

# Investor's Due Diligence Questions

## Outcome

Prepare answers to an investor's due diligence questions.

## Overview

Presenting to an investor of any kind is a daunting task. Entrepreneurs must make sure that they have thought about every angle and have answers for every question. You must know the risks associated with your business so that you can identify them for the investor and then explain how you will address those areas. This resource provides a detailed listing of questions investors have about all plans they read and presentations they view.

## Instructions

On pages 2–4, Column A contains possible questions that an investor might ask in performing due diligence. Write your answers to the questions in Column B. You don't have to use complete sentences or polished writing for this exercise, but by writing out your responses, you will ensure that you have carefully considered each point.

## Due Diligence Questions and Responses

| Column A<br>Investor's Possible Questions  | Column B<br>Entrepreneur's Responses |
|--|--------------------------------------|
| <b>Management Analysis</b>   |                                      |
| 1. CEO. Specific characteristics to look for:  |                                      |
| a. How does the CEO create momentum?   |                                      |
| b. Does the CEO understand balance sheets?   |                                      |
| 2. Identify management holes.  |                                      |
| 3. Assess quality and complementary skill sets of management.  |                                      |
| 4. Does management understand this industry, competition, and channels?  |                                      |
| 5. How can you demonstrate the work ethic of management?   |                                      |
| 6. For each member of the management team:   |                                      |
| a. Identify their previous accomplishments.  |                                      |
| b. What are their reputations?   |                                      |
| c. How are they knowledgeable in their area?   |                                      |
| d. Are they high energy? Do they have a need for achievement?  |                                      |
| <b>Market Analysis</b>   |                                      |
| 1. Identify current customer need.   |                                      |
| 2. Identify decision maker within the customer's organization. What is the company's plan to reach these decision makers?                    |                                      |
| 3. Identify uniqueness as applied to market.   |                                      |
| 4. Analysis of competition.  |                                      |
| a. Evaluate technology, management and technical resources of competition to the extent possible. Use third party resources when reasonable. |                                      |
| b. Estimate what competitors will do when they start to get hurt in the marketplace.   |                                      |
| 5. Identify size and growth characteristics of market.   |                                      |
| 6. Analysis of company's marketing plan. Does it fit market?   |                                      |
| 7. How are other companies in this marketplace valued?   |                                      |
| 8. Identify key market penetration milestones.   |                                      |

| Column A<br>Investor's Possible Questions  | Column B<br>Entrepreneur's Responses |
|--|--------------------------------------|
| <b>Product/Technology Analysis</b>   |                                      |
| 1. Identify uniqueness as applied to technology.   |                                      |
| 2. What is creation effort of product (how many dollars would be required to recreate technology)?                         |                                      |
| 3. Are there any legal barriers (patent protection if any) created by the company?   |                                      |
| 4. What is the level of complexity of product use and design?  |                                      |
| 5. How does the product ease customer pain? Will the customer have to modify how it conducts business to use this product? |                                      |
| 6. Is this a true technology breakthrough?   |                                      |
| 7. Identify the key development milestones.  |                                      |
| <b>Operational Analysis</b>  |                                      |
| 1. What is current stage of growth?  |                                      |
| 2. Identify how development and market milestones map into operational and revenue milestones for company. Assess backlog. |                                      |
| 3. Determine credibility of projected income (revenue model). Understand multiple sales channels if applicable.            |                                      |
| 4. Are personnel projections reasonable?   |                                      |
| 5. Is financing strategy realistic?  |                                      |
| 6. What is the exit strategy? If exit is probable acquisition, identify probably acquirers.                                |                                      |
| <b>Financial Analysis</b>  |                                      |
| 1. Determine credibility of projected income (revenue model).  |                                      |
| 2. Examine profit margins. Examine fixed versus variable costs.  |                                      |
| 3. Estimate capital needs.   |                                      |
| 4. Examine overhead and its growth as the company expands. Calculate burn rate and cash resources.                         |                                      |
| 5. Analyze historical financial performance if applicable.   |                                      |

| <b>Column A<br/>Investor's Possible Questions</b>   | <b>Column B<br/>Entrepreneur's Responses</b> |
|---|--|
| <b>Deal Analysis</b>  |  |
| 1. What is desired company valuation and capital raise? Is it reasonable for the company's stage and potential? |  |
| 2. Who are committed and interested investors, and why are they interested?                                     |  |
| 3. Estimate ability to raise additional capital and identify likely funding sources.                            |  |