



BENCHMARK  
INTERNATIONAL

# VENDOR DUE DILIGENCE GUIDE

PRIVATE & CONFIDENTIAL



## VENDOR DUE DILIGENCE (VENDOR DD)

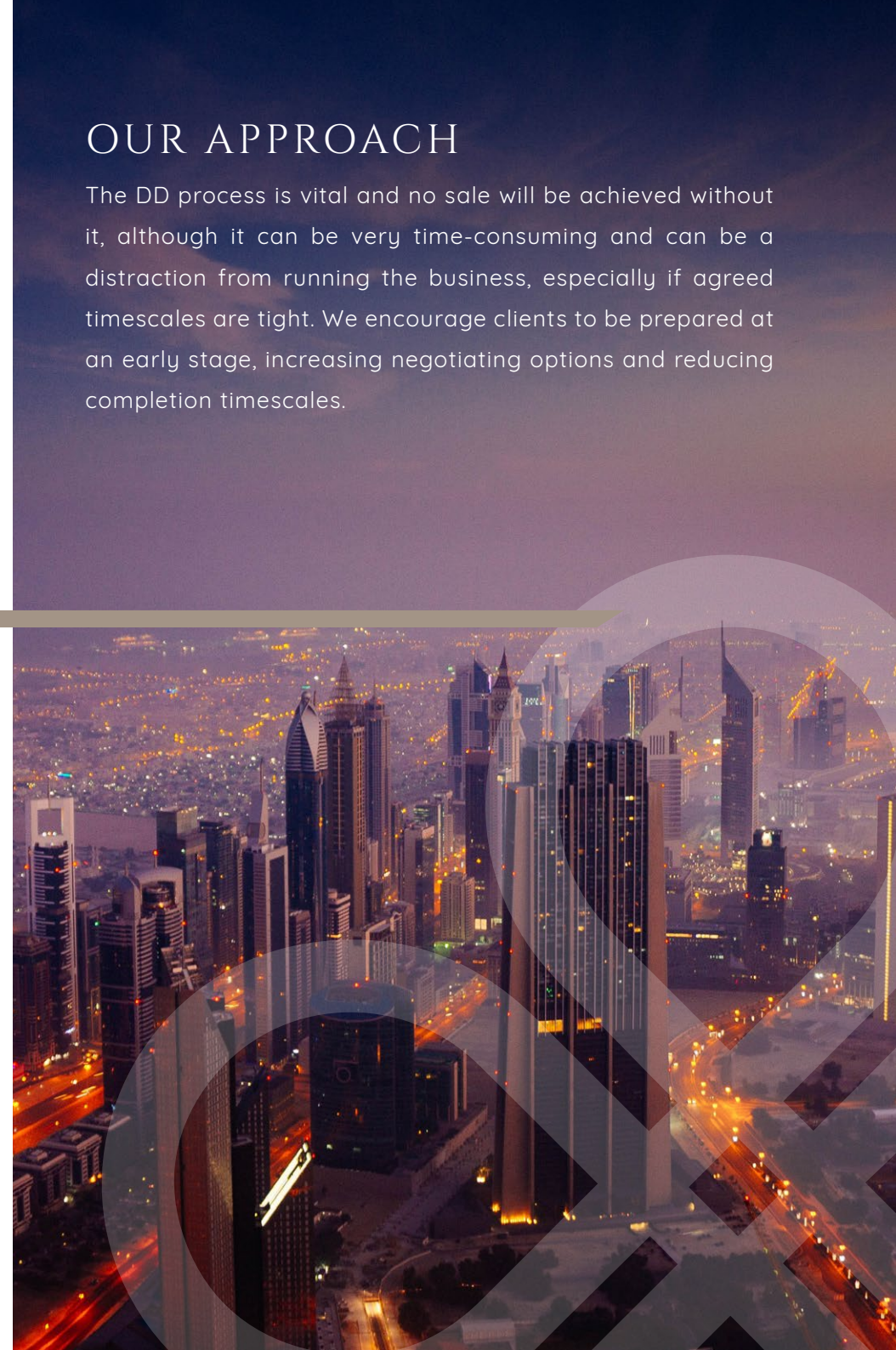
The process acquirers undertake to gather detailed information relating to the target company is typically referred to as Due Diligence (DD), which is often broken down into Financial DD, Commercial DD and Legal DD. Financial and Commercial DD can be performed by the acquirer or their advisers, whilst Legal DD is performed by the acquirer's lawyer, often at a later stage once the Financial and Commercial DD outcome is known.

