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Investment due diligence checklist

Exploring the key components and processes involved to ensure a thorough evaluation, minimize risks, and enhance the chances of success.



What is investment due diligence, and why does it matter?

Investment due diligence is the foundation of any sound investment decision. It represents the comprehensive evaluation of a company or asset before committing to an investment, and also involves a deep business analysis to assess its strengths, weaknesses, opportunities, and risks. The goal is to make informed decisions, reduce exposure to potential losses, and ensure alignment with investment goals.

Due diligence in investment typically falls into three main categories.

1. **Financial due diligence** verifies the accuracy and stability of financial statements, forecasts, and historical performance.
2. **Commercial due diligence** analyzes the company's market, customers, competitors, and growth potential.
3. **Operational due diligence** examines internal processes, infrastructure, human resources, and scalability.

Investment due diligence serves a critical strategic role in the decision-making process. It ensures that investors clearly understand what they’re buying and helps protect against potential downsides. In particular, it helps investors to:

Minimize risk

It identifies financial, legal, and operational risks to prevent costly post-investment surprises.

Ensure valuation accuracy

It verifies that the asset or company is fairly priced by analyzing financial performance and assumptions.

Confirm regulatory compliance

It ensures the target adheres to relevant laws, regulations, and industry standards.

Align with strategic goals

It confirms the investment fits the investor’s long-term objectives and value-creation strategy.

Make informed decisions

It provides a clear, fact-based foundation for making informed decisions or negotiating terms.

For private equity, venture capital, and M&A professionals, skipping or rushing due diligence leads to costly missteps, such as overpaying, missing hidden liabilities, or underestimating market challenges.

Chapter 1

Key investment due diligence phases

The investment due diligence process consists of three key phases: initial evaluation, detailed analysis, and final checks.



KEY INVESTMENT DUE DILIGENCE PHASES

1. Initial evaluation: Checking company basics

This is the first step of due diligence, where the investor performs a high-level assessment of the target company. During this phase, the focus is on understanding the company's market position, competitive advantages, and basic financial health.

Key elements include reviewing the company's industry standing, potential for growth, revenue model, and overall stability. This evaluation helps determine if the company aligns with the investor's strategy and investment goals. If the fundamentals look promising, the process moves forward to a more in-depth analysis.



KEY INVESTMENT DUE DILIGENCE PHASES

2. Detailed analysis: Reviewing finances, management, and operations

At this stage, the investor conducts a thorough examination of the company's financials, management team, and operational processes. Financial documents, such as balance sheets, profit and loss statements, and cash flow reports, are carefully analyzed to assess the company's profitability, debt, and future financial outlook.

Investors also evaluate the leadership team's experience, track record, and ability to manage the company effectively. In addition, the company's operations are reviewed to identify any inefficiencies, risks, or areas for improvement. This step is essential for understanding the company's internal workings and long-term viability.



KEY INVESTMENT DUE DILIGENCE PHASES

3. Final checks: Confirming risks and deal terms

The final phase focuses on validating any remaining concerns and ensuring the investment is ready to proceed. This includes a thorough review of legal and regulatory compliance, checking for any pending litigation, intellectual property issues, or potential liabilities.

The investor also verifies that all conditions for closing the deal are met, including any necessary approvals or permits. By this stage, the goal is to confirm that no hidden risks remain and that the deal can be completed smoothly, allowing the investor to move forward with confidence.



There are several key stakeholders involved in investment due diligence.

- **Investment analysts** assess financial data and market conditions to evaluate potential risks and returns.
- **Legal teams** review contracts and liabilities and ensure regulatory compliance.
- **Compliance officers** verify that the investment adheres to laws and industry standards.
- **Management teams** provide insights into company strategy, operations, and leadership.
- **External advisors** (accountants, consultants) offer specialized expertise in areas like financial auditing or market research.



Chapter 2

Core components of an investment due diligence checklist

This due diligence checklist serves as a flexible framework that should be tailored to fit the specific needs of the investment, industry, and transaction type.



CORE COMPONENTS OF AN INVESTMENT DUE DILIGENCE CHECKLIST

Template structure

Focus area	Key items to review	Action steps and objectives	Focus area	Key items to review	Action steps and objectives
1. Define investment objectives	Investment size, sector focus, return expectations, holding period, risk appetite, strategic fit	Set clear criteria to filter opportunities effectively and guide the scope of due diligence.	6. Operational review	Business model, revenue streams, cost structure, supply chain, distribution channels, scalability of operations	Understand how the business operates and whether it can scale efficiently.
2. Gather initial information	Company overview, pitch deck, teaser, seller info, summary financials	Collect basic information to assess initial deal fit and plan deeper analysis.	7. Regulatory and compliance	Industry-specific licenses, environmental regulations, data protection (e.g., GDPR), health and safety standards	Confirm that the company complies with all applicable laws and that there's no hidden compliance risk.
3. Legal due diligence	Articles of incorporation, shareholder agreements, IP ownership, legal structure, past or pending litigation, material contracts	Verify legal standing, ownership rights, and any liabilities that could impact value or deal execution.	8. Management and team assessment	Executive resumes, roles and responsibilities, past performance, ownership stakes, incentive plans	Evaluate leadership's capability to deliver on the strategy and retain key talent post-deal.
4. Financial due diligence	Audited financials (3–5 years), income and cash flow statements, balance sheet, tax filings, debt obligations, financial forecasts	Assess financial health, detect red flags, and validate the company's valuation assumptions.	9. Technology and IP	Software infrastructure, tech stack, cybersecurity protocols, product roadmap, proprietary technologies, patents	Verify that technology supports business growth, is secure, and offers a competitive edge.
5. Market and industry analysis	Total addressable market (TAM), industry growth trends, customer segments, competitive positioning, market share	Determine market attractiveness and the company's potential to grow or defend its position.	10. Customers and suppliers	Customer concentration, retention rates, satisfaction surveys, major contracts, supplier dependencies and terms	Assess revenue and supply chain stability. Identify risks of losing key customers or suppliers

