

# DUE DILIGENCE IN M&A:

Step-by-Step Guide and  
Practical Checklist for  
Successful Deal



# Overview

Effective due diligence in M&A goes beyond business verification – it is a critical tool for managing risk, shaping price, and structuring transactions. Its key advantage is the early identification of potential issues before the agreement is signed, allowing parties to refine the deal terms, implement safeguards, or step back from the transaction before committing and incurring substantial losses.

In practical terms, due diligence is focused on three key questions:

1. **Should the asset be acquired?**
2. **What is its actual value?**
3. **How can the deal be structured to keep risks under control?**

A comprehensive review should therefore cover **financial, tax, legal and operational aspects**, with the outcome directly impacting negotiation strategy, price, warranties, payment terms and the SPA structure.

This guide transforms the core insights into a practical, step-by-step tool for deal teams – buyers, investors and sellers alike – supporting due diligence planning, data request preparation, red-flag reporting and final structuring decisions.

## How this Guide is structured:

1. Defining due diligence objectives and scope
2. Preparing due diligence and data room
3. Financial due diligence
4. Tax due diligence
5. Legal due diligence
6. Operational and technical due diligence
7. Developing a red-flag risk map
8. Integrating findings into the deal structure
9. Ensuring seller readiness for due diligence
10. Overall conclusions and recommendations



# Key steps in due diligence process

## 1. Defining due diligence objectives

This stage sets the framework for the entire process. Before initiating due diligence, it is essential for the parties to establish which management decisions the review is expected to support, what constitutes a material risk, and what form of output will be required for negotiations and the preparation of the SPA.

Step-by-step checklist:

- ▶ Define the party's role in the deal: buyer, investor, or seller.
- ▶ Determine the primary objective of the review: data validation, risk identification, integration assessment, or refinement of price and payment terms.
- ▶ Agree on the format of deliverables: a red-flag report, a full due diligence report, or a list of matters to be addressed in the SPA.
- ▶ Establish materiality thresholds for detailed analysis of transactions and deviations.
- ▶ Align on timelines, key hypotheses, and responsible stakeholders.
- ▶ Identify potential dealbreakers that may lead to termination of the process.

## 2. Preparing due diligence plan and data request list

This stage translates the overall intent of due diligence into a practical workflow. Its purpose is to ensure completeness of information, transparency in document flow, and control over data gaps that could misrepresent the conclusions of the due diligence process.

Step-by-step checklist:

- ▶ Prepare a structured data request list covering financial, tax, legal, HR, and operational areas.
  - ▶ Set up or structure a virtual data room for document provision and updates.
  - ▶ Assign an owner for each data flow and designate a person responsible for communication with the counterparty.
  - ▶ Implement a request tracker with fields for status, receipt date, data gaps, and reviewers' comments.
  - ▶ Identify critical items that must be reviewed as a priority.
  - ▶ Clearly define documents without which it is not possible to adequately assess the deal price or structure.
-

# Key steps in due diligence process

## 3. Financial due diligence

Financial due diligence addresses whether the historical performance of the business can be relied upon and whether there is a basis to expect its continuation after closing the deal. The core focus of this step is not nominal EBITDA, but rather the quality of earnings, cash conversion, the sustainability of working capital, and the completeness of the company's debt position.

Step-by-step checklist:

- ▶ Assess the quality of data and accounting practices, including any gaps between statutory reporting and management accounts.
- ▶ Review one-off, non-recurring and intra-group transactions that may misrepresent EBITDA or profit.
- ▶ Analyse accounts receivable and payable, inventory liquidity, and the sufficiency of working capital.
- ▶ Evaluate EBITDA-to-cash conversion and the stability of operating cash flows.
- ▶ Identify net debt and debt-like items, including guarantees, sureties, lease liabilities, shareholder loans, penalties, and contingent liabilities.
- ▶ Assess key business drivers, including revenue and cost structure, margins, leverage, covenants, and customer concentration.
- ▶ Prepare a list of financial red flags to be reflected in pricing, warranties, or payment adjustment mechanisms.

## 4. Tax due diligence

The tax stage is aimed at understanding which of the seller's tax positions may translate into claims from the tax authorities after closing the deal. This goes beyond a formal review of tax filings and includes analysing the substance of transactions, the formation of tax bases, and the potential monetary impact of identified risks.

