# Due Diligence Checklist: The Business

1. You should review the shares already issued – request to see how the current ownership of the business looks according to class of share. This will normally be displayed in a *Share Capitalisation or Caps Table.*

   You will probably be investing in ordinary shares (for tax reasons) – you should check that there aren't other share classes with preferential rights which could dilute your value.

   You can use the *Caps Table* to acquaint yourself with the other shareholders. In early rounds, you should make sure all shares are actually paid up before you commit.

2. Evaluate the funding they are seeking. Do they have a realistic strategy for achieving it?

   What do they need the funds for? Are they asking for too little to accomplish this? Are they asking for too much (which will reduce your upside)?

   Do they envisage future funding rounds? And will this round allow them to accomplish what they need to in order to raise another round at a higher valuation?

3. Examine the share price. What does the share price mean for the overall value of the company? How did they decide on the share price?
4. Make sure you understand what their valuation is. It can become confusing in decks and business plans. The 'post-money' valuation will determine the proportion of the company you end up owning.

5. Get to grips with what the business owns. Early-stage companies are unlikely to have many tangible assets, so the intangible value adds will be very important to justify their valuation.

   Look for registered IP rights as well as unregistered things like contact and letters of intent. If the company is claiming anything ask for proof.

6. Evaluate the effect of the overall ownership following the investment round. Will the day-to-day team be sufficiently incentivised to work hard towards an exit? Watch out for situations where the management team ends up with a small stake or where there are loads of small shareholders.

7. What's the potential exit value? Does the team have a reasonable exit prediction and strategy to achieve it? Will an exit give you sufficient ROI to justify the risk? This can be very difficult to determine accurately but discussing it with the businesses founders will give you a good idea of their competence.

8. What professional advice has the company received e.g. accounting, legal, IP? Is it good advice from reputed sources? Ultimately, do you think the directors have a solid grasp of the risks; and do they have ideas in place to overcome them?

9. Try to verify and authentic everything you can. Use trusted third party sources to get information on the company's accounts and its directors. You can pay companies to check all this for you, but the cost should be proportionate to the deal and the information you need should be publicly available.

10. Check whether there are any tax breaks available in your region for investors investing in early stage ventures. If there are, check that the company has registered for them if relevant. Tax breaks can seriously reduce the amount of capital you actually risk when making an investment of this sort.