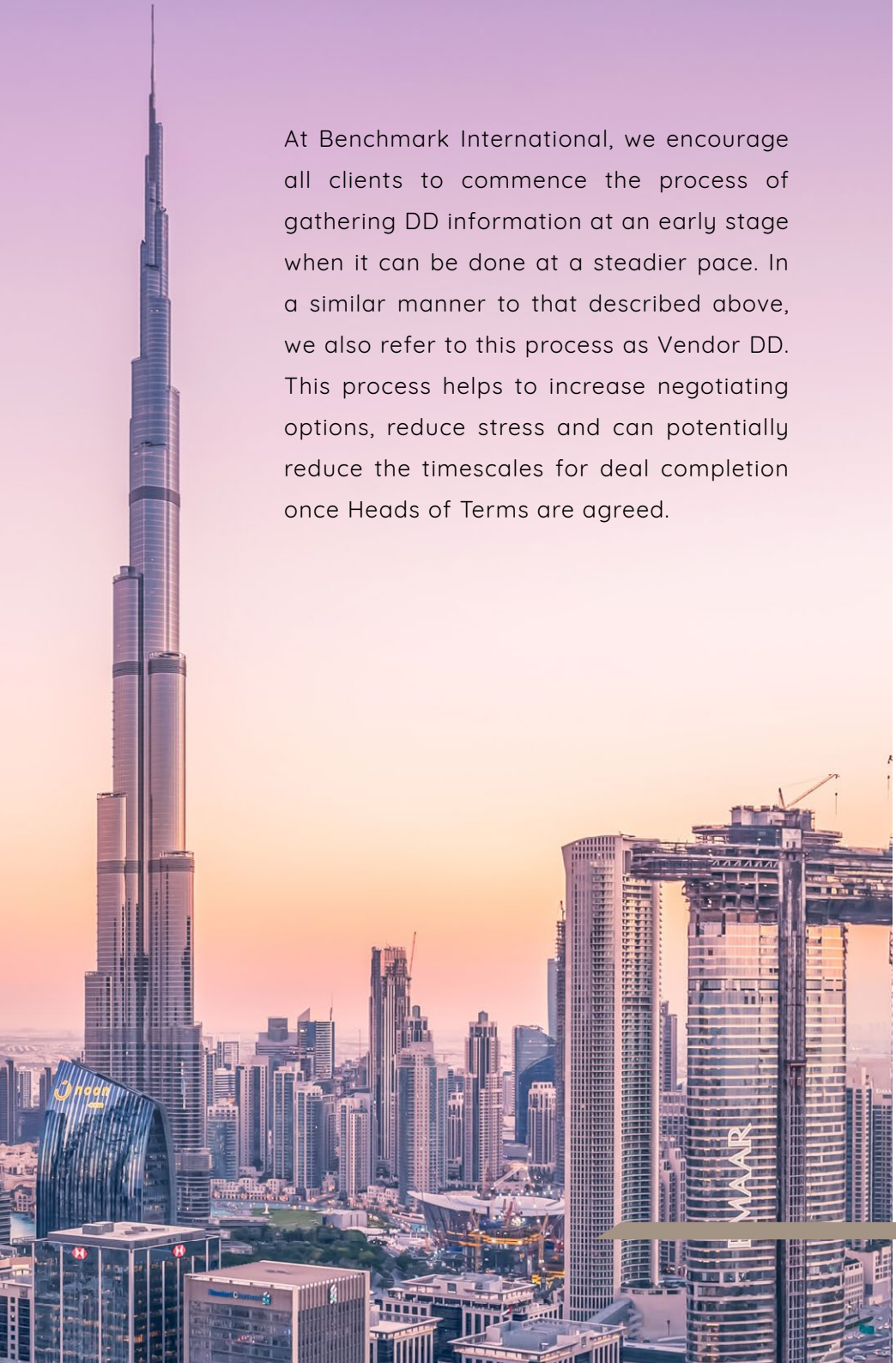
On some deals, typically larger ones or those funded by financial buyers (such as Private Equity), the sellers might actually engage the services of a major firm of accountants to prepare an independent Financial DD report, which may also cover related commercial and legal aspects. This is typically referred to as Vendor DD and is often made available to several bidders at the negotiation stage.

Due diligence often begins with the issuance of standard questionnaires. These questionnaires can be a little daunting, so preparation is key.

## OUR APPROACH

The DD process is vital and no sale will be achieved without it, although it can be very time-consuming and can be a distraction from running the business, especially if agreed timescales are tight. We encourage clients to be prepared at an early stage, increasing negotiating options and reducing completion timescales.





At Benchmark International, we encourage all clients to commence the process of gathering DD information at an early stage when it can be done at a steadier pace. In a similar manner to that described above, we also refer to this process as Vendor DD. This process helps to increase negotiating options, reduce stress and can potentially reduce the timescales for deal completion once Heads of Terms are agreed.

