

# Due Diligence

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# What is Due Diligence?

- **Due Diligence (DD)** is a process undertaken before an investment **to understand the investability of the company.**
- It is used to **verify** information, expectations and data about an investment.
- In the process of **Due Diligence** different documents (e.g. business plan, intellectual property) need to be provided. It is recommended to arrange the documents in a **virtual data room** (e.g. Google Drive) for more convenient managing. The data room structure (folders, documents) should match the structure of DD checklist.
- There is **no single process** for Due Diligence. The depth and the format of Due Diligence differs from investor to investor.
- For earlier stage investments the DD may cover only limited set of legal documents, deck and budget combined with interviews.

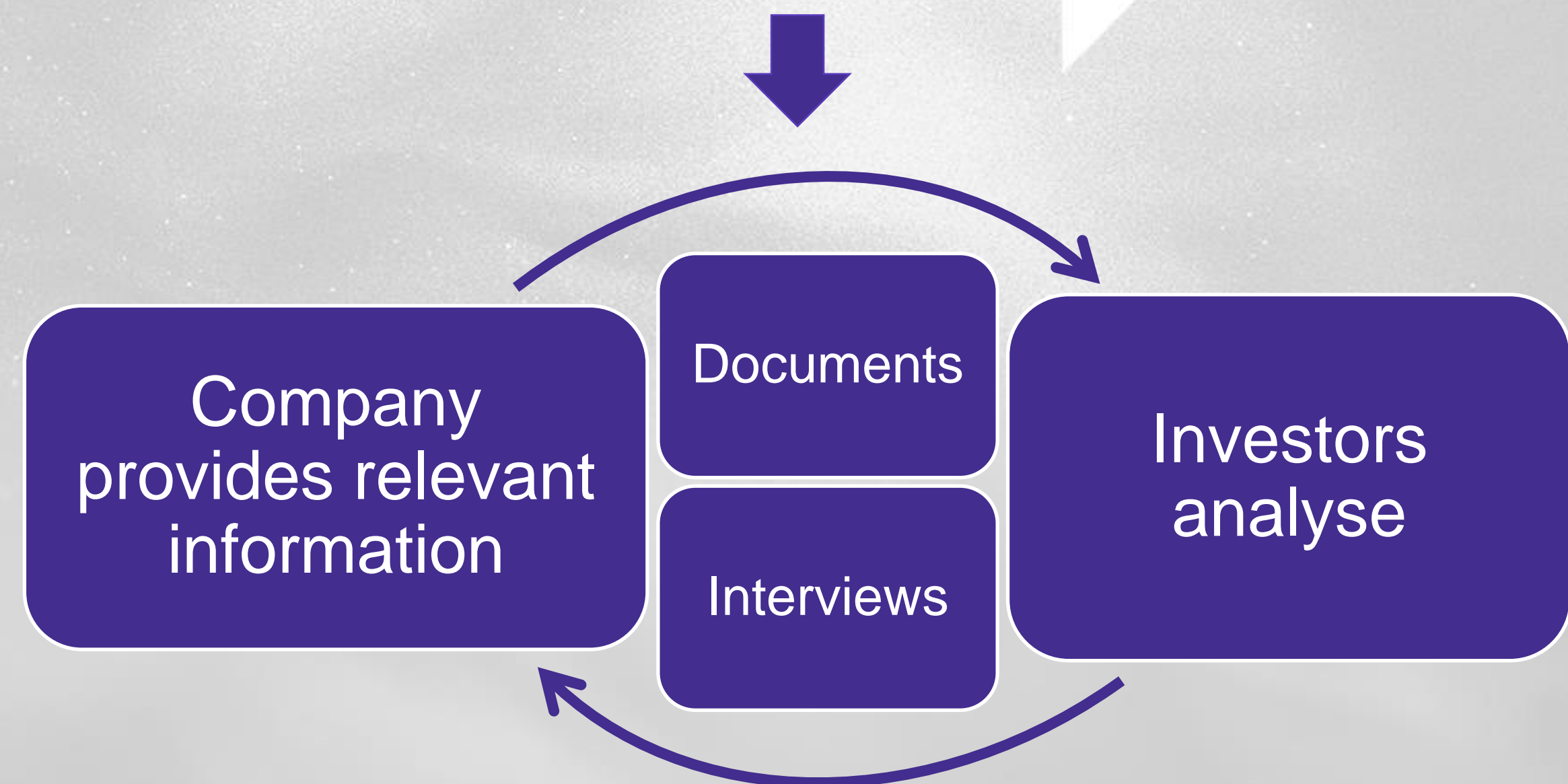
# Due Diligence in the investment process

## Raising investment

















➤ Early stage companies by their nature have little information to analyse and therefore Due Diligence might be centered around some key topics like

- **Team**
- **Market**
- **Basic legal**
- **IP (depending on the business)**



During DD investors usually conduct interviews with the team, clients and earlier investors.

# DD focus areas: what investors want to know and verify

-  **Key risks** – risk analysis
-  **Management team** – show cooperation and leadership
-  **Technology** – prove that team knows what they are building
-  **Product/Solution** – prove that someone needs it
-  **Go-to-market strategy** – what is the vision
-  **Intellectual property** – is there **something** to protect and is it protected
-  **Competition** – current situation, entry
-  **Market opportunity** – what is the perspective
-  **Financials** – whether the founders have feet on the ground
-  **Funding** – how the founders will achieve their goals
-  **Legal** – critical issues
-  **Deal terms** – realistic returns for the investors
-  **Alignment** – do the investors and founders see the future the same way
-  **Exit** – how the investors will get out

Focus areas can vary from investor to investor

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# Example DD checklist for early-stage companies

## ➤ Legal DD

- Detailed Legal Information about the company
- Intellectual Property
- Material Agreements

## ➤ Team and Governance

- Founder DD
- Information Regarding Employees and Employee Benefits
- Option Pool

## ➤ Technical DD

- Product demonstration and description (demo video or a recording, written description)
- Does the company have a patented technology? If yes add the list of patents.

