

Company name - Deal Memo

Date:

# PURPOSE

The purpose of this Deal Memo is to elaborate and summarize all due diligence and assessment efforts related to the investment suitability of the company in question. This Deal Memo is confidential and may contain proprietary information; nevertheless, it may be circulated to Southwest Angel Network Members not involved directly with the due diligence process, or with other Angel Networks for the purpose of deal syndication.

The Southwest Angel Network investors involved in the creation of this Deal Memo are attempting to confirm or deny statements or assumptions related to the team, technology, market, customers, vendors, intellectual property, competition, exit opportunities, deal terms, and any other key aspect critical to the proposed investment. Each area of due diligence will the summary of the interview or analysis.

After due diligence efforts are complete, those Southwest Angel Network Members involved with due diligence may articulate in their own words why they are investing based on the opportunities they see.

# Disclaimer

This Deal Memo is in no way a recommendation to invest. The Southwest Angel Network does not make investment recommendations (yes or no) on any company that comes before the network. Each angel must make their own investment decision. The information and analysis found in this document are based on the best efforts of those involved while evaluating the company in question. It is incumbent on each potential investor to conduct his/her own assessment based on expertise or investment criteria. Angel investments are made on an individual basis, and at no time will an investor hold other investors responsible for investment decisions as a result of this Deal Memo.

# Objective

The objective of this Deal Memo is to provide a point in time assessment of the company’s investment opportunity across the following key areas:

1. Social Impact
2. Team and Operating Ability
3. Product and Technology
4. Market Size and Customer Problem Verification
5. Go To Market Strategy
6. Competition
7. Exit Opportunity
8. Proposed Deal Terms
9. Corporate Structure and Governance
10. Finances

For each assessment area, we:

* Identified strengths and weaknesses/risks
* Scored each area on a scale of 1 (Critical) to 5 (Effective)

# Process

* The deal lead Identifies a lead for each section of this document
* Each section lead reviews all available information and does any additional research deemed helpful, possibly including talking to experts, doing a web search and making reference calls
* The section lead develops set of questions for the company
* The section lead asks those question in a meeting or online call (e.g., zoom). The meeting participants includes the SWAN deal and section leads, and the company C-level executives
* The section lead completes the write up of their section and gives a score.
* The deal lead edits and finished the deal memo.

# EXECUTIVE Summary

*Text summary followed by*

As shown below, in each of the assessment areas, the company has been reviewed against applicable criteria and given a score using the following scale:

|  |  |
| --- | --- |
| Score | Score Description |
| 5 | Effective – Satisfies all criteria. |
| 4 | Sufficient – Meets most criteria. Needs some modifications. Not a barrier to funding |
| 3 | Needs Improvement – Meets a portion of the criteria. Needs work and additional capability, but the company appears able and committed to address the concerns both now and after funding. |
| 2 | Potentially Problematic – Fails to meet most criteria. Issues may be overcome, but it is likely that the company is not fundable at this time. |
| 1 | Critical – Fails to meet criteria. Issues cannot be overcome. Company should not be funded. |

|  |  |  |
| --- | --- | --- |
| Assessment Area | Overall Score | Remaining Risks and Concerns |
| Social Impact |  |  |
| Team and Operating Ability |  |  |
| Product and Technology |  |  |
| Market Size and Customer Problem Verification |  |  |
| Go to Market Strategy |  | . |
| Competition |  |  |
| Exit Opportunity |  |  |
| Proposed Deal Terms |  |  |
| Corporate Structure and Governance |  |  |
| Finances |  |  |

# Contingencies for Funding

Identify any agreements that need to be reached with the company before angels invest.

# More Detailed Information

## ***Social Impact – Score***:

|  |  |
| --- | --- |
| Score | Score Description |
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### Reviewers:

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### Open Questions

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### Details

### Social-impact metric

Note that as part of the application process the company pledged to “Provide a quarterly social-impact measurement report using a mutually agreed to impact metric.” Document the agree-to metric here.

