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Due diligence questionnaire template

How to draft a structured, effective
due diligence questionnaire

Introduction

In mergers and acquisitions (M&A), a due diligence questionnaire (DDQ) is used to gather detailed information about the company considered for purchase or merger. It helps buyers understand the target's financial status, legal obligations, operations, risks, and potential issues.

The DDQ ensures the buyer has a clear and complete picture before proceeding with actual due diligence or making important decisions. This is essential considering the impact of due diligence on deal outcomes. About 40% of corporate dealmakers attribute deal success to financial due diligence, 38% — to operational, and 34% — to commercial.

This whitepaper explores the fundamentals of a due diligence questionnaire and provides a template to use for inspiration.

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How due diligence questionnaires are used

Due diligence questionnaires are generally used in the following use cases:

M&A due diligence

DDQ is a key tool for planning an acquisition or merger. It helps the buyer confirm that the target company is well-prepared for the deal before initiating the actual due diligence. It also ensures there are no hidden issues that could create risks or problems for the buyer's business.

Investment due diligence

A due diligence questionnaire is also useful for assessing a potential investment opportunity. It helps investors gather details about the company's founders, board of directors, customers, suppliers, and intellectual property to make an informed decision.

Third-party risk assessment

In this case, DDQs focus on the risks of working with suppliers. By using a DDQ, a company can evaluate potential risks, such as cybersecurity, reputational, operational, and financial, before partnering with a supplier.

Proactive sell-side due diligence

When a company expects interest from multiple buyers, it can start the due diligence process on its own. This helps identify any risks within the company early. Once ready to sell, the company can share the DDQ results with all potential buyers at once, saving time and speeding up the deal.

Partnership evaluation

Issuing a DDQ before entering a partnership agreement helps to ensure a potential partner or joint venture aligns with your goals and has no hidden issues.

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Why use a due diligence questionnaire?

The main goals of a due diligence questionnaire are:

Risk mitigation

Highlighting any risks or problems, such as legal issues, debts, or weak areas in the business so they can be addressed or factored into decisions.

Efficient data collection

A structured DDQ simplifies the process of gathering and organizing large volumes of key data about the target, saving time and minimizing errors.

Compliance guarantee

The questionnaire ensures the company is following all legal and regulatory requirements, reducing the risk of penalties or deal complications. Additionally, it helps verify the target's compliance with the issuing company's legal requirements and standards.

Transaction acceleration

A due diligence questionnaire isn't technically part of the sales process, but it can help speed up a deal. While it doesn't directly lead to the deal closure, it helps narrow down the choice of vendors and potential partners and speed up negotiations. This makes finalizing the deal more straightforward.

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What should it cover?

The areas covered by the due diligence questionnaire depend on the goals an issuing company wants to achieve with it. However, these are the most common ones:

Company profile and history

This includes information about the company's background, founding date, mission, and key milestones. It helps those involved understand the business's journey and its current standing in the industry.

Intellectual property

This section covers trademarks, patents, copyrights, and any disputes over intellectual property. It ensures the company's innovations and unique ideas are legally protected.

Cybersecurity measures

Questions address the company's practices for protecting digital systems and sensitive information. This ensures the business is mitigating risks from cyber threats and data breaches.

Ownership and employees

Questions focus on who owns the company, the organizational structure, and details about employees. This provides clarity on leadership, team roles, and workforce stability.

Finances

Information about income, expenses, debts, and overall financial health is collected here. This shows whether the business is financially sound and ready for potential growth or investment.

Business continuity

This area evaluates the company's plans for handling unexpected disruptions, like natural disasters or system failures. It ensures the business can continue to operate even during challenging times.

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Market competition

Insights into the company's competitors, market position, and industry trends are included here. This helps assess how the business stands out and competes in its sector.

Regulatory compliance

This section ensures the company follows laws and regulations specific to its industry. It helps avoid legal risks and potential penalties.

Data security management

Questions focus on how the company protects sensitive data, such as customer information and internal records. Strong data security practices are essential for building trust and avoiding breaches.

