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Sample due diligence report

How-to-guide and best practices

Introduction

Due diligence is one of the critical aspects leading to M&A deal success, with research showing that transaction value is dependent on the quality of due diligence in [75% of cases](#).

Among many ways of ensuring an effective due diligence process, crafting a due diligence report has a prominent place. A due diligence report is a document that outlines the key due diligence findings and helps dealmakers make informed decisions.

This whitepaper explores how to create an effective due diligence report that improves decision-making. You'll discover the main components of a comprehensive due diligence report, learn the best practices for crafting one, and review a sample of a due diligence report to use for inspiration.



Best practices for drafting a due diligence report

A well-prepared due diligence report delivers actionable insights in a clear, concise, and professional format. You should consider these recommendations to help create an effective due diligence report:



Include only relevant information

The due diligence process generates a wealth of data, but the report should focus on key findings that support decision-making. For instance, instead of detailing every vendor relationship, summarize key supplier dependencies that could affect operations, or highlight high-risk contracts.

Know who you write for

Tailor content to its primary readership — typically senior executives and stakeholders responsible for strategic decisions. Use clear, accessible language, and emphasize areas of interest. For instance, if the audience is primarily financial executives, emphasize financial metrics like revenue growth, cost trends, or debt ratios. At the same time, try to minimize technical jargon to avoid overwhelming the audience.

Use templates

Using a template can save significant time when drafting a due diligence report and ensures consistency. For instance, you can use a template with headers for key investigation areas such as “Financial indicators” and “Risk assessment” and customize each section with data that aligns with the report’s specific goals.

Review and revise

To improve the clarity of the due diligence report, ensure you review it carefully after finalizing the initial draft. Proofread for accuracy, coherence, and logical flow, removing redundant, repetitive, or irrelevant content. Ask a colleague for feedback to make sure nothing critical is missed.

Allow enough time

Rushed research can compromise data quality. Take time to examine trends, anomalies, or potential red flags in multi-year financial statements. Document findings in detail to support each conclusion in the report.

Seek clarifications and legal assistance

For complex aspects, such as legal or compliance documents, seek advice from relevant experts. For instance, questions about a target’s patent rights should be directed to the legal department or intellectual property experts to clarify rights and obligations. If regulatory compliance is uncertain, consult a compliance officer. This ensures an accurate understanding of the target company’s standing state.



What to include in your due diligence report

Now, let's take a look at what you should typically include in the due diligence report:



Executive summary

The report should start with a concise summary of key due diligence findings. It's an overview of significant insights and the final recommendation on whether to proceed with the deal, adjusted to address the interests of decision-makers. The goal of this section is to provide stakeholders with a quick outline of the information in the report.

Company overview

This section provides key background information about the target company. It focuses on the company's history, mission, business model, ownership structure, key stakeholders, and any recent performance highlights.

Due diligence purpose

It should clearly state the goals and scope of due diligence and specify which areas are under review. For instance, depending on the due diligence type, the goal could be to assess financial stability, market position, or legal risks.

Operational due diligence

Here you put findings about the supply chain, production processes, technology infrastructure, organizational structure, employee productivity, and overall operational strengths and weaknesses. Understanding the target's operational health is key to determining its long-term business continuity.

Financial due diligence

This section summarizes the key findings of the financial due diligence. It includes information on the company's financial performance, such as income statements, balance sheets, cash flow statements, and other relevant financial metrics. It also assesses any outstanding loans, debts, or financial obligations, which together give a picture of the company's financial health.

Legal due diligence

It examines potential legal risks that could impact the company's value or the transaction’s success. It reviews contracts, litigation history, intellectual property, compliance with regulations, and pending legal matters.

Market due diligence

This section examines the target’s position within its industry, focusing on market share, competitive landscape, and demand projections. It assesses the company’s ability to adapt to changing market trends and identifies risks from competitors. It also provides an essential understanding of the external factors potentially affecting the company’s growth.

Regulatory and environmental due diligence

This section identifies compliance with regulatory and environmental standards. Here, you specify the target’s environmental policies, sustainability practices, and adherence to industry-specific regulations. Additionally, you assess any potential regulatory risks or future compliance requirements.

Assets

Here you list all the target’s assets, including tangible assets, (e.g. property, machinery, and equipment) and intangible assets (intellectual property, patents, and trademarks).

Risk management

This section should highlight potential risks and the target’s strategies for mitigating them. List all the possible financial, operational, legal, and market risks, along with the company’s risk management practices, insurance coverage, and contingency plans.

Growth prospects

The purpose of this section is to evaluate the target’s potential for future growth and expansion. Here, you should analyze business scalability, market expansion opportunities, product or service innovation potential, and growth strategies that could influence long-term success.

Conclusion and recommendations

A summary of key findings and recommendations, describing identified risks and opportunities. This is a recap of critical points from each section, the final recommendation on proceeding with the transaction, and suggestions for areas that need improvement or further assessment.

