



Salt Lake City Angels

Due Diligence

Last Updated: June 26, 2023 by RCM

Team

First and foremost, we are trying to evaluate the credibility, competency, and coachability of the team. And the team includes the founders, key leaders, board directors, and advisors.

Credibility

- ✓ What is the founder's "why" for starting the business?
- ✓ How passionate is the founder about solving the problem articulated in their problem/solution hypothesis?
- ✓ Is the founder clear about the current state of their product/services, technology, marketing efforts, actual revenue vs. projected revenue, expenses, sales pipeline, etc.
 - Don't exaggerate the tech. Make clear what is "real" and what is still under development.
 - Don't exaggerate or obfuscate the financials. Make clear what's money in the bank, current revenues, etc.
 - Don't exaggerate the sales pipeline. Make clear who's a current client, prospective client, and who's just a warm lead.
- ✓ Who has the founder recruited as board directors/advisors? Are they domain experts?
- ✓ Do the founders/key leaders have any "skin in the game"? If so, what is it?
- ✓ Who, besides the founders/key leaders, has already invested?

Competency

- ✓ What background/experiences does the founder have in their business domain?
- ✓ What successes/failures have they already experienced with start-ups? What did they learn from any failures?
- ✓ Does the founder/CEO have a solid handle on ALL aspects of their business (market, product dev, tech, finance, sales, marketing, etc.)
- ✓ Do other key team members demonstrate full knowledge/insights on their respective areas of responsibility? Does each team member clearly understand their role?
- ✓ Does the founder/team interaction seem appropriate/healthy?
- ✓ Does the founder/team understand the biggest challenges/hurdles facing them as they grow the business? What's the plan to overcome those challenges?

Coachability

- ✓ Do the founders and key leaders seek out mentoring/coaching from their current advisors? Or are they "advisors" in name only?



- ✓ Do the founders/key leaders desire mentoring/coaching from their investors? Do they welcome suggestions and act upon them when warranted? Can they give examples of such mentoring/coaching?

Problem/Solution Hypothesis

Most business start-ups emanate from the recognition that there is a problem that needs to be solved for a group of people or group of organizations (the target market). The founder(s) then hypothesize a solution for this problem and then place a value (price) on providing this solution. We call this the problem/solution hypothesis. Here's what we want to learn about it during due diligence:

- ✓ How big is the problem? TAM?
- ✓ Is the solution credible? Possible? Doable? Desired by the marketplace?
- ✓ Is the problem/solution hypothesis presented in a way that is understandable even if the potential investor does not have domain expertise or experience?
 - Rule of thumb: If someone who knows you well (mother, father, sister, brother, spouse/partner, etc.) can't understand your problem/solution hypothesis, you're probably not explaining it well; or you haven't yet refined your idea.

Technology

Often we perform due diligence on a company that has developed technology that plays a major role (if not the predominant role) in the problem/solution hypothesis. Here's what we want to learn about the technology during due diligence:

- ✓ Is it new and innovative? Or is it an improvement on existing technology?
- ✓ Where are you in the technology development cycle?
 - Software: Design, development, testing (alpha, beta), MVP?
 - Hardware: Design, development, prototype, pilot, manufacturing?
- ✓ How defensible is it (tech moat)? Patents issued? Patents pending?
 - Corollary question – how reproducible is it?
- ✓ How quickly can it be modified or enhanced? Is it easily maintained?
- ✓ Who are key suppliers for your product/technology?

Traction

As early-stage investors we want to understand what evidence is available that shows your problem/solution hypothesis is credible. This is called "traction" and can come in many forms (revenue, sales, pilot programs, LOI's, etc.). Here's what we want to learn about your traction during due diligence:

- ✓ What traction, if any, has been achieved thus far and in what form?
- ✓ What objective metrics are available to measure traction (sales, revenue, LOI's, etc.)?



- ✓ Based on the traction achieved thus far, what has the founder(s) learned? What adjustments have been made?

Financials

Early-stage investors want to understand the current company financials and the projected company financials. Specifically, such investors will want to view and understand the following during due diligence:

- ✓ Current financial position – both P/L and balance sheet.
- ✓ Financial model showing financial projections. Is the model credible? Thoughtful? Easily adaptable to changing assumptions and/or market conditions.
- ✓ Current ARR/MRR
- ✓ Cash on hand, burn-rate, runway?
- ✓ Unit economics. CAC (or said better, cost to acquire the right customer), CLTV?
- ✓ Are non-dilutive forms of capital available (i.e. grants)?
- ✓ Disclose and past or current legal issues (lawsuits, etc.) or threats of legal action.

Sales & Marketing

Early-stage investors want to understand the thought and planning by founders regarding marketing and sales. They'll ask question like:

- ✓ Describe your go-to-market strategy. What marketing initiatives are in-place and/or planned?
- ✓ Ultimately, how will you make money?
- ✓ How well do you understand the customer need and market?
- ✓ Is there any data available yet on sales conversions resulting from the marketing?
- ✓ What is the sales strategy?
- ✓ Who leads/executes the sales effort and what are the success metrics?
- ✓ What have you learned from early adopters regarding your product-market fit?
- ✓ Has the pricing model been validated by the marketplace?

Valuation

While determining future valuation for a start-up is a difficult task, early-stage investors will want to understand the following:

- ✓ What criteria, other than “current market conditions” were used to determine valuation?
- ✓ Are the criteria and the underlying assumptions reasonable given the stage of the company?



Governance & Capital Structure

Understanding the corporate governance structure and the current capital structure is helpful to early-stage investors:

- ✓ What is the corporate structure and State of registration?
- ✓ Who serves on the Board of Directors and why were they selected?
- ✓ How are Directors selected?
- ✓ What is the Director voting structure? Do Directors vote proportionally to ownership (voting shares) or is it one director/one vote?
- ✓ How big a majority is required for motions to carry?
- ✓ We'll want to see the current cap table.

The Future

Understanding these items is also helpful to early-round investors:

- ✓ What are potential exit strategies?
- ✓ How will funds raised in the current round be used to grow the company? How specific is this plan?
- ✓ When and why does the company anticipate pursuing their next funding round?

Deal Terms

Understanding the deal terms is vital for early-round investors:

- ✓ Terms of the deal (investment instrument, pre/post-money valuation caps, discounts, etc.)?
- ✓ Who's leading the round?
- ✓ Who has invested? Is investing?

If you are a founder interested in pursuing seed-round funding from SLC Angels, please apply online at our website: www.slcanimals.com.