M&A Risk Checklist

15-point assessment to identify contract financial risk

For: CFOs, finance directors and M&A deal teams | **Use:** early-stage due diligence | **Time:** 30–45 minutes

Not every contract in a deal is financially material. This checklist helps you identify the 10–15% that could actually move deal value, leverage or financing — so you can triage legal review, quantify exposure, prioritise negotiations, brief lenders and plan mitigation.

PART 1 — REVENUE & SUPPLIER CONCENTRATION

1. What % of revenue comes from your top 5 customers?

Red: > 60% (material risk)
Yellow: 40–60% (monitor)
Green: < 40% (acceptable)

☐ Pull MSAs for the top 3; search for "change of control", "termination on ownership change", "material adverse change".

☐ Quantify: if the largest customer leaves, EBITDA declines ___%. Any single customer > 25% with a change-of-control clause is a Tier 1 risk.

2. What % of COGS comes from your top 3 suppliers?

Red: > 50%
Yellow: 30–50%
Green: < 30%

☐ Check supplier agreements for termination / pricing-renegotiation rights; model the COGS and EBITDA impact and alternative-sourcing timeline.

PART 2 — DEBT & COVENANT RISK

3. What is your covenant headroom?

☐ Document current debt, LTM EBITDA, leverage (Debt/EBITDA), covenant maximum and headroom (x).

Red: headroom < 1.0x — any customer/supplier loss risks breach
Yellow: 1.0–1.5x
Green: > 1.5x

4. When does current debt mature — and is refinancing at risk?

☐ Note maturity date and months to maturity; flag if debt matures within 24 months of close and market terms are uncertain.

PART 3 — REGULATORY & APPROVAL RISK

5. Does the deal require government/agency approval?

☐ Record the approving body, expected timeline and approval risk; quantify carrying cost and lost revenue per month of delay.

☐ Check whether any contract has an "approval contingency" (e.g. a customer can walk if the deal doesn't close within X days).

6. Are key licences or permits tied to current ownership?

☐ Assess transfer likelihood, time and cost to obtain new licences, and whether a contingency is needed.

PART 4 — CHANGE-OF-CONTROL CONTRACTS

7. How many customer contracts carry change-of-control termination rights?

☐ Inventory: count, total revenue affected (% of revenue), largest affected customer; record the trigger (automatic / notice period / seller-departure).

Tier 1: single customer > 25% revenue + automatic termination + low waiver likelihood → obtain pre-close waiver or mitigate.

8. How many supplier contracts have change-of-control impact?

☐ Record termination vs renegotiation rights and expected price increase; model COGS / EBITDA / leverage impact.

9. Does the debt facility have a change-of-control acceleration clause?

☐ Confirm whether it triggers automatic repayment or requires lender consent; assess consent likelihood and backup refinancing.

PART 5 — LEGAL & STRUCTURAL RISK

10. Are there material non-compete / non-solicitation agreements?

☐ Map the seller's post-close plans; consider narrowing scope, reducing duration, or adding a right of first offer (ROFO).

11. Are key employees tied to change-of-control provisions?

☐ Quantify severance/vesting acceleration exposure and operational impact; consider retention agreements and clawbacks.

PART 6 — INDEMNIFICATION & LIABILITY

12. What indemnification caps, baskets and survival apply to seller reps?

☐ Confirm whether limits cover identified contract risks; if not, consider reps & warranties insurance.

13. Is the escrow / purchase-price adjustment correctly sized?

☐ Test escrow against the largest plausible loss; identify and mitigate any shortfall (insurance, higher escrow).

PART 7 — FINANCIAL DUE DILIGENCE

14. Is customer revenue recurring or one-time?

☐ For each customer > 10% of revenue, record revenue type, contract term and renewal history; estimate post-close re-signing likelihood.

15. If contract risks materialise, is EBITDA still acceptable to lenders?

☐ Model base / partial (-20%) / severe (-40%) cases; show Debt/EBITDA and covenant-breach risk in each.

SUMMARY — RISK SCORING

Tier 1 (deal-critical — address pre-close):

☐ Any single customer > 25% revenue with automatic change-of-control termination

☐ Existing debt with uncertain change-of-control lender consent
☐ Regulatory approval with > 3-month uncertainty · key supplier > 20% COGS with termination rights

Tier 2 (material — require mitigation): concentration 40–60% (customers) / 30–50% (suppliers); leverage headroom 1.0–1.5x; key-employee severance > 5% of price.
Tier 3 (monitor): concentration below thresholds; headroom > 1.5x; adequate retention agreements.

When to bring in IMAS

Engage an integrated finance + legal assessment if you have 2+ Tier 1 risks, Tier 1 exposure > 20% of EBITDA, headroom < 1.5x with material contract risk, or concentration > 50% with a change-of-control clause. We quantify each risk across three scenarios, build the mitigation roadmap, and support negotiations to a clean close.

Book a 20-minute consultation: imasfinancing.com/contact
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