

QUICK FACTS ABOUT DUE DILIGENCE FOR START UPS.



WHAT IS DUE DILIGENCE?

Due diligence is basically a deep look into a business's financial, legal, and operational information. Investors use it to understand how your business really works—your model, strengths, gaps, and overall financial and legal health. What they discover helps shape the structure and terms of any potential investment.

IS DUE DILIGENCE IMPORTANT?

Yes, it is. Investors typically rely on due diligence to check or confirm assumptions behind a startup's business model and to see how well it meets compliance standards. It may also help assess growth strategy or financial projection.

KEY AREAS WHICH INVESTORS REVIEW.

Startups should expect investors to take a broad look at the business and how it is run. They will probably look at corporate records and governance — meaning board structure, decision-making processes, shareholder rights, and internal oversight. Also, regulatory and compliance matters, financial records, contracts and commercial arrangements, intellectual property (IP) records and employment issues.



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OBJECTIVES OF DUE DILIGENCE.

- It allows the investor to assess whether the business aligns with their investment strategy and risk tolerance. The risks identified through the process influence valuation, deal structuring, contractual protections, and the level of capital the investor is prepared to commit.
- To confirm the operational readiness of the business for investment. Keeping good financial, legal records and contractual documents are some markers of a healthy start-up. This builds investor confidence and often leads to smooth negotiation with acceptable valuation outcomes.
- Due diligence influences the components of investment documents through the inclusion of representations and warranties, and conditions precedent which arise from due diligence recommendations.

COMMON DUE DILIGENCE CHALLENGES.

Common issues that arise during due diligence include gaps in documentation, incomplete corporate records, compliance inconsistencies, unclear IP ownership, unreported debt, and unresolved disputes.



TIPS FOR START-UPS.

- Anticipate investor questions before due diligence commences.
- Maintain accurate records - financial, regulatory, and operational. Check yourself beforehand.
- Identify and address regulatory or contractual gaps before fundraising.
- Prepare clear explanations and remediation plans for any identified issues.
- Seek legal and expert representation during the due diligence process.



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