

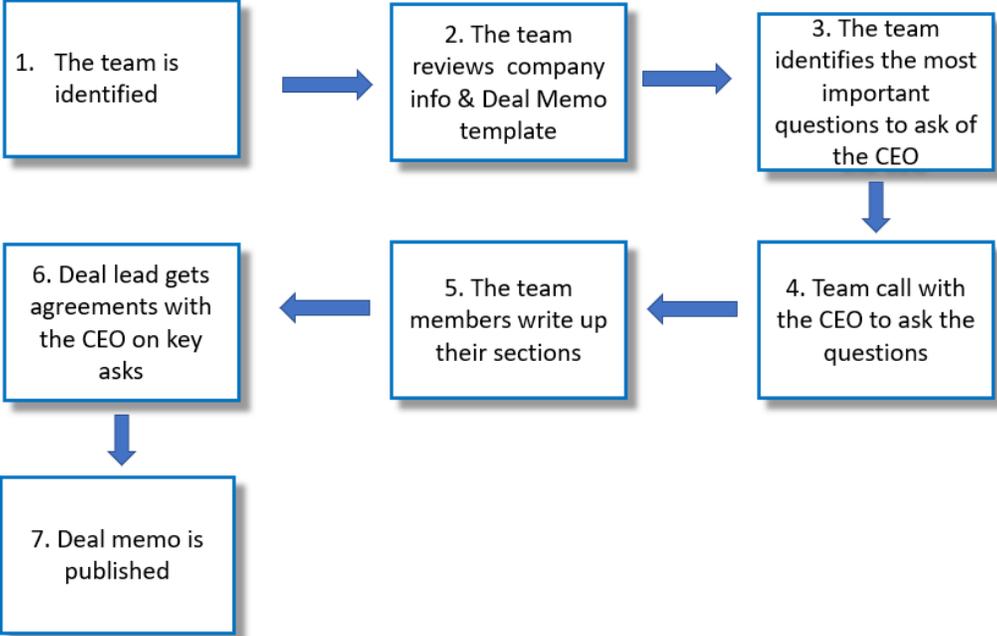


# Deal Memo Development Guidelines

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# Overview of the Deal Memo Process



# Recommended SWAN Deal Memo Development Timeline

The schedule below describes a four and one-half week schedule for completing a deal memo.

<b>Week One – Team Creation</b>
<ul style="list-style-type: none"> <li>• Pitch Night occurs, during which Members complete survey form on their interest in helping with a Deal Memo.</li> </ul>
<ul style="list-style-type: none"> <li>• The day after pitch night:               <ul style="list-style-type: none"> <li>○ Decision on what companies advance to Deal Memos. This based upon the pitch night survey of angels on their potential interest in investing.</li> <li>○ Using dealum, the Executive Director asks CEO to provide additional, more detailed information CEOs.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• By the end of the week (5 business days):               <ul style="list-style-type: none"> <li>○ Deal leads have been recruited by Executive Director, based in part upon the pitch night survey results of who is willing to be a lead. Candidates should be asked to review this doc and agree to this schedule before saying “yes”.</li> <li>○ Deal Team has been staffed and roles assigned . This is accomplished by the Executive Director working with the Deal Leads. Candidates should be asked to review this doc and agree to this schedule below before saying “yes”.</li> </ul> </li> </ul>
<b>Week Two – Homework and Due Diligence Call with CEO</b>
<ul style="list-style-type: none"> <li>• At start of the week: optional, short, internal kickoff call, to answer any questions of the contributors</li> </ul>
<ul style="list-style-type: none"> <li>• During the week, team members do homework in preparation for the Due Diligence call with the CEO. Section contributors should review all available material, including down-selection video, and have developed their questions using the memo template as one source of potential questions. The questions are documented in the deal memo.</li> </ul>
<ul style="list-style-type: none"> <li>• At end of the week, Due Diligence meeting w/ CEO. Team asks questions.</li> </ul>
<b>Week Three – First draft of Memo</b>
<ul style="list-style-type: none"> <li>• During the week, team members can make follow-on inquiries of the CEO, as needed. The Deal Lead coordinates communication with the CEO.</li> </ul>
<ul style="list-style-type: none"> <li>• At the end of the week, first draft of all sections are completed. Note that Reference calls may go into the next week.</li> </ul>
<b>Week Four – Final Draft of Memo</b>
<ul style="list-style-type: none"> <li>• During the week:               <ul style="list-style-type: none"> <li>○ Internal review of the draft Memo by the team with an optional internal call sometime in the week. Follow-on inquiries of the CEO, as needed. The Deal Lead coordinates communication with the CEO.</li> <li>○ Any <i>Side Agreements</i> between SWAN and the company are negotiated by the Deal Lead and an agreement is signed.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• By end of the week, all sections of deal memo finalized, and a Team call meeting to agree on scoring and any other final details</li> </ul>
<b>Week Five – Publishing Memo and Funding Commitments</b>
<ul style="list-style-type: none"> <li>• By two days into week five, the Executive summary finished by the Deal Lead and final edits completed. And the Deal Memo is sent to the Angels</li> </ul>
<ul style="list-style-type: none"> <li>• Investment commitments are collected from the angels</li> </ul>