Network security management

This examines the systems and tools the company uses to protect its network infrastructure. It ensures that communication and data transfer within the company are secure.

Risks

This section identifies potential risks, such as financial challenges, legal issues, or market instability. Understanding these risks is critical for making well-informed decisions about the deal.

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Best practices for issuing a due diligence questionnaire

To ensure the process of issuing and performing a due diligence questionnaire is efficient and impactful, follow these recommendations:

Define responsibilities

Assign who is responsible for preparing, issuing, and reviewing the questionnaire. This ensures every part of the process is managed efficiently without overlaps or missed steps. When everyone knows their role, it's easier to keep the process organized and on schedule.

Determine key risk areas

Focus on the most critical risks specific to the business or industry, such as legal, financial, or operational vulnerabilities. Identifying these areas early helps guide the questions you include in the DDQ. This targeted approach ensures no time is wasted on irrelevant details.

Standardize questions

While it's not always necessary, it can be useful to create a set of questions that cover different industries and risk types. Instead of making a unique DDQ for every vendor or potential partner, you can use this pool of questions to build more customized questionnaires when needed.

Tailor for specific business case

Customize the questionnaire based on the unique needs of the transaction or company being reviewed. Taking a one-size-fits-all approach could lead to unnecessary questions or missed details. Tailoring ensures the DDQ is relevant and captures the information you truly need.

Opt for templates

Use pre-made templates to save time and provide a starting point for creating the questionnaire. Templates can be adjusted to fit your needs while ensuring you don't miss essential areas. There are many templates available online, you can also use the one we supply here or create your own.

Create a single source of information

Store all DDQ-related files, responses, and supporting documents in one central location. This makes it easy to track progress, access data, and ensure nothing gets lost. Having one source reduces confusion and improves collaboration among team members.

Use technology

Manually handling a DDQ can be overwhelming, which is why using technology is a smart choice. Tools like virtual data rooms (VDRs) make the process much easier by providing secure data storage and helping teams collaborate effectively.
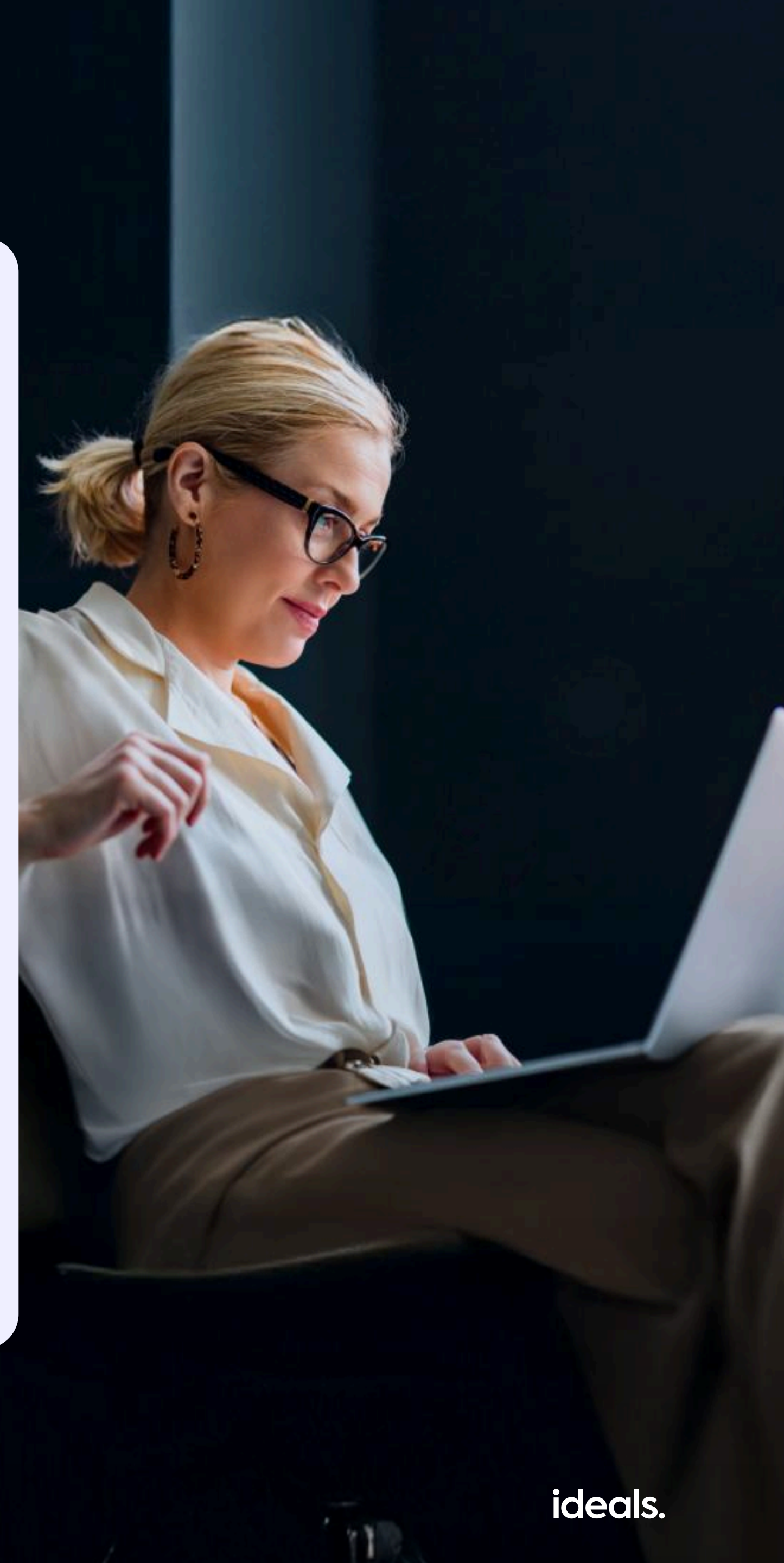
Due diligence questionnaire template