Step-by-step checklist:

- ▶ Review the completeness and timeliness of tax filings and tax payments.
  - ▶ Assess the status of tax settlements with the authorities and identify any historical or ongoing disputes.
  - ▶ Analyse practices related to corporate income tax, VAT, excise duties, and payroll taxes.
  - ▶ Identify structures that may be considered aggressive or grey tax optimisation, including the use of sole proprietors (FOPs) in place of employment where not commercially justified.
  - ▶ Review transfer pricing policies and transactions with related parties.
  - ▶ Trace the formation of tax bases, supporting documentation, and the substance of transactions with significant tax impact.
  - ▶ Model potential tax adjustments and assess their impact on pricing, escrow arrangements, and the seller's warranties package.
-

# Key steps in due diligence process

## 5. Legal due diligence

Legal due diligence confirms the legal integrity of the business and identifies risks that may threaten either the closing of the deal or the subsequent implementation of the investment plan. Particular attention should be paid to ownership rights, corporate history, key contracts, encumbrances, and regulatory compliance.

Step-by-step checklist:

- ▶ Review the ownership structure, constitutional documents, corporate decisions, and the authority of management.
- ▶ Verify title to key assets, including real estate, land, movable property, trademarks, domain names, and software.
- ▶ Identify encumbrances, undisclosed guarantees, options, “golden parachutes,” and other off-balance-sheet obligations.
- ▶ Analyse key contracts with respect to change-of-control provisions, assignment restrictions, penalties, exclusivity clauses, and long-term obligations.
- ▶ Compile a register of critical agreements without which the business would not be able to operate or achieve its target financial performance.
- ▶ Assess existing and potential litigations, as well as licences, permits, and industry-specific compliance requirements.
- ▶ Identify legal risks that should be addressed in the SPA, disclosure letter, or included as pre-closing conditions.



# Key steps in due diligence process

## 6. Operational and technical due diligence

Operational due diligence assesses the extent to which actual processes, assets, and the IT environment are aligned with the stated business model. It also provides an estimate of the additional investment that may be required post-closing to ensure stable operations and successful integration of the asset into the buyer's group.

Step-by-step checklist:

- ▶ Assess the physical condition of PPE, as well as the need for capital investments, repairs, and modernization.
- ▶ Review the quality of key business processes and controls, including procurement, warehousing, sales, production, and logistics.
- ▶ Analyse the business's dependence on key personnel or specialised expertise.
- ▶ Evaluate IT infrastructure, reporting systems, budgeting processes, policies, and technical compatibility with the buyer's systems.
- ▶ Conduct a baseline assessment of cybersecurity risks, information security, and vulnerabilities of critical systems.
- ▶ Where relevant to the industry, assess additional areas such as environmental matters, HSE, ESG factors, and the impact on key stakeholders.
- ▶ Incorporate the identified operational issues into post-closing CAPEX requirements and an integration plan.

## 7. Developing a red-flag risk map

Following the analysis, the team should consolidate the findings into a concise management tool. A red-flag risk map is designed to ensure that management and transaction parties focus not on a volume of observations, but on a prioritised set of risks, their potential financial impact, and available response options.

Step-by-step checklist:

- ▶ Compile a list of all material risks by category: financial, tax, legal, and operational.
  - ▶ Assess each identified risk in terms of likelihood, potential financial impact, and severity.
  - ▶ Distinguish between dealbreakers, material risks, moderate risks, and technical issues.
  - ▶ Define recommended mitigation approaches, including price adjustments, escrow, earn-outs, additional warranties, pre-closing actions, or post-closing remediation.
  - ▶ Prepare a concise red-flag report to support decision-making on whether to proceed with the transaction or adjust the negotiation strategy.
-

# Key steps in due diligence process

## 8. Integrating findings into the deal structure

The findings of due diligence should not only be documented, but also embedded into the economic and legal structuring of the transaction. It is at this stage that due diligence is converted into price adjustments, buyer protection mechanisms, and the final deal model.

Step-by-step checklist:

- ▶ Determine whether there are grounds to terminate the deal, temporarily suspend it, or proceed with adjustments.
- ▶ Where required, reconsider the transaction structure, including share deal, asset deal, carve-out, or separation of a “clean” part of the business.
- ▶ Adjust the pricing approach to reflect net debt, working capital, and identified risks.
- ▶ Agree on appropriate protection mechanisms, including escrow, holdback, earn-out, or other phased payment arrangements.
- ▶ Update the package of representations and warranties, indemnities, and pre-closing covenants.
- ▶ Prepare or review the disclosure letter to ensure proper disclosure of known issues by the seller.

