

Due Diligence Checklist

By Enterprise Angels



Diligence Topic	Information Request	Key Actions / Questions
Corporate Organisation	Incorporation documents	Obtain cap table, including previous cap raisings, DD and valuations.
	Company constitution	Conduct a review of the company minute books.
	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	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?
Exit potential for the company	Who are the most likely acquirers? Examples of similar companies exits/values.

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's 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?
Sales strategy	Assess strategy for channels to market. What USP's does the company have?

	Market validation	Present distribution partnership and sales channels? Any CRM 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.
Production	Production facilities	Ability 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 licences/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	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?
Environment	Any environmental issues that need to be considered	
The Offer	Term sheet	Confirm existing shareholders are exercising their pre-emptive rights and investing in this round, including amounts. Any that aren't investing and why.
	Valuation	Review Shareholders' agreement – does it need to be negotiated down?