Checklist for the Evaluation of a Corporate Acquisition

1. ***Establish acquisition criteria.***
    a. Target industries, industry segments.
    b. Revenue size, transaction size.
    c. Private or public companies.
    d. Domestic or international geographic coverage.
    e. Management and operating synergies versus stand-alone operations.
    f. Systems compatibility.
    g. Target internal rate of return.

2. ***Identify potential target companies.***
    a. Industry listings/rankings, industry journals.
    b. Attorneys, accountants, corporate and private bankers.
    c. State and city commercial and industrial development entities/registries.
    d. Corporate advisory firms.

3. ***Develop public and/or direct information sources.***
    a. SEC Edgar Database, Hoovers, D&B, Bloomberg
    b. Legal filings, State Records, Industry records and publications, competitor analyses.
    c. Execute non-disclosure agreements and establish direct communication with Seller.

4. ***Analyze target companies' historical financial statements.***
    a. What are the trends in revenues, margins and profits by each business segment?
    b. What have been the real cash flows generated by each business segment business?
    c. What are the maintenance, capital expenditure and working capital needs of each business segment?
    d. What are the trends in leverage, EBITDA, return on assets and return on equity?
    e. Have there been extraordinary items that skewed historical performance?
    f. Are there indicators of significant improvement or deterioration?

5. ***Carefully review the auditor's notes to several years' historical financial statements.***
    a. Has the company changed auditors?
    b. Are the risks of the business openly described?
    c. Has the company changed its accounting policies?
    d. Has the company defaulted on, or refinanced its debt?
    e. Are there any significant lawsuits?
    f. Is the company subject to sanctions, trade barriers devaluations or expropriation?
    g. Are there pending environmental or corrupt practices issues?
    h. Read "*between the lines*".

6. ***Evaluate and quantify the key future risks the target business faces.***
    a. Recession, Interest rate and currency fluctuations.
    b. Lawsuits, regulatory violations, regulatory changes.
    c. The bankruptcy of a major client, or a dispute with a key government entity.
    d. A force majeure event.
    e. A violation of the Foreign Corrupt Practices Act or of an environmental regulation
    f. The default of a loan agreement.
    g. Financial fraud or internal sabotage.

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Checklist for the Evaluation of Corporate Acquisitions

7. ***Evaluate the target companies' core strengths and/or weaknesses.***
   a. Are they well-established in their markets?
   b. Who are their major competitors?
   c. Are their products/services subject to increased regulation?
   d. Are their products/services subject to obsolescence or fads?
   e. Is the management team committed and incentivized?
   f. Are their products subject to significant cost increases?
   g. Are their revenues heavily concentrated, or well-diversified?
   h. Are their existing clients happy or are problems brewing?

8. ***Project the target companies' next five years' financial performance.***
   a. How will each business segment's revenues, margins and cash flows evolve?
   b. What additional maintenance, capital expenditures and research and development will be required?
   c. What pension, tax or other accrued liabilities will come due?
   d. What other potential upside factors and downside risks could affect the business?
   e. How much debt can the company service and still be accretive to the buyer?

9. ***Evaluate the impact of the acquisition on the combined corporate entity.***
   a. Will the consolidated entity be more or less leveraged?
   b. Will the combined entity's return on equity and earnings per share improve?
   c. Will the acquisition trigger defaults of existing credit agreements?
   d. Will the combined entity be more or less subject to risk?

10. ***Determine the maximum acceptable purchase price.***
    a. What is the buyer's target or risk-adjusted internal rate of return (IRR) on invested capital?
    b. Risk adjust (add several realistic provisions for contingencies to) the financial projections.
    c. Determine a conservative most likely IRR scenario, and make the buy or pass decision.

11. ***Determine the structure and key provisions of the Purchase and Sale Agreement.***
    a. Cash versus equity to seller.
    b. Equity issuance versus debt.
    c. Representations and warranties of Seller.
    d. Retention and earn-out of purchase price.
    e. Retention of key management.
    f. Retention of key assets, patents, copyrights, trademarks.
    g. Buyback provisions.
    h. Various other considerations.

12. ***Negotiate an acceptable transaction, or walk away.***

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