**VC Vetting Questions**

***Background:***  The selection of venture capitalists to join an entrepreneur’s cap table represents an inherent conflict of interest. The entrepreneur naturally wants to retain her/his CEO position post investment, and this might affect how prospective VCs are evaluated. Angel directors can minimize this by leading the project of identifying the VCs most likely to be a good fit prior to getting the CEO involved.

***Use of this data gathering form:*** Obviously this form should not be given to VCs. Instead the angel leading the VC project should:

* Select which questions are most appropriate for the venture and round being considered, and craft a standard template to be completed prior to contacting any VC.
* Glean as much as possible from the firm’s website prior to making contact.
* Armed with the list of possible candidates the angel director should then devise a plan for gaining a warm introduction to each.
* Many of these questions might be viewed as impertinent, and doubly so if they are asked too early in the interview process.
* Several of these questions few VCs will likely answer, but they are included with the hope that answers can be discerned from informal conversations.
* The goal is to avoid encumbering the CEO with arranging the initial interviews.
* Obviously the BOD will select among the finalists, and portions of this form can facilitate the review process.

Firm: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Primary Contact: \_\_\_\_\_\_\_\_\_\_\_\_ Phone:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

e-mail:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1) Year Founded: \_\_\_Funds to Date: Number = \_\_\_Assets Under Mgt.:$\_\_\_\_\_\_\_\_

2) Total number of current employees: \_\_\_\_\_\_\_\_ Partners: \_\_\_\_\_\_\_

3) Name and industry backgrounds of the founding partners

4) What is the profile of your typical LP across your funds? Has it changed for your latest fund?

5) Across all funds, what is the average amount of invested capital per partner? \_\_\_\_\_\_\_\_\_\_\_\_

6) What is the average number of current portfolio companies per partner? \_\_\_\_\_\_\_\_\_\_

7) Which of your portfolio companies are in our geographic area?

8) Please discuss your prior and current portfolio companies which reflect your firm’s experience, contacts, and success in our industry segment.

9) Are there any of your portfolio companies which might conflict your firm out from considering our venture as a potential investee?

10) What is your Loss Ratio in terms of:

 A) “Names”: The % of your investments which have not returned capital), and

 B) “Dollars” (the % of capital invested that has gone to total losses)?

11) What are your firm’s specific strategic relationships which could benefit our company (e.g. introductions to potential customers, vendor/supplier relationships, etc.)

12) If you are currently in the midst of raising a new fund, please summarize your progress, planned size, and the first close date.

13) Have LP’s in any of your funds not honored a previous capital call? YES/NO

14) Is there anything we should know about your potential exposure to “claw-backs?”

15) With which structured angel groups have you co-invested in the past? How would you characterize that experience?

16) We presume it will be your firm’s responsibility to fill out all future financing rounds for this company. With which local and out-of-state VC’s have you historically enjoyed co- investing?

17) Does your firm have a preference for being the sole VC investor, or for co-investing with other VCs?

18) Please provide the name of three portfolio companies we can contact (including one from an unsuccessful venture) regarding the performance of the partner who will be our Board member.

19) Putting aside IPO’s what is your firm’s view regarding engaging investment bankers to run an M & S exit process? If you generally use them, please provide the names of the Investment Bankers you would recommend, based on successful exits they have achieved for you in our industry.

20) We presume that when VC’s join our Cap Table current investors will be relinquishing to them the primary responsibility for orchestrating a lucrative exit. Therefore, other than having dry powder, a VC’s expertise in driving exits in the past is the most important criterion we use in selecting VC’s to fund our portfolio companies. Please explain your past exit success that is relevant for our industry.

21) If the amount of the net proceeds were identical for your firm, would you prefer an exit via an IPO or an M & A transaction? Why?

22) Across all your funds, in how many unicorns (i.e. a valuation >$1 B) have you invested? Do you view yourselves to be unicorn hunters?

23) How many of your funds have ever provided a “carry check” to your partners?

24) Discuss your firm’s activities, if any, in the secondary markets. Have you bought interests in individual companies from other VCs……..or sold some of yours?

25) What is your firm’s view of investing in ventures that have been crowdfunded?

***Regarding your specific fund which might invest in our venture, please provide:***

1) Vintage Year: \_\_\_ Total Amount: $\_\_\_\_# of LP’s: \_\_\_\_ % Institutional LP’s: \_\_\_\_\_\_\_

2) Investments to date: Total Amount: $\_\_\_\_\_# of investments: \_\_\_\_# of Ventures: \_\_\_\_\_

3) How does this fund make its investment decisions? What is the formal process? Who has veto power? Who controls allocation of capital?

4) Of the fund’s total capital, how much has been provided by partners of your firm? \_\_\_\_\_\_\_

5) How much of this amount was invested by them up front, versus being taken out of their management fees?

6) If previously reported to other prospective portfolio companies, what can you reveal regarding this fund’s ROI reported to date and the number of successful exits?

7) What are the minimum and maximum investment amounts per venture which you will make from this fund? $\_\_\_\_\_/$\_\_\_\_\_

8) What is this fund’s minimum ownership percentage for each portfolio company?\_\_\_\_\_

9) Of your current portfolio company investments, how many, if any, were made “solo” meaning that you were the only VC investing in the first VC round?

10) Total “Dry Powder”: $\_\_\_\_\_ Amount in Bank: $\_\_\_\_\_Undrawn Commitments: $\_\_\_\_\_\_\_\_\_\_

11) How much “Dry Powder” would you plan to reserve for our company? \_\_\_\_\_\_\_\_\_\_\_\_\_\_

12) If reserves/dry powder are established, can the reserves be changed, and if so, by whom via what process?

13) When can we discuss the exit strategy and targets which your firm has for our portfolio company (in terms of time and return expectations)?

14) Let’s presume that your latest fund is the last one your firm raises. Please explain the level of management fees which you will be receiving post the investment period, and how many employees that will enable you to keep on staff to assist in the exit of your legacy investees (including our venture).

15) What, if any fees, will our company be paying your firm, post-investment (other than travel expenses)?

**Regarding the specific individuals from your firm who will be involved with our portfolio company:**

1) Do any of them have ties to our region or reasons to come here on a regular basis?

2) Do they represent your firm on the Boards of any other regional investees?

3) Do they function as Board Chair for any of these portfolio companies?

4) What specific strategic relationships which could benefit our company does the partner who will be our Board member have?

5) Does that partner have outside non-profit board roles and/or teach at the university level?

6) Will you want to have both a Director and an Observer seat? Who will fill these chairs?

7) How active do you expect your Board Observer to be?

8) Explain our Director’s and Observer’s seniority in your firm.

9) What do you think her/his fellow partners would view to be the largest contribution to the firm that our assigned Director has made to date?

10) How much of their personal cash have they invested in this fund?

11) Of that amount, how much did they contribute up front, versus being deducted from their management fees?

***Summary:*** Assembling a list of vetting questions from the above enables a uniform assessment of potential VC investors. An angel director’s running this process allows the CEO to concentrate on running the business, only meeting the most appropriate VCs, and then deciding which ones warrant the BOD’s time. Prior to needing an institutional round, CEOs might benefit from having a subset of these questions handy whenever they meet with prospective VCs.

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