## 9. Ensuring seller readiness for due diligence

Proper preparation for the due diligence process is a key factor in the success of the deal for the seller. Proper preparation for the due diligence process is a key factor in the success of a deal for the seller. Addressing risks, managing the data room, and coordinating with the internal team well in advance makes the process more efficient, builds investor confidence, and allows the seller to better control the scope of warranties and the payment schedule.

Step-by-step checklist:

- ▶ Where feasible, conduct a vendor due diligence with the involvement of an independent third party.
  - ▶ Prepare a structured VDR containing corporate, financial, tax, HR, and contractual documentation.
  - ▶ Establish an internal team and assign clear responsibilities for data flows and interaction with potential buyer.
  - ▶ Align upfront on key principles and core commercial terms of the transaction to avoid “due diligence for the sake of due diligence”.
  - ▶ Ensure transparent communication and proactively disclose known issues together with potential mitigation approaches.
-

## Express checklist of project manager

Below is a concise set of key checkpoints that can be used as a practical tool for internal team coordination and for monitoring readiness for deal decision-making.

Focus area	Key questions for review
Initiation phase	<ul style="list-style-type: none"> <li>▶ Defined scope of due diligence</li> <li>▶ Materiality thresholds established</li> <li>▶ Agreed deliverables format</li> <li>▶ Deadlines and responsibilities assigned</li> </ul>
Finance	<ul style="list-style-type: none"> <li>▶ Quality of earnings assessed</li> <li>▶ Working capital normalised</li> <li>▶ Cash conversion evaluated</li> <li>▶ Net debt and debt-like items identified</li> </ul>
Tax	<ul style="list-style-type: none"> <li>▶ Potential tax exposures assessed</li> <li>▶ Risky practices identified</li> <li>▶ Tax bases and the substance of transactions analysed</li> </ul>
Legal	<ul style="list-style-type: none"> <li>▶ Title to assets verified</li> <li>▶ Key contracts reviewed</li> <li>▶ Change of control risks assessed</li> <li>▶ Litigation and permits reviewed</li> </ul>
Operations and IT	<ul style="list-style-type: none"> <li>▶ CAPEX requirements assessed</li> <li>▶ Processes and controls reviewed</li> <li>▶ IT compatibility and cybersecurity risks analysed</li> </ul>
Deal	<ul style="list-style-type: none"> <li>▶ Red-flag report prepared</li> <li>▶ Price adjustments determined</li> <li>▶ Protection mechanisms and warranties agreed</li> </ul>

## Overall conclusions and recommendations

01

A properly structured due diligence process should be treated as an investment decision-making tool, rather than a formal set of verification procedures. Its output should not be limited to findings, but should translate into concrete decisions regarding pricing, deal structuring, the terms of the SPA, and the allocation of risk through appropriate protection mechanisms.

02

The primary value of due diligence arises from linking identified red flags to their commercial consequences. If a risk is not translated into a price adjustment, escrow, earn-out, warranty, or pre-closing condition, it remains merely information rather than an active element of deal management.

03

For the buyer, it is critical to focus on the quality of earnings, the adequacy of working capital, hidden debt, the stability of key contracts, and the true cost of post-closing investments. For the seller, the focus should be on early preparation, vendor due diligence, and disciplined data room management.

04

As a practical recommendation, the due diligence process should be conducted in two stages: first, a short red-flag review to quickly identify dealbreakers, followed by a more detailed due diligence focused on the areas that directly impact pricing and transaction structure.

05

A practical step is to create a single risk map with quantified financial impact and clearly assigned responsibility for each item. This helps speed up negotiations, reduce uncertainty, and enables the team to move from analysis to action.

---

## CONTACTS

### Kyiv:

201-203, Kharkivske Road,  
10th floor

☎ +380 44 393 26 87, 88

📠 +380 44 393 26 91

### Dnipro:

4, Andriia Fabra Street,  
6th floor

☎ +380 56 370 30 43

📠 +380 56 370 30 45

### Lviv:

120, Shevchenko Str.  
Regus-KIVSH

☎ +38 032 242 44 12

✉ [info@bdo.ua](mailto:info@bdo.ua)

🌐 [www.bdo.ua](http://www.bdo.ua)



This publication contains general information and does not constitute professional advice or service. Before making any decision or taking any action that may affect your finances or business, you should consult a qualified professional advisor. Please contact BDO in Ukraine for advice.

BDO LLC, a Ukrainian limited liability company, is a member of BDO International Limited, a UK company limited by guarantee of its members, and is part of the BDO international network of independent member firms.

BDO is the brand of the BDO network and each BDO member firm.

BDO is derived from the first letters of the founders' surnames: Binder, Dijker and Otte.

2026 © BDO LLC. All rights reserved.