Company name - Deal Memo Template

Template version: November 6, 2023

ALL DEAL MEMO TEAM MEMBERS: the first step in the deal memo process is for all deal memo team members to read the [Deal Memo Development Guidelines](https://swanimpact.org/wp-content/uploads/2023/03/Deal-Memo-Guidelines-2021-09-29.pdf) to understand the deal memo process.

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**DEAL LEAD(S):**

**PUBLICATION DATE:**

**Purpose and Confidentiality**

The purpose of this Deal Memo is to summarize due diligence related to investing in this company. This Deal Memo is confidential and may contain proprietary information that should not be shared outside of our membership. The information is available to Guest Reviewers who have signed SWAN’s Guest Reviewer form and who have helped to write the Memo. The completed Memo may be shared with other Angel Networks for the purpose of deal syndication if they have signed SWAN’s Syndication Agreement.

**Disclaimer**

THIS DEAL MEMO IS IN NO WAY A RECOMMENDATION TO INVEST. THE SWAN IMPACT NETWORK DOES NOT MAKE INVESTMENT RECOMMENDATIONS 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. 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.

When you work on a section, you can decide what to focus on. There are a list of questions in each section below. Those questions are intended as general guidelines. You can decide what questions are most relevant for this specific company and also define additional questions for investigation. Remember to delete all the blue content and yellow-high-lighted text before publishing the final deal memo.

Third parties who are not members of SWAN can participate in developing this document if they have filed a Guest Reviewer form with SWAN’s Executive Director. In the form, the Guests agree to simple confidentiality requirements.

# Executive Summary

This section is typically done by the deal lead and takes 2-3 hours.

**Paragraph 1:** description of the company, problem(s) they solve, target market(s) and business model. (About 3 lines).

**Paragraph 2** starts with “Key **strengths** of the company appear to include:”. List 2-4 bullets of positive attributes about the deal (e.g. – experience of founders; strong traction to date; ability to solve a big problem of a target audience). (3-4 lines total)

**Paragraph 3** starts with “Major **risks** associated with this investment are:” List 2-4 bullets of areas of concern (e.g. – technology might go another direction; failure of market to adopt the product; valuation is high). (3-4 lines total).

**Paragraph 4** states the deal terms and proposed use of funds (e.g. – The company is raising $1M on a convertible SAFE with a pre-money valuation of $8M. The funds will be used to hire technical and sales staff and whatever, and are intended to enable them to accomplish X and Y milestones.

**Optional paragraph 5:** Identify any agreements that have been reached with the Company, and which are documented in a Side Agreement Letter signed by both parties. The goal of any agreement is to address concerns we have, which if unaddressed, would reduce a section’s score. For example, if we have no confidence in the company’s ability to define a credible financial plan, then an agreement might be that the company will hire a mutually agreeable, fractional CFO within two months after funding.

|  |  |
| --- | --- |
| Score | Score Description |
| 5 | Meets or exceeds attributes of an exemplary deal. |
| 4 | Meets most attributes of an exemplary deal.  |
| 3 | Acceptable although some areas for improvement as noted in the memo.  |
| 2 | One or several areas of concern. A score of two indicates that the company is not a good investment at this time, and no deal memo is distributed.  |
| 1 | Critical concerns/issues that cannot be overcome. No deal memo is distributed.  |

|  |  |  |
| --- | --- | --- |
| Assessment Area | Overall Score  | Comments |
| Impact |  |  |
| Team  |  |  |
| Product and Technology |  |  |
| Market Opportunity & Sales Strategy |  |  |
| Finance |  |  |
| Governance, Deal Terms, Exit Potential |  |  |

# Impact – Score:

This section generally takes 5-10 hours; the ideal background is someone who has experience evaluating impact.

**Section Lead(s):**

**Please keep in mind: Our goal in writing a deal memo is to assess risks. We should focus especially on risks that the company faces in the next 24 months. Risks in years 3 and 4 are often harder to assess. A capable team will likely be making pivots that may change how they approach years 3 and 4.**

**Start off by reviewing all available information. Then list here the most significant two or three questions that need to be answered before the section can be completed. Please list only those questions that you feel are highly material in assessing risk. Coordinate with the deal lead about how to best get those questions answered.**

* Question 1
* Question 2

**Start the writeup with two concise bulleted list on why you scored them as you did:**

o Key Strengths (aka, positives) and

o key Concerns (aka, negatives)

**Then add two section writeups: Impact Assessments and Impact KPIs**

###  Impact Observations Write Up

Resources:

* Pitch deck and Dealum application, including the define your company’s impact document which the company submitted that is in both their Dealum details/strategy section and their document section.
* Impact Management Project’s [Impact Management Norms](https://impactfrontiers.org/norms/) which provide guidance on impact assessment including the [Five Dimensions of Impact](https://impactfrontiers.org/norms/five-dimensions-of-impact/).
* [THE 17 GOALS](https://sdgs.un.org/goals) for information on the United Nations Sustainable Development Goals (SDGs).

The goal for this subsection is a one-page summary. Please include the five topics below. You can provide more information or a longer narrative in the deal memo appendix.