Focus area	Key items to review	Action steps and objectives	Focus area	Key items to review	Action steps and objectives
11. Site visit and facility review	Physical assets, office or factory tours, equipment condition, employee interactions	Validate asset existence, operational claims, and observe company culture or red flags on-site.	14. Final due diligence report	Summary of findings, red flags, unresolved questions, key opportunities	Consolidate insights into a formal document for internal or external stakeholders.
12. Risk assessment and mitigation	Legal, financial, operational, market, or reputational risks identified during the process	Develop strategies to mitigate risks (insurance, indemnities, deal structuring).	15. Decision and transaction steps	Negotiation points, deal structure, legal documents, closing checklist	Finalize the investment decision, renegotiate if needed, or prepare documentation for signing and closing.
13. Valuation and pricing analysis	Valuation methods (DCF, multiples), assumptions in forecasts, pricing vs. industry benchmarks	Ensure pricing reflects true value based on performance, risks, and future potential.			



Chapter 3

Using and customizing the checklist

The due diligence process varies depending on the type of deal, the stage you're in, and the tools at your disposal. Here's how to adapt and get the most value out of your checklist.



USING AND CUSTOMIZING THE CHECKLIST

Tailoring the checklist for VC, PE, and M&A deals

Different investment types demand different levels of scrutiny. Here's how to focus your efforts:



Venture capital (VC)

Prioritize the founding team, market potential, early traction, scalability, and burn rate. Skip deep financial analysis for pre-revenue startups and focus on vision, roadmap, and competitive edge.

Private equity (PE)

Perform in-depth analysis of financial performance, operational efficiency, debt structure, and cost levers. Consider exit strategy alignment from day one. Use the checklist to guide third-party expert reviews.

Mergers & acquisitions (M&A)

Expand your scope beyond the target company itself. Look at integration risk, cultural alignment, overlapping systems or teams, and long-term synergies. The checklist should also include post-merger planning topics.

USING AND CUSTOMIZING THE CHECKLIST

Structuring checklist items based on the deal stage

Each phase of a transaction requires different levels of detail.

Here's how to phase your checklist:

- **Early-stage (screening).** Use only the high-level questions: strategic fit, sector, basic financials, and founder reputation. Goal: fast yes/no.
- **Mid-stage (deep dive).** At this point, you'll use most parts of the checklist to review legal documents, financial records, customer relationships, management team, and compliance issues. Involve relevant experts like lawyers, accountants, and technical advisors to help with the review.
- **Late-stage (pre-closing).** Focus on final validation: resolving red flags, confirming warranties, negotiating terms, and validating closing conditions. Prepare findings for the investment committee.



USING AND CUSTOMIZING THE CHECKLIST

Leveraging tools

To streamline and safeguard the due diligence process, it's essential to use the right technology. These tools help teams stay organized, ensure data security, and improve decision-making:

Virtual data rooms (VDRs)

A VDR is a secure online platform where all due diligence documents are stored and shared. It allows you to control who sees what, track user activity, and ensure that sensitive files are only accessed by authorized parties. Virtual data rooms also keep everything in one place, making it easier to collaborate and avoid version confusion.

Example: Ideals

Background intelligence tools

These tools help verify the accuracy of critical information. They're used to check management backgrounds, litigation history, regulatory issues, IP ownership, and overall business reputation. This helps uncover red flags early in the process.

Examples: PitchBook, Clearbit, World-Check

Customer relationship management (CRM) platforms

A CRM helps manage communication, tasks, and workflows related to the deal. It allows teams to assign checklist items, track deal progress, document interactions with the target company, and ensure accountability across stakeholders.

Examples: Affinity, Salesforce

USING AND CUSTOMIZING THE CHECKLIST

Spotting red flags and reporting to investment committees

Investment committees don't want data; they want clarity.

Incorporating a structured due diligence checklist and leveraging the right tools ensures a comprehensive evaluation of the investment opportunity. By carefully assessing risks and validating key aspects of the business, investors can confidently proceed with transactions, safeguarding their investments and optimizing outcomes.

Here's how to flag and communicate risks effectively:

- **Use a traffic-light system.** Red = major concern, yellow = minor concern, green = cleared.
- **Always link red flags to impact.** Explain how a legal dispute, outdated technology, or unclear IP ownership might affect valuation or post-deal operations.
- **Summarize findings.** Create a concise, one-page summary that highlights the key risks identified during due diligence. For each risk, include suggested action steps: either accept the risk, develop a strategy to mitigate it, or walk away from the deal if the risk is too great.
- **Keep presentations focused.** Avoid technical details unless asked. Committees want risks identified, not raw data.

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