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DES MOINES, IOWA



Raising Capital Seminar

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RAISING CAPITAL SEMINAR

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Due Diligence

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Preparing for Due Diligence

- Make your bed – prepare for due diligence
- Form your team
- Create a receptacle
- Fill your receptacle
- Update your receptacle

Make Your Bed – Preparing for Due Diligence

- Cannot wait for first due diligence request to put the information together
- Organized due diligence makes a great first impression
- Do a mock due diligence response

Form your team

- Find advisers who have been through the process before.
- Attorneys and accountants can help you anticipate issues.

Create a receptacle

- Online platform
 - Dropbox, Box, Google Drive, OneDrive, Others?
- USB Stick
 - Be careful with this format
 - Cannot restrict access
 - Cannot retrieve easily
 - No permissions

Due Diligence Organization

- Start a Dropbox or Box with all anticipated due diligence (DD) documents
- Organization is critical

Sample organization structure

MASTER FOLDER

Name
▶ 01. Corporate
▶ 02. Management.Employees
▶ 03. Metrics and Financials
▶ 04. Market, Customers and Products
▶ 05. Partners, Suppliers and Agreements
▶ 06. PR & Customer Reviews

SUB - FOLDERS

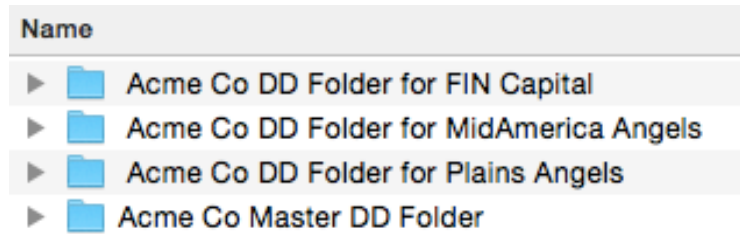
Name
▶ 1.01 Governing Documents
▶ 1.02 IP / patents and technology
▶ 1.03 Cap Table. options. stock grants

Name
▶ 2.01 Bios of senior team
2.02 Draft Organization chart
▶ 2.04 Key Employee Agreements
2.05 Past employees

Name
▶ 3.02 Monthly Financials
▶ 3.05 Annual Financial Statements
▶ 3.06 State and Federal tax filings

Best Practices

- Create separate folders for each investor you share material with (including which pitch deck version you gave them).



- Don't share your DD data until you are certain of serious interest.
- Some investors will give you their DD list.
 - You may not have everything they ask for. In some instances it is ok to say “I don't have xyz .”
- Minimize the number of groups you are doing DD with as it can take a ton of time.
 - Ideally a lead investor will lead the DD process and all other investors will rely upon the lead investors DD review.

Fill the receptacle

- Corporate Documents
 - Articles of Incorporation (Certificate of Organization)
 - Bylaws/Operating Agreement
 - Shareholder Agreements
 - Subscription Agreements

Fill the receptacle, cont.

- Financial documents
 - Financial statements
 - Tax returns
 - Pro forma financial statements
- Contracts
 - Employment
 - Supplier/customer
 - Leases
 - Loans

Fill the receptacle, cont.

- Capitalization
 - Cap table
 - Option plans and grant agreements
 - SAFE notes
 - Convertible notes
- Intellectual Property
 - IP Assignments
 - Patents/Trademarks
 - IP Opinions

Update the receptacle

- Before the raise
- During the raise
- After the raise

Common Due Diligence Checklist

1 Corporate

- 1.01 All legal governing documents (articles of incorporation, shareholders' agreement, bylaws, etc.)
- 1.02 Summary of any IP / patents and technology
- 1.03 Fully diluted cap table in Excel including any/all options and stock grants

2 Management and Employees

- 2.01 Summary bios of senior management team
- 2.02 Organization chart (current)
- 2.03 List of projected hires in the next 12 months
- 2.04 Copy of key employee agreements and standard employment agreement template
- 2.05 Details regarding employees that have left the business and brief description of reason (new opportunity, grievance, change in pay/commission, etc.)

3 Metrics and Financials

- 3.01 Summary of accounting policies (specifically revenue recognition and cost allocation)
- 3.02 Excel files of monthly financial statements (IS, BS and CFS) for most recent 18 months
- 3.03 Excel financial model with income statement projections for next 3-5 years
- 3.04 Summary of assumptions for the income statement projections
- 3.05 Annual financial statements prepared by accounting firm
- 3.06 State and Federal tax filings for history of company
- 3.07 Summary of key performance indicators on a monthly basis for 18 most recent months
- 3.08 Uses of funds in excel by month/quarter demonstrating key spending: hires, advertising/marketing, inventory, capital commitments (debt), other
- 3.09 Detailed accounting schedule of inventory balance sheet account (current)
- 3.10 Breakdown of revenue forecast itemizing: repeat orders, repeat order growth rate, new customers acquired - paid, new customers acquired - organic/free, etc.

Common Due Diligence Checklist (cont.)

4 Market, Customers and Products

- 4.01 List of all customers (name or other unique identifier), date of order/s, dollar amount of order/s, location/zip (if available) in excel for the last 18 months
- 4.02 Summary of customer contracts (amount, term, structure, etc.)
- 4.03 Contact details of 10 reference customers
- 4.04 Industry research in regards to market size and competitors
- 4.05 Comparison of MSL's product/technology and pricing positioning versus competitors
- 4.06 Summary of the technology and product development roadmap (features, timing, costs, etc.)
- 4.07 Review of customer acquisition costs (CAC) for the past 18 months showing detailed calculations in excel

5 Partners, Suppliers and Agreements

- 5.01 Summary of any partnerships or other strategic relationships
- 5.02 Summary of any major suppliers / vendors
- 5.03 Material contracts including existing / pending bank/debt financing

6 PR & Customer Reviews

- 6.01 Document and link to Press and Media covering your company
- 6.02 Links to customer reviews, survey data, etc.