

Advanced Due Diligence (DD) Takeaways
Nashville AIE
November 8, 2016

Below are some ideas coming out of the Advanced DD session:

- Team of 5 members of the angel group interview the CEO – the session is recorded and then each member of the group writes up their own notes and impressions which are then combined for the diligence report
- John Huston asks one overall question at the beginning – who will drive the exit? Will there be angels only? Who could cram down the angels in the future?
- Who is driving the company? If the CEO isn't working out – need to be able to replace – VCs are very good at cleaning out unproductive C-level execs
- Get a diverse group of DD team from your group – argument among the group about the deal is healthy
- How coachable is the CEO? Is he personally financially stable? Example – does he have 3 kids in private school, living in a huge house with 2 BMWs?? – need to stress test the CEO
- While syndication is great, each group should also do some level of their own DD and not rely on other groups - most groups sign a “hold harmless” agreement so everything stays friendly

- Don't be fooled by a company winning many awards (business plan competition, pitch days, etc) and not executing on their company
- Give your DD team a captain to drive the DD and the closing of the deal – some groups hold a breakfast meeting in order to explain why they are personally investing so others will come into the deal
- Intellectual Property – some IP lawyers who may be helping with the diligence process could find things to litigate – be careful. An angel group can get IP insurance that isn't overly expensive. IP lawyers will sometimes donate their time to review patents – 2 hours is usually sufficient to get a good idea
- Use of interns – most use them for the heavy lifting of research
- Make sure the first round isn't short funded – need to make sure they have enough runway – usually 18-24 months
- Be careful about wire fraud – some angel groups would rather write a physical check