Typical Capital Provider Due Diligence Checklist

A typical capital provider due diligence checklist covers key areas like finance, legal, market, and operations. This includes analyzing financial statements, cash flow, and projections; reviewing legal documents like contracts, IP, and compliance; assessing the market opportunity and competitive landscape; and evaluating the management team, operational efficiency, and product.

For new ventures, for which historical information is not available, capital providers will look into the companies and ventures in which the project developer and management team are involved and have been involved. They also will tap third-party experts who are familiar with the strengths, weaknesses, risks, opportunities, and operational details of the same or similar ventures.

1. Financial Due Diligence

A thorough review of the company's financial health, performance, and projections

- **Historical Financial Statements:** Review past income statements, balance sheets, and cash flow statements (e.g., 3 years), preferably audited
- **Revenue & Expense Analysis:** Examine all revenue sources, sales contracts, pricing strategies, major expense categories (e.g., customer acquisition cost), and profit margins.
- **Assets & Liabilities Review:** Assess the valuation and condition of assets and identify all liabilities, including short/long-term debt, loans, and potential contingent liabilities.
- **Working Capital Management:** Evaluate accounts receivable, accounts payable, and inventory management to assess operational efficiency.
- **Unit Economics:** Analyze metrics like customer acquisition cost (CAC) and customer lifetime value (LTV).
- **Key Metrics:** Check for key indicators like burn rate, accounts receivable/payable aging, and gross/net margin analysis.
- **Financial Projections:** Scrutinize financial forecasts and the assumptions behind them for reasonableness and alignment with historical data and industry trends.
- **Tax Compliance:** Review tax returns (federal, state, local) for the past three years, tax structure, and any correspondence with tax authorities to identify potential tax risks or liabilities.

- **Debt & Financing:** Review existing debt agreements, financing arrangements, and capital structure, including any previous funding rounds.
- **Funding History:** Review prior funding rounds and the current capitalization table (cap table).

2. Legal & Regulatory Due Diligence

Verification of legal soundness, compliance, and identification of any legal liabilities.

- **Corporate Structure:** Review incorporation documents, bylaws, shareholder agreements, and a list of registered members and their ownership percentages.
- **Intellectual Property (IP):** Confirm ownership of patents, trademarks, copyrights, and trade secrets. Review licensing agreements and any past or ongoing IP disputes.
- **Contracts & Commitments:** Examine material contracts with clients, suppliers, and partners, as well as employment agreements and real estate leases.
- **Litigation & Compliance:** Review ongoing or potential legal claims, regulatory issues, and compliance with all applicable laws and regulations (e.g., GDPR, environmental).
- **Insurance Coverage:** Assess the adequacy of insurance policies (general liability, property, cyber, directors & officers) and the history of claims
- **Regulatory Compliance:** Verify compliance with all relevant regulations and identify any potential legal risks.

3. Operational & Management Due Diligence

Evaluation of the management team, operational processes, and scalability.

- **Management Team:** Review the background, experience, track record, and compensation of key executives and team members. Assess team dynamics and key person risks.
- **Organizational Structure:** Examine the company's organizational chart, employee contracts, benefits packages, and any collective bargaining agreements.
- **IT & Systems:** Assess the reliability, security (including disaster recovery plans), and scalability of IT systems and infrastructure.
- **Facilities & Equipment:** Inspect physical assets, facilities, and maintenance needs.
- **Operational Processes:** Review operational efficiency, customer service protocols, and internal processes.
- **Assets:** Appraise tangible assets like real estate, equipment, and inventory

4. Market & Commercial Due Diligence

Assessment of the company's market position, competitive advantage, and growth potential.

- **Market Analysis:** Define the Total Addressable Market (TAM) and assess market growth potential and industry trends.
- **Competitive Analysis:** Identify major competitors, analyze the company's sustainable competitive advantages, and perform a SWOT analysis.
- **Products & Services:** Evaluate the unique value proposition, the current product, technology stack, development roadmap, scalability, and evidence of market fit through customer feedback and satisfaction metrics.
- **Customer & Supplier Information:** Analyze customer contracts, churn rates, acquisition costs, and key supplier relationships to understand revenue stability and supply chain risks.

5. Exit Strategy & Risk Management

Assessment of potential exit opportunities and overall risk mitigation strategies.

- **Exit Planning:** Explore potential exit routes (trade sale, IPO, etc.), estimated valuations, and realistic timelines.
- **Risk Assessment:** Identify major operational, financial, and strategic risks and evaluate the company's strategies for mitigating them