

Horizontal Merger Due Diligence Checklist for Investors

Use this six-pillar framework to structure your review and data room document requests before closing a horizontal merger — a deal combining two companies in the same industry and at the same stage of production. Regulators, valuations, and integration risk all peak in these transactions, making a disciplined checklist essential.

1**Financial Due Diligence***Combined-entity economics, not just standalone financials*

- ☐ Audited financial statements, 3–5 years — income statement, balance sheet, cash flow
- ☐ Quality of earnings: recurring revenue vs. one-time items
- ☐ EBITDA and adjusted EBITDA trends; identify add-backs
- ☐ Working capital cycle: DSO, DPO, inventory turns
- ☐ Debt schedule: loans, covenants, maturity dates
- ☐ Off-balance-sheet obligations: leases, contingent liabilities, pensions
- ☐ Revenue concentration — is 20%+ tied to a single customer?
- ☐ Synergy model: savings from overlapping headcount, facilities, procurement
- ☐ Tax returns (3–5 years) and any open tax disputes
- ☐ Management accounts for the most recent interim period

Red flags to watch

Declining gross margins, revenue concentration above 30%, large off-balance-sheet items, aggressive revenue recognition, or a history of restatements.

2**Legal & Regulatory Review***The section most likely to delay, reshape, or block the deal*

- ☐ HSR Act compliance — does the deal exceed the filing threshold (\$119.5M in the US)?
- ☐ Antitrust risk: calculate combined market share; flag markets where it exceeds 30–40%
- ☐ DOJ/FTC second-request risk — concentrated markets can add 6–12 months to review
- ☐ Pending and threatened litigation: class actions, IP disputes, regulatory investigations
- ☐ Material contracts: change-of-control clauses that may trigger termination or consent
- ☐ Intellectual property: ownership, freedom to operate, patent expiry, licensing obligations
- ☐ Regulatory licenses — any non-transferable post-merger?

- ☐ Environmental liabilities: site contamination, EPA orders, remediation obligations
- ☐ Corporate documents: articles of incorporation, bylaws, board minutes, shareholder agreements

Regulatory note

Per the DOJ's Horizontal Merger Guidelines, deals that substantially lessen competition may be challenged or require divestitures as a condition of approval.

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Operational Assessment

Can the two businesses realistically combine — and at what cost?

- ☐ Business unit overlap: redundant functions, facilities, product lines
- ☐ Supply chain: supplier concentration risk, contract transferability
- ☐ Technology stack compatibility (ERP, CRM, manufacturing) and integration cost estimate
- ☐ Facilities — offices, plants, warehouses that can be consolidated
- ☐ Key vendor contracts: change-of-control provisions, pricing terms
- ☐ Key customer contracts: can customers exit upon a merger event?
- ☐ Production capacity — model combined utilization post-merger
- ☐ Operational KPIs: on-time delivery, defect rates, customer satisfaction
- ☐ IT security and data privacy: GDPR, CCPA, sector-specific compliance

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Market & Competitive Analysis

Modeling what the market looks like post-close

- ☐ Combined market share by geography, product line, and customer segment
- ☐ Herfindahl-Hirschman Index (HHI) pre- and post-merger
- ☐ Customer overlap as a percentage of both bases
- ☐ Competitive moat — stronger pricing power, IP, or distribution post-merger?
- ☐ Industry growth rate and market tailwinds or headwinds
- ☐ Threat of new entrants — does the merger raise barriers to entry?
- ☐ Pricing analysis — will it enable increases that draw regulatory attention?
- ☐ Customer concentration — are large customers likely to push back?

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Management & HR Review

Chronically underweighted — and almost always produces redundancies

- ☐ Leadership team: quality, tenure, retention risk of the top 20 executives
- ☐ Org chart of both companies — identify all overlapping roles
- ☐ Key employee agreements: non-competes, non-solicitation, golden parachutes, stay bonuses
- ☐ Cultural compatibility: engagement scores, attrition rates, management style
- ☐ Compensation benchmarking — are the two structures compatible?
- ☐ Equity and option plans: vesting schedules, dilution model
- ☐ Pending HR disputes: EEOC complaints, wrongful termination, union grievances
- ☐ Benefits harmonization: health, retirement, PTO plans to standardize post-merger

Why it matters

Talent attrition in the first 12 months post-merger is one of the top predictors of deal underperformance — early identification of retention risk is not optional.

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Data Room & Document Verification

The operational backbone that ties every workflow together

- ☐ Corporate formation documents: articles of incorporation, operating agreements, cap table
- ☐ Board minutes and resolutions (3–5 years)
- ☐ Audited financials, tax returns, management accounts
- ☐ All material contracts: customer, vendor, partner, employment
- ☐ IP registrations: patents, trademarks, copyrights, trade secrets
- ☐ Regulatory filings, licenses, government correspondence
- ☐ HR: org chart, key employment agreements, benefits summaries
- ☐ Litigation files: complaints, court orders, settlement agreements
- ☐ Environmental reports and compliance records
- ☐ Insurance policies

Why a virtual data room

Enterprise-grade data room software logs every document view, download, and print — an evidentiary record that's critical for R&W; insurance and post-close disputes.

Keep every workstream on one secure platform

Role-based permissions, full audit trail, and structured Q&A — built for horizontal merger due diligence.

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