This example template gives a starting point for your next due diligence questionnaire. It should be customized based on your own requirements and priorities.

Section	Questions	Required supporting documents	Notes
Company profile	1. What is the company's legal name, registration number, and address?	Certificate of incorporation, business registration documents	
	2. Provide a brief history of the company, including key milestones.	Company profile, annual reports	
	3. List all business locations and facilities.	Lease agreements, ownership documents	

Section	Questions	Required supporting documents	Notes
Ownership and employees	4. Who are the company's current owners and shareholders?	Shareholder registry, ownership structure diagram	*Include percentage ownership for each shareholder.*
	5. Provide details of the board of directors and key executives.	Resumes, employment contracts	*Include roles, tenure, and key responsibilities.*
	6. How many employees does the company have, and what is the structure?	Organizational chart, employee handbook	*Include departments and workforce demographics.*

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Section	Questions	Required supporting documents	Notes
Intellectual property	7. List all trademarks, patents, and copyrights owned or used by the company.	IP registration certificates, licensing agreements	*Indicate the status and validity of IP assets.*
	8. Are there any disputes over intellectual property?	Legal correspondence, court filings	
Finances	9. Provide a summary of the company's financial performance over the last three years.	Audited financial statements, tax returns	*Include key metrics like revenue, profit, and EBITDA.*
	10. List all outstanding debts, loans, or liabilities.	Debt agreements, loan statements	*Include payment terms and due dates.*
	11. Are there any ongoing financial audits or investigations?	Auditor's reports, correspondence with authorities	
Cybersecurity measures	12. What cybersecurity protocols are in place to protect data?	Cybersecurity policy, IT security audits	*Include software, tools, and procedures.*
	13. Have there been any recent cyberattacks or breaches?	Incident reports, action plans	*Describe actions taken to resolve issues.*

