

Due Diligence Checklist

By Enterprise Angels

Prior to investing due diligence is undertaken on an opportunity. This is a comprehensive appraisal to verify and fully understand the various aspects of the business and evaluate the risks and potential benefits. Below is a guide to the type of information reviewed.

Diligence Topic	Information Request	Key Actions / Questions
Corporate Organisation	Incorporation documents	
	Company constitution and SSA (if existing)	Conduct a review of the company minute books.
	Cap Table	Obtain cap table, including previous cap raisings, DD (Due Diligence) and valuations.
	Other publicly filed documents of the company and PPSA	Review partnerships, JV agreements, if any. Perform asset searches in jurisdictions where principal assets are located.
	All other investors and directors	Investment dates, reasons, expectations, and willingness to follow on.
Financials	Consolidated financial statements and financial forecasts	Any pending or threatened lawsuits or regulatory actions?
	Monthly or interim reports relating to business and company	Any recent or proposed changes in accounting policies?
	Balance sheet, shareholder account balances and company loans	Review adequacy of company's internal controls and accounting methods.
	Copies of tax returns for the last 5 years	Any audits and current liability?

Property, Plant & Equipment	List of all properties, leased or owned, with description of use	Any major encumbrances on or over real property and leases? Any commitments re proposed capital expenditure/fixed asset additions?
	List of machinery, equipment, and other personal property	Any encumbrances on or over personal property?
Intangibles	Trade marks	What trademarks are used, or proposed to be used, by the company? Have they been filed? Are they cleared as free to use in countries of interest?
	Designs	Does the company have any registered designs in place for its products?
	Patents	Is the product patentable? Does the company have any patents? Confirm status and scope of patents. Any issues identified by patent searches?
	Trade secrets	Are confidentiality agreements in place? Confirm adequacy of trade secret protection processes.
	Ownership of IP (Intellectual Property)	Does the company own the relevant IP? What rights does the company otherwise have in relation to the IP? Who else has contributed to IP? Adequacy of relevant written agreements. Any rights to third party ownership of company IP or future IP? Any disputes/potential disputes over company's IP or use of it?
The industry	Size of industry, present and projected, in each product line	Estimate business growth projections and compare with anticipated market size. Review any internal or outside studies of business, market, and products. Interview trade association personnel re relevant trends. Assess effect of macroeconomic trends: interest rate fluctuations, inflation rates, economic growth rates.
	Competition	Assess the comparative strengths and weaknesses in terms of dominant competitive factors in the industry: price, service, performance, etc.
	Research and development (R&D)	Is R&D expenditure consistent with industry practice?
Marketing and Distribution	Contracts	Analyse for contingencies, warranties, and other service obligations. Review model sales contract, sales agreements and dealer agreements used.
	Distribution network	Evaluate adequacy of distribution network, degree of control, etc.
	Marketing/sales personnel	Evaluate effectiveness. How many sales people – current and projected?

	Products	Evaluate effectiveness. How many sales people – current and projected? Estimate cost of introduction and whether it is adequately reflected in cash flow projections. Any likelihood of discontinuation of products or services?
	Brand	Assess value and effectiveness of brand – can it deliver forecasted sales? IP relating to brand effectiveness and protection
	Sales strategy	Assess strategy for channels to market. What USP's does the company have? What sales processes are in place? How many sales people now, and is there a structured plan to expand this number?
	Market validation	Present distribution partnership and sales channels? Any CRM (Customer Relationship Management) in use at present?
Products and Technology	R&D plans	Anticipated radical changes in product direction? Cost burden on business in coming years? Capacity for technological innovation through R&D personnel?
	Royalty contracts	Any contingencies, agreement or understanding that varies contract terms?
	Professional affiliations	Any likelihood of competing claims on technology of the Business?
	Software specific	Product overview, user interface, software architecture and design, IT infrastructure, security, performance and scalability, development, and support.
	Environment	Are there any environmental impacts that need to be considered? (both positive and negative)
Production	Production facilities	Able to handle anticipated volumes. Is the cost of new plant and equipment consistent with anticipated cash flow? Evaluate future competitiveness.
	Management information systems	Evaluate adequacy of MIS and inventory control programs.
	Suppliers	Exposure from single source suppliers? Contingencies for supply interruption? Determine major supplier satisfaction, plans to retire, reduce, or raise price.
	Agreements	Review contracts with suppliers - any 'private label' supply/purchase contracts?
Other	Other contracts and commitments	Obtain copies of all government licenses/permits, warranties, secrecy agreements, membership agreements, powers of attorney/agency agreements, liability insurance and all other contracts which materially affect the business.

Management and Employees	Resumes, references, LinkedIn of management, employees, board and advisors, employee contracts, workers' compensation claims	Investigate prior experience in same industry and same size company and their reputation in the industry. Spend time with CEO. What key hires are needed to address gaps?
	Social	How does the company treat people? – employee relations, diversity, working conditions, health & safety, employee development Is there a negative unintended social consequence that could occur from this company's activities?
	Governance	Is there a clear set of rules, systems, structures, and policies defined for governing the corporation? Are responsibilities, rights and expectations of shareholders aligned?
Capital Strategy and Exit	Is Current valuation realistic?	Does it adequately reward investors for the risk they are taking Does it take too much equity from the founders? How likely are they to fill their current round? Has the capital strategy been validated?
	Is the company's capital strategy realistic?	Where are they raising their next round of capital from? Are the company's major millstones (financial or technical) realistic and will meeting these be enough to secure next stage funding (this will likely be predicated on the outcome of financial forecasts/IP milestones being met, so speak to the person/s looking after these sections) How realistic is their next targeted valuation d) Do the founders have enough "skin in the game" to be incentivised and be attractive to future major investors such as VC's?
	Exit potential for the company	Who are the most likely acquirers? Examples of similar companies exits/values.
The Offer	Term sheet	Confirm existing shareholders are exercising their pre-emptive rights and investing in this round, including amounts. Any that are not investing and why.
	Valuation	Review Shareholders' agreement – does it need to be negotiated down?