



# Deal Memo Development Guidelines

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# 1. Deal Memo Development Timeline

The schedule below describes a six-week schedule for completing a deal memo. Details are provided below.

<b>Week One – Team Creation</b>
<b>Week Two – Section contributors start their work. Review of all available information and prepare and Due Diligence Questions for CEO</b>
<b>Week Three – Responses to questions by the CEO and creating a first Rough Draft of Memo</b>
<b>Week Four – First Complete Draft of Memo</b>
<b>Week Five – Final Draft of Memo. Section contributors have completed their work.</b>
<b>Week Six – Publishing Memo and Gathering of Funding Commitments from all Angels</b>

## 2. Best practices for using Dealum and the deal memo on Google drive.

### Google drive

The deal memo draft on google drive is where all the deal memo work goes on and allows information is shared between team members. The contributors:

- Record their questions for the CEO (questions for their section and optionally for other sections. In later case, the questions are prefaced by the contributor's name)
- enter their working and final drafts.
- indicate what agreements need to be reached with the company before the memo is finished.

### Dealum

The company's dealum Dataroom is the depository of all the information we receive from the company during the deal memo work. All memo contributors will be given access to the Dataroom.

### 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. 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 Document, which makes it available to all the angels.

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

### 3. 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.

We have defined two Deal Lead roles:

- Deal Lead Learner - someone who is being a Lead for the first time, and will perform the major part of the Lead work as defined below.
- Deal Lead Mentor – a person who has deep experience in the SWAN deal memo process, and who acts as a friend, coach, people connector, consultant, advisor and information source for the Learner. The Mentor participates in all the team meetings and lets the Learner take the lead in those meetings.

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 six 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

- You are the project manager. 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.

- Download the SWAN Impact Deal Memo template from SWAN’s webpage [Participate in writing a deal memo](#), create a Google document version and share this with the deal memo team members so all team members are working on one shared deal memo document.
- Help the deal memo team stay focused on the biggest risk factors, ensuring time is well spent.
- 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, manage any side 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.

## Work Steps

### **Week One – Team Creation**

- 1) Work with the Executive Director to finalize your team.
- 2) Understand how section work will be performed. 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 our members to become capable and confident investors. A quick review of the deal template can help you identify ways to split up the work according to sections/subsections.
  - a) Mentors and Learners: We have the concept of optionally having a Mentor and a Learner work together on one Section. The Mentor has turned that crank before. The Learner is a newbie and does most of the work with a Mentor serving as a coach. This approach makes sense when we are recruiting first-time section contributors. In this Mentor/Learner scenario, make sure the contributors understand their roles. In practice there are potential challenges with the Mentor/Learner approach in that we often have many more Mentor volunteers than Learner volunteers.
  - b) If every section has both a Mentor and a Learner the overall size of the deal memo team can get unwieldy, making scheduling and coordination more difficult.
  - c) Some sections, for example, Team, might be best served by having several experienced and equal members, who divide up the interview calls.
  - d) If a Section has more than one participant, make sure that the contributors have defined a plan for sharing the work.
- 3) Once a company is selected for due diligence, the company is asked to add more information to their Dealum application. The deal lead should verify that the SWAN Executive Director has made that request of the company.
- 4) Ask the dealum administrator to allow access by all the deal memo contributors to the dealum Dataroom. All the company application information we have received prior to the deal memo start

can be accessed via Dealum Documents and Comments. Any new documents received from the company during due diligence should be added to the Dealum dataroom. If you need help with uploading, ask the Executive Director for help.

- 5) 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 will be loaded into Dealum.
- 6) Industry experts can be recruited if that is helpful.

### **Week Two – Homework and Due Diligence Questions for CEO**

- 7) At the start of the week, have one or more kickoff calls as required to connect with all of the section contributors. It can delay the start if you try to find one time when everyone is available.
- 8) Ask team members should do the following before the kick-off call:
  - a) Review this Deal Memo Development Guidelines document.
  - b) Review their section of your shared Google doc deal memo.
- 9) The recommended agenda for the kickoff call(s) is:
  - a) Have team members introduce themselves.
  - b) Answer questions on the process
  - c) Agree on a schedule for having a first draft and questions for each section (the week two deliverable).
  - d) Make sure the mentors and learners have a plan for connecting.
- 10) By the end of the week, collect the company questions from the team members, and help the section contributors to refine their questions. The goal is to limit the questions to those most critical to risk assessment. Establish and find an efficient way to get answers from the CEO, and share the questions with the CEO. Some sections may need to have a call with the CEO. Other questions may be best handled only via email.
  - a) The questions should include asking for introduction to the company's senior leaders and to customers or potential customers.

### **Week Three – Responses from CEO and Rough Draft of Memo**

- 11) Share the CEO feedback with the section contributors.
- 12) Monitor first draft work, critique the drafts and mentor the team members.

