in 2015, security expert Mikko Hyppönen set up a free WiFi hotspot in the heart of London's financial district. Nestled in the fine print was a "Herod clause": by accepting the terms and conditions, "the recipient agreed to assign their first born child to us for the duration of eternity".

Six people signed up, according to Hyppönen.

His point was that our failure to read the small print could result in unpleasant consequences. We're all guilty of skimming the t&c's in our private lives. However, when you're the well-remunerated CFO of a major corporation, due diligence is kind-of part of the deal.

No one apparently explained this to HP's former CFO Cathie Lesjak. Back in 2011, HP was sizing up the acquisition of British software company Autonomy. Lesjak, understandably as CFO, played a key role in these efforts.

The acquisition went ahead and quickly turned disastrous. A year after HP paid \$11.1bn (£8.5bn) for Autonomy, the US giant wrote down the value of Autonomy by \$8.8bn. HP and its shareholders accused Autonomy of misleading them over the true value of the company; a claim that Autonomy's founder Mike

<https://www.accountingweb.co.uk/business/finance-strategy/hps-cfo-admits-to-never-reading-the-due-diligence-on-autonomy>



Telmo Francisco Vieira

*(CPA and Statutory Auditor, M&A Specialist)*

[tfv@iseg.ulisboa.pt](mailto:tfv@iseg.ulisboa.pt)

[Telmo.vieira@premivalor.com](mailto:Telmo.vieira@premivalor.com)

+ 351 917 820 650

➤ M&A Deal Support Across Key Locations:

**Lisbon | London | Madrid | San Francisco | São Paulo | Warsaw**

