

Due Diligence Checklist for Early-Stage Startups

Management Team

- Information Needed
 - Resumes of the leadership team (founders, executives, board directors, advisors).
 - References for the key leader team members, especially the founder/CEO.
 - Additional information from LinkedIn profiles, online search, network, etc.
- Assessment
 - Assess the team's leadership, entrepreneurship, integrity, track record, competency, suitability, synergy, passion, commitment, coachability, and creativity.
 - Approaches:
 - i. Review resumes
 - ii. Interview references
 - iii. Evaluate information from other sources
 - iv. Directly talk to key team members
- Key Questions
 - Is the founder/CEO coachable?
 - Can the founder/CEO attract talents?
 - Is the CEO a good communicator?
 - Is the founder/CEO an entrepreneur with passion, commitment, integrity, and resilience?
 - Does the CEO possess the relevant experience and leadership abilities to succeed?
 - Do they have skills for where they are going, as opposed to where they have been?
 - Founder/market fit: Are they also a good match for the specific problem they're tackling? Do they have the know-how?
 - Motivation, ambition, balance conviction with learning mindset.
 - Do the CEO and team have a proven track record, for example other companies they have founded/led?
 - Does the team possess the appropriate balance of experience and skill sets? How many years the team has been working alongside each other and their achievements?

- Are the board members and advisors suitable and committed?
- What key hires are needed to address gaps?

Technology, IP and Product Roadmap

- **Information Needed**
 - Descriptions of technology and product
 - Relevant technical publications
 - Patents and patent applications
 - Independent patent analysis: freedom to operate (FTO), enforceability
 - Product roadmap with key milestones
 - Comparison with competing technologies, and their product development / commercialization status
 - Independent search and information gathering as needed
- **Assessment**
 - Assess technologies and products: competitiveness, differentiation, significance
 - Assess IP: patentability, protectability, defensibility and enforceability; life span
 - Seek expert review if needed
- **Key Questions**
 - Is the technical team qualified and experienced?
 - Is technology truly revolutionary and significant?
 - How hard is it for others to develop similar or better technology?
 - How strong are the IP positions?
 - Is the product roadmap achievable?
 - What are the remaining risks related to technology, IP and product roadmap?

Go-to-Market Plan

- **Information Needed**
 - Go-to-Market plan with key milestones and commercialization strategy
 - Progress in sales, marketing, and partnership
 - Customer, prospect, and partner references
- **Assessment**
 - Review information and meet with the commercialization team
 - Interview customers, partners, prospects as appropriate
 - Assess revenue and pricing models

- **Key Questions**
 - Does the product fit the market?
 - Clear customer/market pain point and compelling value proposition: Is this product/service a "Nice to Have" or a "Need to Have"?
 - Business model: how to acquire customers and what is the average acquisition cost per customer? Are you planning to build a direct, or use an outside sales force, or primarily use marketing to acquire customers? Can the average selling price of your product support this go-to-market? How to achieve profitability? Is the go-to-market plan reasonable?
 - Progress: is the sales pipeline adequate? Customers use cases and what's the likely adoption rates?
 - What are the major risks in marketing awareness, customer adoption rates and sales cycle?

Differentiation and Competition

- **Information Needed**
 - List of current and prospective competitors
 - Competitive analysis: market share, strength, weakness
- **Assessment**
 - Gather additional competitive intelligence as needed
 - Assess competitive environment, competitor positions, barriers to entry
- **Key Questions**
 - Product Differentiation and high barriers to entry: Is the company well positioned with respect to current and likely future competitors? How to stay distinguished as competitors try to copy you?
 - Is the founding team well-informed about their market and industry? Do they have a good competitive sense, or are they aware of key issues?

Market Size and Opportunity

- **Information Needed**
 - Market estimates: properly segmented down to a reasonable addressable market segment.
 - Published market data and industry reports by segment, industry vertical, and/or geography as relevant.
- **Assessment**

- Gather additional market data as needed
- Interview industry experts as needed
- Assess market opportunity and product/market fit
- Assess company's market estimates and share assumptions
- Key Questions
 - Are the top-down and bottom-up market estimates consistent and attractive?
 - Are the market share projections reasonable? What's the market growth trends?
 - What are the remaining risks in market development?

Regulatory

- Information Needed
 - Regulatory strategy
 - Status of dialogue with regulatory authorities and/or consultants, copies of relevant communications
 - Other progress
- Assessment
 - Review regulatory strategy
 - Interview regulatory experts
 - Assess comparable regulatory pathways for other products as appropriate
 - Assess regulatory climate
- Key Questions
 - Is the regulatory strategy well-thought and feasible?
 - Are the company's financial resources sufficient to implement the regulatory plan?
 - Are assumptions about partners/acquirors' roles in the regulatory plan reasonable?
 - What are the remaining regulatory risks?

Financial Projections and Funding Strategy

- Information Needed
 - Current balance sheet
 - Historical financials
 - Model of projected financials with sensitivity analyses on key assumptions.
 - Fundraising history
 - Use of funds - past and projected

- Future financing needs and assumptions
- **Assessment**
 - Assess balance sheet
 - Assess historical and projected financials including revenue model, assumptions, use of funds
 - Conduct sensitivity analyses on key assumptions
 - Assess capital efficiency and future financing needs
- **Key Questions**
 - Does the balance sheet make sense, and are there any showstopper issues?
 - Are the financial projections reasonable and conservative in light of past performance?
 - Are the assumptions about scaling expenses reasonable, or is the model unrealistic?
 - Is the future financing risk manageable?
 - What are the remaining financial risks?

Exit Strategy

- **Information Needed**
 - Exit strategy
 - Likely acquirers and comparables.
- **Assessment**
 - Discuss exit scenarios with the CEO
 - Assess realism of exit strategy
 - Develop reasonable exit scenarios
 - Model exit multiples under representative scenarios
- **Key Questions**
 - Is there an alignment with the CEO and team on exit goals?
 - Is the exit strategy reasonable?
 - What exit multiples can be predicted under representative scenarios?
 - Does the CEO know people in the industry? Is s/he a networker who will make the relationships and get a buyer interested? Need any third-party support?

Company Structure, Deal Terms

- **Information Needed**

- Documents of incorporation
- Capitalization Table
- Proposed deal terms

- **Assessment**
 - Confirm legal entity (C Corp, state of incorporation).
 - Review existing investors, classes of stock
 - Assess deal terms

- **Key Questions**
 - What changes to legal structure need to be undertaken?
 - Are there any showstopper issues (pre-existing agreements, complex shareholder structure, high vendor payables, loans to management, informal promises, or undocumented issuances of stock?)
 - What terms should be changed/negotiated (e.g., valuation, employee stock option pool, etc.?)