## CHECKLISTS

The following checklists are appended to this guide:

- Appendix A: Financial – Trading Activities
- Appendix B: Financial – Assets & Liabilities
- Appendix C: Legal

These checklists give an indication of the information an acquirer is likely to require as part of the DD process and are divided between Basic DD and Full DD.

As an absolute minimum, we would encourage all clients to commence gathering the information listed as Basic DD, preferably in Microsoft Word or PDF format, ready for distribution or upload at a later date.

As we get closer to the receipt of offers, gathering the information listed as Full DD should be considered.

## ASSISTANCE

If you require guidance or assistance with any aspects of this Vendor DD, your Transaction Leader and team will be happy to help.

# APPENDIX A: FINANCIAL - TRADING ACTIVITIES

ASPECT	DETAILS	BASIC	FULL
YEAR-END ACCOUNTS	Last 3 years – full (as prepared for corp tax submissions), not ‘abbreviated’ (as prepared for filing)	◆	◆
MANAGEMENT ACCOUNTS	Up-to-date P&L	◆	◆
	Monthly management accounts for last 12 to 24 months		◆
FORECASTS	P&L forecast for the present financial year, with a descriptive summary and reasons for trends	◆	◆
	P&L & cash flow forecasts for up to 3 years (if available), & assumptions (trading, working cap, capital)		◆
SALES	Monthly sales for – i) last full accounting year (totaling sales in P&L account), ii) since last year-end	◆	◆
	Break-down of monthly sales by – i) customer/segment, ii) geographical area, iii) product (including GP%)		◆
	Forward ‘Order Book’ – monthly & by customer, if possible	◆	◆
	Recurring, contractual or maintenance income summary – i) last 12 months, ii) forward		◆
CUSTOMERS	Top 10 (or other, as appropriate) customers – name (or reference), annual spend, contractual terms	◆	◆
	Market reports/articles – copies of any material that may be relevant. Tip – build a ‘bible’ over time	◆	◆
SUPPLIERS	Top 10 (or other, as appropriate) suppliers – name or reference, annual spend, contractual terms	◆	◆
SUB-CONTRACTORS	Sub-contractor schedule (name, services provided, contractual relationship)		◆
EMPLOYEES	Employee schedule (initials, role, age, length of service, basis of remuneration (basic, bonus/ commissions), holiday entitlement, pension entitlement, full/ part-time)		◆
	Copy of standard terms of employment or employee handbook		◆
	Pension scheme details (type(s), enrolled, auto-enrollment implications) & copy trust deeds		◆
	Details of any trade unions		◆
	Details of any recent or proposed redundancies or other proposed employment terminations		◆
	Details of any employees on long-term sick leave, maternity leave, secondment or similar		◆
	Details of any loans made to (or from) employees		◆
	Details of any legal actions of disputes relating to employees		◆
	Details of any relevant transfers under TUPE in the last 10 years (TUPE – Transfer of Undertakings (Protection of Employees) Regs 1981, re business purchases/ sales)		◆



# APPENDIX B: FINANCIAL - ASSETS & LIABILITIES

ASPECT	DETAILS	BASIC	FULL
BALANCE SHEET	Recent balance sheet, plus supporting schedules (see below)	◆	◆
PREMISES	Premises schedule (address, description, cost, owned/rented, terms/breaks, service charges)	◆	◆
	Copy of area site plan & description of access rights		◆
	Copy of leases or title deeds, as appropriate		◆
OPERATING ASSETS	Fixed Asset schedule (asset, description, condition, cost, depreciation rate, NBV, current value)	◆	◆
INTELLECTUAL PROPERTY (IP)	Schedule of all IP that is owned or used (patents, trademarks, websites etc.)	◆	◆
	Copy IP documentation		◆
	Details of any challenges or disputes		◆
	Details of any existing, suspected or alleged infringements		◆
STOCK & WORK-IN-PROGRESS	Analysis of stock types & value at i) last year-end, ii) recent date	◆	◆
	Detailed stock and WIP valuation policies & procedures		◆
TRADE DEBTORS	Detailed aged Sales Ledger (customer names withheld if appropriate)	◆	◆
CASH & EQUIVALENTS	Bank accounts summary (account, type, currency, recent balance)	◆	◆
TRADE CREDITORS	Detailed aged Purchase Ledger (supplier names withheld, if appropriate)	◆	◆
OTHER CREDITORS	Full details of other creditors – PAYE/ NI, Director Loan Accounts, Accrued Income	◆	◆
LOANS AND OVERDRAFTS	Debt schedule (lender, type, initial purpose, term, facility, outstanding, interest rate, security provided)	◆	◆
	Copy of bank loan & overdraft facility letters		◆
	Copy of hire purchase & lease agreements		◆
	Copy of loan note agreements (if appropriate)		◆
INTER-COMPANY LOANS	Group loan schedule (type, purpose, outstanding, proposed repayment, interest, security)	◆	◆
TAX	Copy of last Corporation Tax Return		◆
	Copy of latest HMRC visit report/ letter (re CT, PAYE, VAT etc.)		◆
	Details of any Employee Benefit Trust, Family Benefit Trust or similar	◆	◆
	Copy of documentation re trusts		◆
	Details of any HMRC challenges re trusts		◆
IT	IT contracts schedule	◆	◆
	Copy of IT or maintenance contracts		◆