## ➤ Financial DD

- Provide financial statements and financial forecast, explaining key assumptions
- The cap table of the company
- Accounting documents (Balance Sheet, Income Statements, Cash flow Statements)

# How to provide information?

## ➤ Dataroom

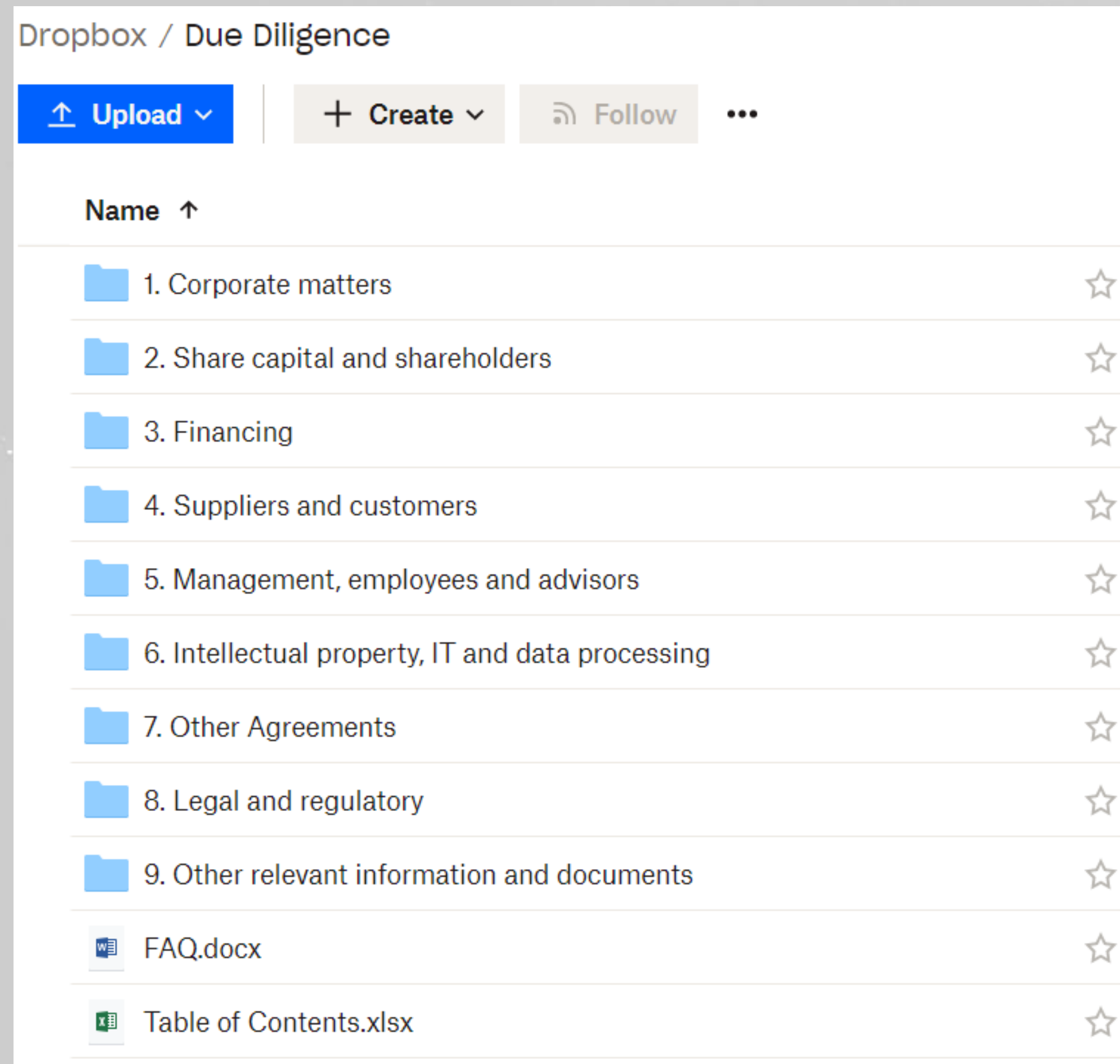
- Gdrive or DP folder
- Add Table of Contents
- Add FAQ

## ➤ Interviews

- Who of the customers might be ready to talk?
- Who are the relevant industry experts to talk to?
- Who are the (existing) investors to talk about the company?
- Show how you have learned from your mistakes.

**NB! NDA is almost always a barrier. If possible, do not use it!**

# Due Diligence data room example



- Exercise **proper housekeeping** and keep your documents organised.
- Using a **standard Due Diligence list** and keeping your documents organised may speed up the investment process.
- The lead investor may send you their requested Due Diligence structure and list.
- **The FAQ and Table of Contents** documents are not a must, but rather a „nice to have“.

# Due Diligence checklists

## ➤ Startup Estonia

- Due Diligence checklist

## ➤ EBAN

- Due Diligence template
- Due Diligence checklist

## ➤ VC-list (USA)

- Due Diligence checklist



# Sources

- New Nordic Leads training materials (Riivo Anton's presentation as of 05.01.2021)
- New Nordic Leads training materials (Randu Riiberg presentation as of 27.04.2021)
- [500 Startups](#)
- Startup Estonia Due Diligence checklist