Appendix

Here you include all relevant supporting documents, raw data, charts, market research reports, financial tables, and any other information necessary for reference. The key objective here is to provide additional context for the findings presented in the report.



Sample due diligence report

Below is an example of what a due diligence report might look like.



01. Target company

[Target company name]

02. Executive summary

[Concise executive summary]

03. Company overview

Background	Founding date: [Date]
	Headquarters: [Location]
	Primary business activity: [Description]
	Key products/services: [List of primary offerings]
Management team	CEO: [Name, brief bio]
	CFO: [Name, brief bio]
	Key management: [Names and roles of other significant team members]

04. Due diligence purpose

[Main goal of the due diligence]

05. Financial due diligence

Historical performance	Revenue: [Past 3–5 years revenue trends]
	Profit Margins: [Gross, operating, and net margins]
	Expenses: [Breakdown of operational and non-operational expenses]
Balance sheet overview	[Assets, liabilities, and shareholder equity]
Cash flow analysis	[Analysis of operating, investing, and financing cash flows]
Forecasts	CEO: [Name, brief bio]

06. Legal due diligence

Corporate structure	[Legal structure and ownership breakdown]
Contracts and agreements	[Summary of major contracts with clients, suppliers, and partners]
Litigation and regulatory issues	[Any ongoing or potential litigation and regulatory compliance issues]

07. Operational due diligence

Supply chain	[Key suppliers and supply chain dependencies]
Production	[Overview of the production process, distribution channels, and logistics]
IT infrastructure	[Overview of technology infrastructure in the company]
Organizational structure	[Overview of the organizational structure and hierarchy]

08. Market due diligence

Market overview	[Size, growth rate, and trends in the target’s industry]
Competitive position	Market share: [Estimated market share of the target] Key competitors: [Brief overview of the primary competitors]
Growth potential	[Overview of potential growth opportunities for the company]

09. Regulatory and environmental due diligence

Compliance to regulations	[Overview of compliance certificates]
Environmental impact	[Overview of environmental policies and any sustainability initiatives]
Social responsibility	[Assessment of social impact initiatives, including community involvement]

10. Assets

Tangible	[List of all the property items, machinery, and equipment]
Intangible	[List of intellectual property, patents, and trademarks]

11. Risk management

Potential risks	[List of all the potential risks, including financial, strategic, and operational]
Mitigation strategies	[Overview of the target’s risk mitigation strategies]

12. Growth prospects

Potential risks	[Overview of growth opportunities]
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13. Conclusion and recommendations

Positives	[List of advantages of merging or acquiring the target]
Negatives	[List of disadvantages and potential risks of merging or acquiring the target]
Final recommendations	[Recommendations on whether to move with the original offer, propose changes, or terminate the deal]

14. Appendix

[List of all relevant attachments, such as financial documents, patents, or contracts]

This template is for inspiration only and needs to be modified for your unique circumstances. You can use this example as the “body” of your report, adding relevant information in each section and customizing fields based on your requirements.

Customization tips

This sample due diligence report can be customized and adjusted based on many factors, including:

Deal type

The structure and focus of the due diligence report should align with the type of transaction. For instance, for acquisitions, include in-depth financial, operational, and legal assessments to fully understand potential liabilities and risks. For joint ventures, however, it's better to focus on partnership synergy in "Operational due diligence" and "Risk management," highlighting shared resources and potential risks.

Due diligence type

There are various types of due diligence and each requires a different focus depending on the main purpose of the analysis. If it's financial due diligence, prioritize the "Financial due diligence" section with a detailed breakdown of financial statements, cash flow, and debt. If it's operational due diligence, add in-depth insights on "Operational due diligence," covering supply chain, production efficiency, and IT infrastructure.



Depth of analysis

Use a basic or detailed due diligence report format based on stakeholder needs. For high-stakes deals, a detailed format with in-depth analyses and annotations provides clarity. For smaller transactions, a streamlined version may be enough.

Confidentiality requirements

When tailoring the appendix, consider adding a note on confidential information management, especially if sensitive financial or proprietary data is included.

Deal objectives

If it's an expansion-focused deal, pay more attention to the "Market due diligence" and "Growth prospects" overview. If a deal's objective is to reduce costs, emphasize "Operational due diligence" and "Risk Management", especially in areas where the target's processes can be streamlined.

How can Ideals help you with due diligence?

Ideals virtual data room (VDR) can make the due diligence process even more streamlined and effective by offering the following:

Bank-grade security

Features like encryption, two-factor authentication, redaction, watermarking, fence view, and more, ensure that all the data shared during due diligence stays confidential and protected.

Productive collaboration

The Q&A section allows deal sides to proactively collaborate over due diligence documentation and get required clarifications timely, which can significantly speed up the process.

Full access control

VDR administrators can set detailed access permissions for each user so that they can view or download only the files they need. This is especially useful when a sell-side undergoes several due diligence processes at a time.

Real-time monitoring

With services like activity logs, document overview, and engagement matrix, you can track due diligence progress and user engagement. Additionally, you can get regular updates on VDR activity via email.



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