## APPENDIX C: LEGAL

ASPECT	DETAILS	BASIC	FULL
SHAREHOLDERS & DIRECTORS	Shareholder & director schedule (name, role, age, length of service, basis of remuneration)	◆	◆
	CVs for key shareholders/ directors (1 page format)		◆
	Details of director service agreements	◆	◆
	Details of any agreements between shareholders and/or others regarding shares	◆	◆
	Details of any share option agreements	◆	◆
	Details of any trading agreements between the shareholders (or associated companies) and the company	◆	◆
	Copy of documentation relating to any of the above		◆
CONSTITUTIONAL MATTERS	Up-to-date statutory books (register of allotments, transfers, directors, secretaries & charges). Often need locating, best tackled early.	◆	◆
	Copy of Memorandum of Association & Articles of Association		◆
	Copy of any agreements, board minutes, resolutions & Companies House forms relating to any redemption or purchase of the company's own shares or a reduction in its capital		◆
GUARANTEES	Details & copy of any personal guarantees given by any shareholder or director on behalf of the company	◆	◆
CONTRACTS	Copy of standard terms & conditions of sale		◆
	Copy of contracts with key customers		◆
	Copy of contracts with key employees		◆
	Copy of standard terms & conditions of purchase, if appropriate		◆
	Copy of contracts with key suppliers		◆
LEGAL COMMITMENTS	Details of any capital expenditure committed to	◆	◆
	Copy of agreements re capital expenditure commitments		◆
	Details of any contract relating to any agreement or arrangement which: <ul style="list-style-type: none"> <li>• is not in the ordinary course of business;</li> <li>• is of an unusual, abnormal or onerous nature likely to result in a loss to the company;</li> <li>• is for a fixed term of more than 6 months;</li> <li>• involves the company paying or receiving significant amounts; or</li> <li>• restricts the competitive freedom of the company.</li> </ul>	◆	◆
	Copy of contracts relating to above		◆

## APPENDIX C: LEGAL (CON'T)

ASPECT	DETAILS	BASIC	FULL
PREMISES	Details of the permitted use of the premises for planning purposes		◆
	Details of any alterations made in the last 5 years, copies of any surveys etc.		◆
	Details and agreements regarding any part of the company's premises being occupied by any third party		◆
	Details of any premises formerly owned by the company		◆
INSURANCE	Insurances schedule (type, provider, renewal date, cost, claims in last 3 years)	◆	◆
	Copy of insurance agreements (premises, business, vehicles, public liability, employers' liability, PII, credit etc.)		◆
LEGAL DISPUTES	Details of any threatened or ongoing legal matters (inc judgement) & assessment of outcome (£)	◆	◆
	Details of any potential claims for defective products or services		◆
ENVIRONMENT	Details of high-risk activities		◆
	Copy of any asbestos reports obtained by the company		◆
	Copy of environmental performance certificate, environmental reports, audits & assessments re properties & activities		◆
HEALTH & SAFETY	Copy of H&S procedures & staff manuals		◆
	Details of any complaints, investigations, enforcements in last 6 years		◆
MISC AGREEMENTS (COPIES)	Licence, franchise, merchandising, marketing, purchasing, manufacturing, agency, distribution		◆
	JV, partnership, consortium, profit sharing etc.		◆
	Confidentiality undertakings given or affecting the company		◆
SYSTEMS	Copy of agreements re supply/maintenance of hardware		◆
	Copy of agreements re all software used by the company		◆
	Details of any proprietary software owned by the company or written by any third party for use by the company & copy licences		◆
ADDITIONAL LEGAL ENQUIRIES	Details of any agreements permitting the other party to terminate the agreement on a change of control of the company, or restricting the assignment of the agreement by the company	◆	◆
	Details of any actual/possible enquiries/investigations by regulatory or governmental bodies		◆
	Details of any Data Protection Act registrations		◆



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