Section	Questions	Required supporting documents	Notes
	14. How does the company ensure employee compliance with cybersecurity protocols?	Employee cybersecurity training records, internal security policy acknowledgments	*Include details on frequency of training, mandatory certifications, and enforcement measures.*
	15. What measures are in place to secure third-party access to company systems?	Third-party security policy, vendor access agreements	*Include details on vetting processes, security audits for vendors, and access restrictions*
Business continuity	16. Does the company have a business continuity plan?	Business continuity plan document	*Include details on disaster recovery strategies.*
	17. What were the major disruptions in the past, and how were they handled?	Reports on past incidents, recovery documentation	
	18. What are the backup and disaster recovery procedures for critical data and systems?	Backup policy, disaster recovery test reports	*Specify backup frequency, storage locations, and restoration procedures.*
	19. How frequently does the company test and update its business continuity plan?	Business continuity test reports, plan revision history	*Specify test frequency, key findings, and any improvements made based on test results.*

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Section	Questions	Required supporting documents	Notes
Market competition	20. Who are the company's main competitors?	Market research reports, competitor analysis	
	21. What is the company's unique competitive advantage?	Strategic plans, marketing materials	
	22. How does the company monitor market trends and competitive threats?	Market intelligence reports, competitor benchmarking analysis	*Outline methods used for tracking industry changes and competitive positioning.*
	23. What strategies does the company use to differentiate itself in the market?	Branding strategy documents, customer satisfaction reports	*Highlight key differentiators such as technology, pricing, service quality, or innovation.*
Regulatory compliance	24. Does the company comply with industry regulations and standards?	Compliance certificates, regulatory audit reports	
	25. Are there any past or current regulatory violations?	Regulatory correspondence, penalty notices	*Include corrective actions taken.*
	26. How does the company stay updated on regulatory changes affecting its industry?	Compliance monitoring reports, regulatory advisory subscriptions	*Describe internal processes for adapting to new regulations and maintaining compliance.*

Section	Questions	Required supporting documents	Notes
	27. What internal controls are in place to prevent regulatory non-compliance?	Internal audit reports, compliance training records	*Detail policies, monitoring mechanisms, and corrective action procedures.*
Data security management	28. How is sensitive data managed and protected?	Data protection policy, access control logs	*Include encryption and data handling practices.*
	29. Has the company experienced any data breaches?	Breach reports, incident management documents	*Describe the impact and resolution measures.*
	30. How does the company handle data retention and deletion?	Data retention policy, deletion logs	*Include retention timelines, legal requirements, and secure deletion methods.*
	31. What access controls are in place to prevent unauthorized data access?	Access control policy, user access logs	*Include role-based access control (RBAC) and multifactor authentication (MFA) practices.*

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Section	Questions	Required supporting documents	Notes
Network security management	32. What systems are in place to secure the company's networks?	Network security policy, firewall configuration reports	
	33. Are regular network security audits conducted?	Network audit reports, monitoring logs	
	34. How does the company detect and respond to network security threats?	Intrusion detection system (IDS) logs, incident response plans	*Detail real-time monitoring tools and response protocols for security incidents.*
	35. How does the company ensure network security for remote employees?	Remote access policy, VPN usage reports	*Specify security protocols for remote work, including endpoint protection and encrypted connections.*

Section	Questions	Required supporting documents	Notes
Risks	36. What are the key risks the company is currently facing?	Risk assessment reports, SWOT analysis	*Include financial, operational, and market risks.*
	37. How does the company mitigate these risks?	Risk management plans, insurance policies	

Important:

This is just an illustrative DDQ to inspire you. You can use it as a starting point, but you should adjust it according to your specific requirements. The sections of your DDQ will depend on your circumstances, the goal of the DDQ, and the target.

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Customization tips:

- Customize the questions to suit the specific business or transaction.

- Use the "Required supporting documents" column to request evidence for the information provided.

- Add or remove sections, depending on the scope of the due diligence.

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Where vision meets precision

Manage your DDQ with a trusted and intuitive data room.

A secure and centralized platform

Store, share, and manage all DDQ-related documents.

Effective team collaboration

Take advantage of features like Q&A sections and document version control.

Complete data confidentiality

Protect your data through advanced security measures, such as encryption, multifactor authentication, eight levels of access permissions, and redaction.

Full control over the process

Activity tracking and audit trails help you accelerate your projects with confidence.

Get started

Trusted by 2M+ leading professionals globally

Deloitte.   EY   KPMG   citi   BDO   accenture

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