Entrepreneur's due diligence checklist

By Bo Peabody

- [ ] **How big is the particular fund that your startup will be part of and where is that fund in its lifecycle?** If you are getting a $1mm investment from a $1b fund, you should know why. If you are the last investment in a fund, or the first, you should understand how that dynamic could affect you.
- [ ] **What is the investment strategy of the firm?** What are the sizes of its investments and average ownership percentages? What is the firm's reserves strategy? As an entrepreneur you should look for patterns and ask questions if things don't make sense to you. If you are taking $5mm from a firm that generally writes $2mm checks it might be a good sign or an odd one. Does the firm own 5% or 25% of most of its deals? Why? Some firms reserve a lot for deals and some reserve less. There are good and bad reasons to do both but you should understand the firm's perspective on this issue.
- [ ] **What is the decision-making structure of the firm and where does your deal sponsor fit into that structure?** Funds have a variety of decision-making structures. No structure is necessarily bad but you should know what the structure is and where your sponsor fits into it.
- [ ] **Who are the LP's in the fund?** Typically, a fund with a lot of university endowments and foundations is stronger and one with a lot of individuals is weaker. However, if the individuals are people who can help you and the fund can provide real access to them, it might be the right fit for you.
- [ ] **What is the compensation structure of the fund and how does your sponsor fit into that?** Strong funds have a more equal distribution of economics and weak funds tend to have skewed economics to a bunch of people at the top who don't add much value.
- [ ] **What is the firm's policy and culture around corporate governance?** Do they seek board seats or not? If so, what is their in-person attendance record at board meetings. There are good and bad reasons that venture capital firms seek seats on the boards of the companies they invest in. The best way to really get to the bottom of this one is to call entrepreneurs in the firm's existing portfolio.
- [ ] **What is the firm's own view of the returns likely to be generated from your deal? How does it all break out?** Every firm does a liquidation analysis showing who will make what money under different exit scenarios. It flows through all the structure in any deal to get to what the real returns will be. At Greycroft, we happily show it to entrepreneurs so they can see how we all make money together.
- [ ] **How have previous funds performed and how will that affect future fundraising?** You'll probably have a good sense of the answer to this one given the firm's reputation but don't be afraid to ask for some numbers. Fundraising can be a major distraction for a venture firm and strong past performance yields quick fundraises and less distraction.
- [ ] **How does the firm handle re-caps and private-to-private mergers?** Winning and losing is easy. It's the middle that's hard. If a firm does the middle well it's a good sign.
- [ ] **How many repeat entrepreneurs does the firm have?** A lot will depend on the age of the firm and its investing strategy but if any firm that has invested over $200M has even three repeat entrepreneurs it is a good sign.