

11 TIMELY DUE DILIGENCE QUESTIONS FOR INDUSTRIALS M&A

Large corporate breakups, ongoing industrial technology advances, private equity dry powder and new tariff and CFIUS regulatory concerns promise to make 2019 a year rich with opportunity – and risk – for dealmakers in the Industrials space. As a result, staying on top of due diligence best practices has never been more important.

Are you ready? We've consulted with top Industrial M&A pros, studied learnings from the DatasiteOne team and combed through Merrill Insight™ intelligence to bring you a finely tuned checklist of due diligence questions specific to today's market conditions and the Industrials sector.

- 1 Does leadership have a clear digital strategy that aligns with the potential target?**
 - + What is the driver behind the acquisition? Is it add-on/complementary, does it enhance services with a digital offering, are you eliminating a competitor, or acquiring engineering talent?
 - + What is your Industrials Internet of Things (IoT) strategy? How does this target fit?
 - + What is the potential impact of new industrial technology (i.e., smart sensors, AI in manufacturing and robots) on your current business model? How does this potential acquisition move this forward?
- 2 Have you screened for impact of geopolitical issues, such as Brexit and tariff wars?**
- 3 Have you spoken with a National Security specialist to ensure new CFIUS and export-import reforms are part of deal screening and due diligence considerations?**
- 4 Have you received a third-party due diligence report to ensure EBITDA estimates are accurate and not overly-ambitious?**
- 5 Have you assessed the impact of a potential economic downturn on the asset's business model?**
 - + Does it have variable cost structures?
 - + Is there reoccurring revenue?
 - + Have you proactively modeled a recession case?
 - + How diversified is the supplier and customer base?
- 6 Have you conducted a detailed inventory of the target's real property and ensured all paperwork is available and up-to-date?**
 - + How old is the equipment?
 - + How soon is it likely to break?



7 Have you conducted extensive environmental due diligence?

- + Who is responsible for known and unknown risks?
- + Have you protected yourself in Reps and Warranties?
- + Have you fully evaluated the land in the acquisition?
- + Have you considered climate change impact in your modeling?

8 Have you evaluated the target's #MeToo risk and taken appropriate measures?

- + Have you reviewed all the companies' internal guidelines, surveys and policies?
- + Have searched court dockets for employment claims?
- + Have you considered adding a #MeToo specific rep?

9 If it's a carveout or divestiture:

- + Do you need audited financial statements? Have you built the extra time required to prepare the statements into your deal timetable?
- + Have you clarified how IP will be shared after the transaction closes?
- + Are your Temporary Services Agreements detailed and complete pre-close?
- + Is it clear which key employees stay or go?
- + Have you clearly defined what stays and what goes?
- + If on the sell-side, have you set up a virtual due diligence room to facilitate the internal carveout process?
- + If on the buy-side, who is responsible for taking over the virtual due diligence room from the seller? How do you want that knowledge transfer to occur?

10 Have you mapped integration best practice into your due diligence process?

- + Have you included integration people and perspective in the due diligence process?
- + Have you included an integration budget and appropriate contingency funds in your financial model?
- + Do you have a clear integration plan and growth strategy post-close?
- + Does the integration team understand the strategy?
- + Do you have a transition plan to ensure adequate knowledge transfer between the due diligence and integration team post-close?
- + Do you have a plan in place to closely track integration progress and ensure deal objectives are met?

11 Finally, from a practical standpoint have you positioned your team for success?

- + Do you have country-specific due diligence checklists, to ensure accounting, HR and other local differences are considered?
- + Have you made the working group list and other key deal documents available in a place that the entire deal team can easily see and access?
- + If on the sell-side, have you chosen a virtual due diligence provider who meets global data security requirements, offers strong information controls and provides defensible due diligence audit trails?
- + Have you trained your entire deal team, including operations, on how to use the sell-side's virtual due diligence provider?

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