## Deal Lead Role description

Whether you are an experienced deal lead or it's your first time, you should find this role description helpful in guiding you through the process of leading a SWAN due diligence project.

If you are a first time deal lead, an experienced deal lead will serve as your mentor. In some cases there be co-deal leads identified.

Although every due diligence experience is unique, you can expect to spend 25 to 45 hours to perform the Learner role – equal to about one full work week spread out over four weeks or so.

If you would like administrative support, for example, setting up zoom calls or Doodle polls, please request that support of the Executive Director who will help identify a resource.

If you are personally not keen on asking investors for their investment decisions after the deal memo is finished, discuss this with the Executive Director. That situation might be addressed by recruiting some section contributors who are comfortable in a sales role, and who can help with the post-deal-memo-publication activities.

### Key Responsibilities of the Role

- Establish timelines, organize meetings, facilitate collaboration, troubleshoot; endeavor to complete the deal memo according to the schedule above.
- Ensure that all team participants have easy access to whatever documents they need at the outset, including the company's application, pitch deck, cap table, financials, and website link.
- Help the deal memo team stay focused on the biggest risk factors, ensuring time is well spent.
- Mentor the section contributors, especially if they are first time section contributors.
- Be the primary point of contact between SWAN and the CEO, and coordinate all such communications.
- Participate in key decisions, especially scoring decisions or, for example, if major concerns about the company come up, develop consensus on whether to discontinue due diligence and not distribute a memo.
- Write the Executive Summary and be the final editor for the entire deal memo.
- If applicable, execute any side letter agreements with the company. This might include, for example, changes to the board of directors or hiring key resources (fractional or full-time), by a certain time after funding. This entails drafting a simple letter and obtaining the CEO's signature.

### Getting Started:

Watch the video on the web site which describes the deal lead experience (Menu: For Members/Participate in Writing a Deal Memo).

Then work with the executive director to finalize your team.

- Please refer to the Section Lead section below for information of what is expected of Section Leads.
- Section contributors ideally work on only one deal-memo section (spread the work around)
- It is desirable to have diversity and less experienced section contributors. Our network's educational mission calls for all of our members to become capable and confident investors
- Our internal member directory can be used to identify potential deal-memo section leads. The directory shows which sections of the deal memo that a member feels qualified to help with, and also identifies the domain knowledge of each member.
- A quick review of the deal template can help you identify ways to split up the work according to sections/subsections.
- Some sections might be best served by having more than one contributors. For example:
  - Pairing an experienced contributor (a Mentor) with a first time contributor (a Learner)
  - Having two contributors on Team reduces the number of reference calls per person
  - The Product/technology section might have a product expert, an IP expert and a supply chain expert.
  - If a Section has more than one participant, make sure that the contributors have defined a plan for sharing the work.

### Next steps:

- Once a company is selected for due diligence, the company is asked to add more information to their dealum application. The deal lead should ask the SWAN Executive Director to make that request of the company.
- The deal lead should download the Deal Memo Template from the SWAN website and upload as a Google Doc, and then share the Google link with the team members. When the Deal Memo is complete, the Memo is to be loaded into dealum.
- If industry experts, who are not part of SWAN, are asked to help with the deal memo. they should sign and return the Guest Form. The latest version of the form is available from the Executive Director.
- All of the company information we have received can be accessed via dealum. Any documents received from the company during due diligence should be added to the dealum Document area (as a Funding document) . If you need help with uploading . ask the Executive Director for help.
- Review the timeline for producing the deal memo; develop a schedule with dates and get agreement with your team on the dates.
- Organize the future Due Diligence meeting with the CEO and all team members.
- Use Doodle.com to set a schedule for a team kickoff call. You may want to have the following agenda:
  - Have team members introduce themselves,
  - answer questions on the process,
  - agree on a schedule,
  - make sure the mentors and learners have a plan for connecting.

It will be helpful to ask the team members to do the following before the kick-off call: review the Deal-Memo-Guidelines which is available on the SWAN website, and read through the Deal Memo template.