### Relevant Information provided by the Company

**(cut and paste information from pitch deck, application and supplemental report)**

### Instructions (this block can be deleted when the section has been completed)

Our [Apply for Funding](http://swanimpact.org/apply-for-funding/) web page makes the following statement:

**“How we think about social impact.**

A positive response to all three of the statements below is a good indicator that your company meets our social impact criteria.

1. Your company **demonstratively** improves health or educational outcomes, protects the environment, facilitates financial empowerment, supports underprivileged groups, especially when benefits from any of these accrue to disadvantaged groups in our society. You can provide **evidence of the impact-efficacy** of your product or service, and the **magnitude of your impact** is significant in terms of the number of lives impacted, or the scope of environmental impact.
2. If you were to explain your company's impact to a social worker, she or he gets a big smile on their face and say "That is so cool!"
3. Your company's home page highlights your social-impact benefit or mission. If your pitch deck talks all about social impact, and your home web page does not, then we get confused.”

Summarize how the company addresses a serious societal problem.

* Don’t confuse the benefits provided the payer and the social impact benefits provided beneficiaries
* How are the benefits measured?
* Efficacy
  + Look for demonstrated evidence of the effectiveness of their solution in addressing a significant societal challenge
  + Theory of change
* Scale
  + Look for the number of people impacted and the significance of the impact on each person

## Team and Operating Ability: Score

|  |  |
| --- | --- |
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### Instructions (this block can be deleted when the section has been completed)

Insert notes here from reference calls on the CEO and other senior managers

Summarize observations below, considering for example:

* CEO’s emotional maturity
  + Transparent, open, trustworthy, humble, coachable, always learning
  + Drive of the CEO.
* Good team collaboration and communication skills
* CEO’s startup experience
  + Prior mistakes are good
* CEO’s domain knowledge of the company’s market
* Appropriate titles?
* How does the C-level team work together?
* Does there appear to be sufficient experience in each operational area of the company: CFO, sales executive, marketing executive, and engineering executive?
* Does the team have a strong track record?
* Are all essential functions filled by qualified candidates, or can they attract the right talent?
* What are the biggest gaps they need to fill in order to deliver?
* What senior managers need to be hired in the near term? Do they recognize limitations in management, and are they seeking candidates?
* What is the caliber/pedigree of the team?
* Communication effectiveness of the CEO
* What is the team’s overall track record?
* Do they have the combined requisite skills and experience?
* Is the management open to discussion and suggestions on improvement to their business model?
* Has the management team been previously funded?
* Does the company have an operating plan or outline of the same if early stage?
* Has the company considered all aspects of operation to successfully launch a product or service?
* Does management meet regularly to ensure compliance with plan or make needed adjustments?
* Has the team been able to stay on plan?

## Product and Technology: Score:

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| --- | --- |
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**(cut and paste information from pitch deck, application and supplemental report)**

### Instructions (this block can be deleted when the section has been completed)

Summarize observations below, considering for example:

* How ready is the product for full release? What is their stage of development? Concept, alpha, beta, or shipping?
* Modern and viable architecture that matches market need?
* Is the technology scalable?
* Are developers tightly coupled to market validation?
* What appears to be the technical risk?
* Does the team have the needed skills and resources to complete required engineering work?
* How easy is it for another company to develop the same technology?
* Is this a one-product venture, or does the company with a broader vision?
* If hardware, is the supply chain in place?

## Market Size and Customer Problem Verification - Score:

|  |  |
| --- | --- |
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### Instructions (this block can be deleted when the section has been completed)

Put Notes here from reference calls with customers to verify that the company’s product or service solve a significant customer problem

* Can they demonstrate that they solve a problem for a payer who strongly feels that pain, and who has a budget to pay for a solution?
* What are the market drivers?
* How has this problem been validated (early revenue/LOIs/100 customer interviews)?
* What is the potential market size? Are there enough of those payers to generate enough revenue (big market)?
* Is there thorough validation of the market opportunity?
  + Early revenue from payers is strong validation

Potential customer interview questions might be:

1. Are you using the product?
2. What benefit have you derived from using the product?
   1. Is this product a nice to have or a must have?
   2. Why did you choose the product?

