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Critical Tariff-Related M&A Due Diligence Questions

Evolving U.S. trade policy is driving sweeping changes to the global economy and will continue to do so for the foreseeable future. As a result, M&A due diligence is adapting to assess new risks given broad business ramifications and potential disruptions.

The following article outlines a series of questions that business owners should ask if they're making an acquisition—and certainly be ready to answer before selling their company. The questions fall under the following categories:

- Supply Chain and Import Exposure
- Customer and Market Impact
- Financial Impact
- Inventory and Demand Management
- Tariff and Compliance Documentation
- Contractual and Legal Considerations
- Mitigation Strategies
- Strategic and Operational Resilience

1 Supply Chain and Import Exposure

- What percentage of the company's raw materials, components, or finished goods are imported? From which countries are these goods sourced?
- What is the dollar magnitude of products or input components imported for manufacturing (e.g., agriculture, electronics, steel, and aluminum)?
- Does the company rely on single-source suppliers and are there alternative suppliers or regions that the company has explored to mitigate tariff exposure?

2 Customer and Market Impact

- How do tariffs influence the company's ability to compete with domestic or international competitors?
- Does the company have more, relatively the same, or less tariff exposure than its top competitors in the market?
- How have customers responded to any price increases resulting from tariffs? What is the risk of reputational damage or customer dissatisfaction?

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Financial Impact

- What has been the financial impact of tariffs on gross margins and profitability and what percentage of revenue is derived from tariff-affected products?
- How are tariff costs reflected in pricing strategies? Are they passed on to customers or absorbed by the company?
- Have tariffs led to increased working capital requirements due to inventory buildup or supply chain adjustments?

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Inventory and Demand Management

- How has the company adjusted inventory levels to manage tariff-related risks (e.g., stockouts or overstocking)?
- Has the company conducted scenario planning to model the financial impact of tariffs on inventory costs?
- How have tariffs affected the accuracy of the company's demand forecasting models?

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Tariff Compliance and Documentation

- Does the company have a documented import compliance program, including written procedures for tariff classification and country-of-origin determinations?
- Are there risks of misclassification of company goods under the Harmonized Tariff Schedule, and has the company implemented tariff engineering strategies, such as modifying product designs, to reduce tariff classifications?
- Has the company faced inquiries, audits, or penalties from U.S. Customs and Border Protection related to tariff compliance?

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Contractual and Legal Considerations

- Do the company's supply contracts include clauses to allocate tariff costs, such as Delivered Duty Paid or Ex Works terms?
- Are there force majeure or material adverse effect clauses in contracts that could be triggered by tariff changes?
- Have there been any disputes or renegotiations with suppliers or customers due to tariffs?

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Mitigation Strategies

- What steps has the company taken to reduce tariff exposure (e.g., supply chain diversification, tariff exclusions, or duty drawback programs)?
- Has the company applied for tariff exemptions or exclusions from the U.S. trade representative? If so, what were the outcomes?
- Has the company structured (or restructured) supplier contracts to address tariff-related risks?

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Strategic and Operational Resilience

- How does the company currently monitor trade policy changes and address tariff-related challenges? Is there a dedicated team or technology being used?
- Has addressing tariffs necessitated hiring new employees or created any workforce inefficiencies?
- What is the company's long-term strategy for managing trade policy volatility and tariff risks?

The above questions only scratch the surface, as companies diligence tariff-related impacts. Businesses will likely be asked more in-depth questions—i.e., whether they have assessed their supply chain beyond tier 1 suppliers to identify indirect tariff exposure. Whatever the particulars, dealing with the rapidly changing global trade landscape will be a key consideration in transaction due diligence for months, if not years, to come.

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