## Section Contributor Role Description

Whether you are highly experienced in performing due diligence on startups or a total newbie, you should find this helpful in guiding you through the process of participating on a SWAN due diligence team. If you are a first time contributor the deal lead will be a mentor for you.

Note that the Deal Memo template includes prompts to help you know what to do.

Although every due diligence project is a little different, you can expect to contribute about this amount of time based on your section:

- Social Impact (5-10 hours)
- Team (10-12 hours + two to four business references, about 1 hour each)
- Product and technology (10-15 hours)
- Market & Sales Strategy (10-15 hours + plus customer references)
- Finances (5-8 hours)
- Governance, Deal Terms, and Exit (4-6 hours)

### Key Responsibilities of a Section Contributor

- On dealum, review all previously available information, review the Deal Memo template and prepare questions for the company.
  - It is especially helpful to watch the zoom down-selection call. On dealum, go to the Document tab and look for a document containing the link to the call recording.
- Attend the Due Diligence Meeting which includes all Deal Memo contributors, and the founder(s)/CEO of the company, and ask your questions.
- Perform research, analysis, data collection, interviews with experts or references, as appropriate. Write up your assessment ([the blue-toned content on the template will guide you](#)).
- Endeavor to complete your first draft in ten days after the Due Diligence Meeting and a final draft 11 days after that.
- Recommend the score for your section; participate in a team meeting to finalize all scores.
- Participate in key decisions that might arise. An example would be if major concerns about the company come up, necessitating a consensus on whether to proceed in distributing the memo.
- Optional attendance at the post-distribution Q&A meeting for prospective investors.

### Getting Started

Upon accepting the role to work on a Deal Memo Section:

- Prepare by reviewing available company information:
  - Pitch deck

- Company application form
- Down-selection notes (these are notes written by down-selection reviewers)
- Down-selection video (this is a 90-minute due diligence call with the company that occurred as part of down selection)
- Review your section on the DD memo template and the training material available on the web site (Menu: For Members/Participate in Writing a Deal Memo)
- Develop your questions for the kick-off meeting
  - At the kick-off meeting you will have dedicated time to ask questions and drill down where you want more information.
  - Note, the person(s) doing the Team section will use their meeting time to determine with the CEO who will be included in 1-1 interviews that they will organize right away. During the meeting, the Team person has the chance to observe the company leaders – their communication skills, responses to difficult questions and how they interact w/ each other.
- If an Angel or Associate has not worked on a Deal Memo before, a **Learner**, we will assign a Section **Mentor** who has previously worked on a Deal Memo, to collaborate with you on the section.
  - Roles and Responsibilities
    - The experienced person will serve as a Mentor, and the Learner will perform most of the actual work.
    - The Mentor will provide guidance, answer questions, and be available if the Learner gets stuck.
    - Note that the diligence template has prompt questions in each section that should be helpful. And prior due diligence memos are available as examples.
    - The Mentor will review the final work and help in final edits if needed.
- If you are a section co-lead where both of you are experienced, determine how you want to split up the work. (e.g. – for Team, different team members can interview different people at the company; the Product and Market & Sales Strategy sections have subsections that lend themselves to separating. References can be done by different people.)

## Best practices for using dealum and the deal memo on Google drive

### Introduction

Dealum: During the deal memo stage dealum is used as primarily a depository of all the information we have received from the company.

Note that the following, maybe confusing, nomenclature is used by dealum:

The name that SWAN uses	What dealum calls it
An angel network	A deal room ( a room where investors look at multiple deals over time)
A due diligence/deal memo stage	A Funding Round
A deal data-room	Funding round documents

Therefore, the Funding Documents section of dealum serves as our deal data room. Any SWAN member (Angel, Associate MBA Intern) can load Funding documents into dealum by opening the Documents tab for the company and following the prompts for adding *Funding* documents. When the deal memo is published it will be uploaded into dealum as a *Funding* document.

Google drive: The deal memo on google drive is where the actual deal memo work goes on and information is shared between team members. There are places in the deal memo where contributors can add questions that need to be asked of the company. They can enter their early drafts for others to see. They can indicate what agreements need to be reached with the company before the memo is finished.

Communication among deal-team members: Is via email, phone calls or zoom meetings. Also adding information into the deal memo is also helpful in order to share findings and observations.

Communicating with the Company: Currently dealum does not allow the Funding Deal Lead to send emails to the company from inside the platform. Dealum is planning to add this functionality.

### Using the dealum Funding Tab

The SWAN dealum administrator will open a Funding Round for the company and identify in dealum who the Deal lead is. That said, please note that the Funding option is primarily used during the deal memo work to save Deal-Room documents using the dealum Funding Documents option.