### **Week Four – First Draft of Memo**

- 13) Monitor first draft work, critique the drafts and mentor the team members.

### **Week Five – Final Draft of Memo**

- 14) When all the sections have a final draft:
  - a) You become the editor for the entire document.
  - b) You work with the section contributors to get agreement on the score each section. This may involve reaching a side-letter agreement with the CEO that would improve the score of a section.
  - c) You write the executive summary.

- d) You save the final Google doc into the dealum Documents section.
- e) You poll the angels on the deal memo team as their plans to invest, (Is that a bandwagon of support?)

### **Week Six – Publishing Memo and Funding Commitments**

- 15) You recommend if the deal memo should be released to the angels. If yes, you work with the Executive director to establish a Funding round in dealum and to share the deal memo with all angels.

## **4. Section Contributor Role Description**

Whether you are highly experienced in performing due diligence on startups (a Section Mentor) or a total newbie, (a Section Learner) you should find this helpful in guiding you through the process of participating on a SWAN due diligence team.

**Note that the SWAN Impact Deal Memo template includes prompts to help you know what to do. And the Deal memo template is the working space where you should save your drafts. And in the template, you can see the drafts and questions in the other sections, and even add questions to other sections (prefaced by your name).**

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.
- 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).
- Keep to the timeline your team has established.
- 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.

## Work Steps

### **Week Two – Homework and Due Diligence Questions for CEO**

Note that Companies will have been asked to update their Dealum application at the Deal Memo stage, providing additional information that was requested at their original application.

- 1) Prepare by reviewing available company information:
  - a) Pitch deck
  - b) Company application form
  - c) Dealum comments
  - d) Down selection video (this is a 60-minute due diligence call with the company that occurred as part of down selection) as shown in Dealum documents.
- 2) Review your section in the shared deal memo template.
- 3) Develop your questions for the CEO. It is helpful if only the most significant questions are asked, namely those that have the biggest impact on risk assessment. We don't want to overwhelm the CEOs with an excessive number of questions. **The questions are documented in each deal memo section and each section should have the goal of having no more than 6 questions. You can also add questions to other sections, prefaced by your name.**
  - a) The questions should include asking for introduction to the company's customers or potential customers.
  - b) The person(s) doing the Team section will ask the Deal Lead to organize a call with the CEO. They will use this call to determine with the CEO who will be included in 1-1 interviews. During the meeting, the Team person has the chance to observe the company leaders – their communication skills, responses to questions and how they interact w/ each other.
- 5) External Subject Matter experts who can help in the review can be identified, and a plan defined for engaging with them.

### **Week Three – Responses from CEO and Rough Draft of Memo**

- 4) The Deal Lead will help get your questions answered, whether by phone call or email.
- 5) Interviews are on-going with:
  - a) Company leadership and their references
  - b) Customers
  - c) Subject matter Experts
- 6) Once you have obtained the answers, you then complete an initial rough draft of your section and then ask the deal lead to provide feedback on your work.

### **Week Four – First Draft of Memo**

- 7) Interviews are on-going with:
  - a) Company leadership and their references
  - b) Customers

- c) Subject matter Experts
- 8) Read the other sections of the deal memo. The observations in the other sections may influence your work.
- 9) Finish a first draft and ask the deal lead to review it.
- 10) Propose any side-letter agreement we could attempt to reach with the CEO that would improve the score of a section. For example, if we are uncomfortable with the financial planning skills of the company leadership, we could try to reach agreement on the hiring of a mutually agreeable fractional CFO within two months of our funding. Or we could attempt to get agreement on the company having an investor representative on their board of directors after funding.
- 11) Propose a score for your section and discuss the score with the deal lead.

### **Week Five – Final Draft of Memo**

- 12) Interviews are on-going with:
  - a) Company leadership and their references
  - b) Customers
  - c) Subject matter Experts
- 13) Finalize the writeup of your section and ask the deal lead for a review.
- 14) Provide any feedback to the deal lead on the Executive Summary and the entire deal memo

## **5. Mentoring**

- 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 deal memo template has prompt questions in each section that should be helpful. And prior due diligence deal memos are available as examples.
- The Mentor will review the final work and help with 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.)

## **6. Issuing the Due Diligence Deal 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. If you plan to invest, please add your funding interest information to the Funding tab Interest section in Dealum”.
4. The Deal Lead(s) will organize calls as needed with interested investors to answer questions.
5. The Dealum Funding tab tracks the investment commitments.

## 7. 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 helps 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, before a deal memo may be shared with the company, one of two things must first happen:

1. The Team section and all interview notes must be removed from the version to be shared, or
2. The deal lead must edit the Team section and interview notes to remove all inflammatory comments about the team, and then gain approval from the SWAN Executive Director to share the edited document.