DUE DILIGENCE STANDARD OPERATING PROCEDURE
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Purpose
This document is a guide for completing due diligence with intent to invest in a startup company. Following the steps outlined below ensures due diligence team gains an in-depth understanding of the target company. The outcome of this process is a comprehensive report used by TiE charter members to make investment decisions.

Scope
Due Diligence SOP covers the due diligence process for a single TiE chapter. Steps to completing due diligence include:

- Forming diligence team
- Delegating tasks and responsibilities
- Minimum and recommended components
- Target diligence timeline
- Completing and disseminating diligence report

Company screening should be completed prior to beginning the due diligence process and is not included in this SOP.

Prerequisites
An active and critical screening process clearly defines criteria that weed out unacceptable deals and only presents the best possible investment opportunities to TiE investors. Even at this stage, few companies will garner sufficient interest to proceed with due diligence and possibly receive investment. A company to advancing to due diligence must satisfy the following:

Eligibility
- Successfully pass prescreening and screening process
- Present at regular TiE chapter investor meeting
  - Presentation at chapter meeting may be unnecessary if sufficient investor interest is obtained through other means, such as email communication to TiE Chapter charter members

Documentation
- Pitch deck
- Executive summary
- 3- or 5-year pro forma

Responsibilities
Three main roles are defined for due diligence: CEO of target company, diligence team lead, and TiE Angel Chair or Program Manager. Others, such as additional team members and legal counsel, will be involved as necessary to complete due diligence. Responsibilities outlined below are minimum required for each role.

Target company CEO (CEO)
- Work with diligence team to set meetings
• Provide requested documentation and references promptly
• Connect diligence team with customers and relevant industry experts

**Diligence team lead (Lead)**
• Schedule initial diligence team meeting and check-in meetings as necessary
• Delegate diligence tasks to team members
• Maintain diligence timeline
• Communicate updates with diligence team and Facilitator
• Compile and finalize diligence report
• Make final investment recommendation

**TiE Angel Chair or Program Manager (Facilitator)**
• Inform CEO of intent to perform due diligence
• Connect CEO with Lead and diligence team members
• Assist Lead in setting up and running diligence team meetings
• Assist diligence process when requested by Lead
• Edit diligence report for clarity and missing pieces
• Notify chapter charter members of completed diligence and distribute report to any interested investor

**Process**
Due diligence is an independent analysis of a company’s viability, both economically and as an investment opportunity (see Appendix 1 for suggested topics). Diligence may be time-consuming if the company or its customers operate in a complex ecosystem. The steps outlined below are intended to streamline the diligence process as much as possible. Efficient completion of due diligence is in the best interest of both investors and entrepreneurs: it allows investors to make faster decisions and entrepreneurs to return to running their companies.

*Note:* Participation in due diligence implies intent to invest. Those charter members making up the diligence team are reasonably expected to follow through with an investment if diligence returns a positive investment outlook. Any charter member may withdraw his or her intent to invest if s/he believes the diligence outlook to be unfavorable or disagrees with the team’s ultimate investment thesis.

**Diligence team formation**
• Prior to team formation, the TiE Angel Chair or Program Manager must determine which (if any) of charter members are interested in the company as a possible investment. This usually occurs at the regular investor meeting following a company’s pitch. Alternatively, email notification about investment potential may be circulating among chapter members to gauge interest and recruit investors.
• During voting at the investor meeting or following email notification, a charter member volunteers (or is chosen) to lead the diligence effort (see Lead role in Responsibilities section for detail).
Delegation of diligence responsibilities
- Once the team members are identified, Facilitator schedules the first meeting to assign roles and responsibilities. Facilitator also sends initial due diligence questionnaire requesting standard documentation and any other relevant information (Appendix 2).
- During the first meeting, Lead is responsible (at a minimum) for the following:
  - Request volunteers for different diligence components (see below for detailed breakdown of component list). If sections remain, Lead assigns those sections based on team member skills or takes responsibility for those sections. Facilitator may also be called upon to fill any vacant roles.
  - Schedule regular update meetings (preferably weekly) to ensure consistent progress is made and potential concerns are promptly addressed
  - Assemble list of additional documentation to be requested from company
  - Set deadline for draft of fully assembled diligence report. Goal for this deadline is 4 weeks from company presentation. This may be extended to 6 weeks if the company or industry is technically or legally complex.