After the Deal memo is published, the Funding tab ***Interest*** section can be used by our angels to record their funding commitments. The ***Interest*** section is not used to identify or communicate with deal memo contributors.

Our selected dealum Funding options are:

- Round status : *Open* meaning that we are currently soliciting funding commitments
- Role of Company: *Excluded* – The company cannot see funding commitments and cannot directly load funding round documents into dealum. This also has the effect of disabling Funding chat with the company
- Private mode: *Private mode is not selected*. Therefore, all SWAN members are able to see the Funding progress and load Funding Documents.
- We are sharing only *Summary* information with other angel networks who are using dealum

Once the deal memo is finished:

The deal memo is uploaded into dealum as a Funding document.

Angels can record their funding commitments in the *Interest* section.

In the Funding *Interest* section, *Interested* parties can send emails to other interested parties. The choices as to who the emails go to are:

- LEAD is the person identified in the Funding tab as the deal lead.
- ALL PARTICIPANTS are the people listed in the funding tab.

The Funding tab Comments area is place for those considering investing to share their comments with just others interested in investing. These comments are not visible to those not registered as *Interested*.

A funding round has an activity log which is visible to deal lead under the Funding tab.

### [Companies are asked to update their dealum application at the Deal Memo stage](#)

When a company is moved to Deal Memo stage of the dealum funnel, the CEO is asked by the SWAN dealum administrator to update their dealum application by answering the following additional questions.

#### *Marketing and Sales*

Contact information for two customers or potential customers that we may contact.

#### *Team*

Two business references for the CEO, and for any other employee who has controlling ownership in the company.

Names and LinkedIn URL for the members of your Board of Directors

#### *Product*

Share links for your patent applications and/or granted patents, both domestic and international

#### *Company in good standing*

Has the company been involved in any litigation or been threatened with litigation?

Does the company have all required permits and licenses?

Any citations and notices received from government agencies

Have all tax returns been filed?

#### *Finances*

Attach a proforma, post-funding, fully-diluted cap table

Please provide copies of the annual P&L and balance sheet reports for the prior year and the current year.

Provide explanation on all balance sheet liabilities and indicate if any of this investment will be used to reduce balance sheet liabilities.

If your financial model has changed since you applied, please provide an updated proforma P&L model in Excel format.

## Exit

If your exit plan is M&A, provide details on recent acquisitions in your general market space and indicate your level of current engagement with potential acquirers

# Issuing the Due Diligence Memo and Circling Investors

1. All newly published Deal Memos are sent out by the executive director to all members in an email.
2. The email subject line should read: SWAN Due Diligence: Memo on Company Name
3. The email should include:
  - a. The names of the deal and section leads and links to their LinkedIn profiles
  - b. Investment minimum, deal terms, and any other investment requirements
  - c. The executive summary (copied from the memo)
  - d. An invitation to join the lead(s) on a group or private call to answer questions
  - e. Respond back to [admin person]@swanimpact.org with your decisions by date [typically 5-7 days]. Be sure to indicate Yes or No and if you are investing, the \$ amount.
4. The Deal Lead(s) will organize a group call and/or 1-1 calls with interested investors to answer questions.
5. To ensure that all members are fully aware of the investment opportunity, especially members who expressed an interest in a particular deal, **a SWAN intern or admin** will:
  - a. For members who request it in advance, send a personal email or text, and request confirmation of receipt, upon newly published deal memos.
  - b. Cross-reference the investor list (the SWAN admin has it) with those who indicated potential interest in investing pitch night to identify prospective investors who haven't responded. Check with them by phone or email to confirm one way or another.
6. The dealum Funding tab tracks the investment commitments.

## Sharing the Deal Memo Outside of SWAN

**Sharing with other networks:** The deal memo can be shared with other angel networks if they first sign a release form which basically says that the other network will make independent investment decisions and not rely on our memo in making those decisions. We have a version of the release form that we can provide the other network; we can also use a form provided by the other network.

**Sharing with the company:** The deal memo can at times include information that help a company to understand areas for improvement. Also, we might want to allow the company to correct inaccuracies in our observations.

However, the deal memo section on the Team may be inappropriate to share, especially if it contains information that can be viewed by the company as disparaging team members. Therefore, there are three options for sharing deal memo information with a company:

1. The deal lead has a call with the company and verbally shares a summary of the memo
2. The Team section and all interview notes are removed before sharing the document
3. The deal lead edits the Team section and interview notes to remove all inflammatory comments about the team before sharing the document