Lower costs?

Features?

Ease of use?

Other?

* 1. What are the biggest challenges in getting the most benefit from the product?
  2. Will you renew?
  3. Would you recommend the product to a friend?

1. What is the ease of use/suitability for your needs?
   1. How difficult was it to install/start using the product? How long did it take to fully implement / on-board the product into your environment?
   2. How stable/buggy is the product?
   3. What regulatory constraints must you comply with when using this product?
   4. What has been the quality of support?
   5. What additional capabilities would you like the product to have? What are the major deficiencies of the product?
2. Which competitive products did you also consider?
3. Who had to approve the budget to purchase?
   1. How hard was it to get the budget approved?
4. Have you calculated your ROI. If so, pay-back timeframe?
5. How did you learn about the product?

## Go to Market Strategy- Score:

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### Instructions (this block can be deleted when the section has been completed)

Summarize observations below, considering for example:

* Does the company have a well-thought-out sales and marketing plan?
* How do they intend to penetrate the market, and what are their operational and sales plans?
* How do they connect with potential customers?
* What is the cost of acquiring one incremental customer?
* What type of marketing and sales organization and partners do they need? And are they in place?
* Is the sales process scalable?
* Is the current sales process just talking to the CEO’s friends?
* Does the company have key relationships in place, or is it working on the same, with marketing and/or sales channel partners?
* What is the length of its sales cycle?
* Is the company focused on the appropriate market development, or are they trying to do too much at one time?
* What are the channels of distribution?

## Competition – Score:

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Summarize observations below, considering for example:

* How significant is their competitive advantage?
* What advantages do they have over their competitors?
* Does the company appear to realistically assess its competitors?
* Who are the strongest competitors and what is their current market share?
* What will likely be the competitive response in the market?
* What keeps them successful five or ten years from now?
  + Critical mass of customers?
  + Sales channel lock?
  + Supply chain lock?
  + IP?

## Exit Opportunity – Score:

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Summarize observations below, considering for example:

* Is there a plausible exit?
* Are there comparable exits in this industry?
* Is the company engaged with potential acquirers?
* Is there a strategic investor and how does that enhance or limit exit options?
* Who are potential acquirers / what are the most likely exits and in what timeframe?

## Deal Terms – Score:

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### Instructions (this block can be deleted when the section has been completed)

Summarize observations below, considering for example:

* Do they appear to be raising an appropriate amount of money?
* Does the type of investment instrument make sense given possible exit scenarios?
* What concerns do you have about future dilution? How is the deal structured for investors?
* How does cash flow through the organization and back to the investors?

## Corporate Structure and Governance -Score:

|  |  |
| --- | --- |
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### Instructions (this block can be deleted when the section has been completed)

Summarize observations below, considering for example:

* Does this model allow for a liquidity event and/or return on investment?
* Is the corporate structure overly complicated? If so, why, and might it be simplified?
* How many existing shareholders? Too numerous, and, if so, why?
* Does the corporate structure fit with the business model?
* Does the corporate structure allow for growth?
* What is the founder share allocation? Do they have a large enough stake to have the incentive to succeed, but not so large as to ignore board and other advisors? Is the founders’ stock vested over time?
* Do the board of directors have the right background for the company? Is there a sufficient number of outside directors?

## Finances – Score:

|  |  |
| --- | --- |
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### Instructions (this block can be deleted when the section has been completed)

Summarize observations below, considering for example:

* Reasonable bottom-up details driving the financial model?
  + How good are the assumptions? (rate of growth, acceptance rate, pricing, multiple revenue streams, costs)
* Credible, customer-driven revenue plan?
  + Yes: “number of customers willing to pay how much to solve a problem”
  + No: “we will get 10% of big market”
* Have the financial documents been properly developed according to applicable accounting rules?
* Has the company properly anticipated future financing needs, and is it already working on those?

Attachment - Company Provided Information

Company Pitch Deck

Company Application form

Company Supplemental Information form

Other documents