Diligence research
- Team members are responsible for completing assigned diligence sections by the agreed-upon deadline.
- Update meetings should be used to ensure diligence team members are progressing with their assigned sections. Lead must be proactive in identifying roadblocks for team members completing the necessary diligence. Lead may request assistance from Facilitator to make customer introductions, perform industry research, analyze financial data, or any other aspect of the diligence process.
- Team members may use documents and resources supplied by company as starting points for research but should not rely on these as primary sources. Members should also make concerted efforts to obtain independent opinions on state of industry and viability of business model and product.

Assembling diligence report
- Diligence Lead collects written reports from each team member. Lead and Facilitator review individual components for completeness and notify relevant diligence team members of missing information.
- Lead assembles individual reports into final document. Lead adds final investment thesis (approve, disapprove, or wait) so other investors can make informed investment decision. Facilitator assists in editing for grammatical errors and flow.

Dissemination to TiE chapter members
- At next regular investor meeting, Lead presents a brief (5 minute) report on diligence outcome and investment recommendation.
  - If next investor meeting occurs after fundraising close date for target company, Facilitator or Lead should email a summary of diligence report and investment recommendation to chapter charter members. Do not include full diligence report in mass email.
- Charter members (not on diligence team) that want to invest following the Lead’s summary should contact Lead or Facilitator with their intent to invest or request to review full diligence
report. Only those charter members explicitly requesting report should receive it – this helps prevent broad distribution of sensitive and confidential company information.
  ○ Charter members should be given no more than 2 weeks to review diligence material and commit to investing.

**Term sheet negotiation and signing**

- Once all investors have committed and indicated desired investment amounts, Lead works with Facilitator and CEO to negotiate final term sheet.
- Investors review and sign finalized term sheet. Lead’s responsibility is to obtain favorable terms for investors without unnecessarily penalizing company.
  ○ Investors may choose to negotiate separate terms with target company but this is not recommended as it is generally unhelpful and results in unnecessary delays. If investors are unsatisfied with deal terms as negotiated, they should first approach Lead to understand how negotiations led to those terms.

**References**


TGA Due Diligence Report templates
Appendix 1. Recommended Topics for Diligence
Independent diligence should address as many of the following areas as possible:

- Market opportunity
- Competitive landscape
- Historical (if available) and pro forma financial analysis
- Customer interviews, if possible (see Appendix 3 for suggested interview template)
- Sales pipeline
- Technology assessment, including IP protection
- Product development timeline
- Regulatory environment, if relevant
- Go to market strategy

Appendix 2. Initial Diligence Questionnaire
Please fill out completely and reply-all on the email from which you received this form. Include all attachments as necessary.

Itemized initial due diligence

1. 12-month operating plan and milestones
   a. Please describe your operating plan (including use of funds) for the next 12 months.
   b. Please describe key milestones for the company to be accomplished in the next 12-months. Include requirements (capital, headcount, market conditions, etc) and approximate date of completion for each milestone.

2. Management team
   a. Please provide bios of all management team members, including LinkedIn profile links
   b. Please provide bios of your advisory board and board of directors, with at least 2 references for each (total of 4).

3. Market Information
   a. Please include all market research pertaining to general demand for your specific sub-industry and vertical that your company relies on to make decisions. Attachment A.

4. Financial Information
   a. Please include a copy of trailing 24-month income statements, broken down by month, with a line item for cumulative cash position and net cash change. Revenue should be recognized based on the period over which it is received (i.e., 12-month contracts paid up-front should be recognized over the forward 12-month period, month-by-month).
   b. Please include a descriptive and current balance sheet, with details of outstanding liabilities and valuations for intangible assets (IP, goodwill, etc.).

5. Company Specific Questions
   a. Please provide list of customers under contract, including contract price and duration, and copies of signed and executed agreements.
Appendix 3. Customer Interview Template

Date
Customer name
Conflict of interest?

<Company> customer interview questions and script

Hello, my name is ___ with the investment group TiE <Chapter>. I believe <CEO> mentioned we would be in touch to discuss your experience with <Company>. If now is a good time, I would like to ask you some questions about your experience with the product and Strive as a company.

1. How long have you worked with <Company>?
   a. 

2. What would you say is the biggest problem <Company/Product> has solved for you?
   a. 

3. How does <Company/Product> compare to competitive products on the market?
   a. 

4. What, if any, are main disadvantages of <Company/Product> compared to competitive products?
   a. 

5. Does <Company/Product> meet your needs? If not, what could be improved to make <Product> perform better?
   a. 

6. How much, if any, training was required to use <Product>?
   a. 

7. How often do you interact with <Company> customer support?
   a. 

8. How responsive has <Company> been to your requests for support (if any)?
   a. 

9. Is there anything else you would like me to know about <Company>?
   a. 

Thank you very much for your time. Your feedback is very helpful in making an investment decision for our group.