1. Begin with a summary paragraph that provides a high-level observation on the company's impact and explains the impact score you gave the company.
2. Briefly summarize how the company addresses a serious societal or environmental problem.
3. Identify which one United Nations Sustainable Development Goal (SDG) is their primary focus.
	1. Option to include SDG targets and indicators if possible.
4. Include a concise summary using the Five Dimensions of Impact for What, Who, How Much and Contribution regarding your assessment of the company’s impact.
	1. Review the company submitted define your company’s impact document and create your own assessment.
		1. Note: not all applicants do a good job providing this information so you may have to create this completely on your own
	2. See “Impact Management Project’s Five Dimensions of Impact“ table below for questions to answer.
5. Describe any medium and/or high risks identified.
	1. Review the Risk section in the company submitted define your company’s impact document.
	2. See “Impact Management Project’s impact risk matrix” below with information on nine risks to consider.

**More Detailed Resource Material**

The following may be a helpful tool as you assess the Five Dimensions of Impact for the company:

**Impact Management Project’s Five Dimensions of Impact (*updated for early-stage companies*)**

|  |  |  |
| --- | --- | --- |
| **WHAT**1. What outcome is the enterprise targeting?2. Is it positive or negative?3. How important is the outcome to stakeholders? | 1. 2. 3.  | 1. 2. 3.  |
| **WHO** 1. Which stakeholders will experience the outcome?2. How underserved are they in relation to the outcome?  | 1. 2. | 1. 2. |
| **HOW MUCH** 1. How many stakeholders will experience the outcome?2. What degree of change will they experience?3. For how long will they experience the outcome? | 1. 2. 3.  | 1. 2. 3.  |
| **CONTRIBUTION**1. Will the company’s efforts result in outcomes that are likely better than what would have occurred otherwise? | 1.  | 1.  |
| **RISK**1. What is the likelihood that the impact will be different than expected?  | See impact risk matrix below  |

*NOTE: you can use multiple columns if the company is targeting multiple types of impact (e.g., avoiding greenhouse gases and increasing access to renewable energy).*

The following may be a helpful resource when you consider impact risks:

**Impact Management Project’s impact risk matrix**

|  |  |
| --- | --- |
| **RISK CATEGORY** | **DEFINITION** |
| Evidence risk | The probability that insufficiently high-quality data exists to know what impact is occurring |
| External risk | The probability that external factors disrupt our ability to deliver impact, particularly consider existing and potential future legislation |
| Stakeholder participation risk | The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account, particularly consider whether or not customers will purchase the product/service |
| Drop-off risk | The possibility that the positive impact does not endure and/or that negative impact is no longer mitigated |
| Efficiency risk | The probability that the impact could be achieved with fewer resources or at a lower cost, particularly consider existing and potential future competitive options |
| Execution risk | The probability that the activities are not delivered as planned and do not result in the desired outcomes, particularly consider if the leadership team is likely to successfully execute the intended impact  |
| Alignment risk | The probability that the impact is not locked into the enterprise model, particularly consider if the company can grow sales without growing impact and if impact is a clear focus in their marketing materials |
| Endurance risk | The probability that the required activities are not delivered for a long enough period |
| Unexpected impact risk | The probability that significant unexpected positive and/or negative impact is experienced by the people and planet, particularly consider any potential negative environmental impacts |

### Impact KPIs that Will be Reported by the Company

As part of the application process, the company pledged, if funded, to provide quarterly investor reports. These reports should include mutually agreed upon impact key performance indicators (KPIs).

Steps to take in completing this subsection:

1. Review the company’s pitch deck and Dealum application.
	1. Including the define your company’s impact document which the company submitted that is in both their Dealum details/strategy section and their document section.
2. Assess the acceptability of the company’s proposed impact KPIs.
	1. How do the company’s proposed impact KPIs compare to those suggested in the [IRIS Catalog of Metrics | IRIS+ System](https://iris.thegiin.org/metrics/)?
	2. Is the company going to track 2-3 impact KPIs? More than 3 is likely unrealistic.
	3. Are the impact KPIs measuring “outputs” or “outcomes” (Theory of Change terminology)? It is much easier for most startups to measure outputs than outcomes, but SWAN has a strong preference to understand outcomes.
	4. Importantly, does the company have a practical plan for collecting the data required to track and report on the impact KPIs?
3. If necessary, negotiate more acceptable impact KPIs with the company.
4. Document here (list without further comment) the mutually agreeable impact KPIs either in a table or via bullet points.
	1. If using a table, you could include information on which SDG and IRIS metric the impact KPI targets and whether the impact KPI is an output or an outcome.

NOTE: the document on our website [Guide to Impact KPIs](https://swanimpact.org/wp-content/uploads/2023/07/SWAN-Deal-Memo-Guide-to-Impact-KPIs-2023-07-28.pdf) is also a helpful resource for completing this subsection.

# Team – Score:

When done by one person, including references, this section may take up to 20 hours, depending on the number of company founders/execs to be assessed.

 However, this section can easily become a 5- 8 hour job when assigned to several people who are assigned to interview/report on specific founders at the company OR to do reference checks. This section does not require specific expertise.

**Section Contributor(s):**

**Please keep in mind: Our goal in writing a deal memo is to assess risks. We should focus especially on risks that the company faces in the next 24 months. Risks in years 3 and 4 are often harder to assess. A capable team will likely be making pivots that may change how they approach years 3 and 4.**

**Start off by reviewing all available information. Then list here the most significant two or three questions that need to be answered before the section can be completed. Please list only those questions that you feel are highly material in assessing risk. Coordinate with the deal lead about how to best get those questions answered:**

**.**

* Question 1
* Question 2

Leave the following Statement in the final draft

***Diversity & Inclusion Statement:*** *SWAN is committed to treating all persons equally, irrespective of age, race, marital status, sex, sexual identity or preference, national origin, physical condition or parenting status.*

*In your write up, avoid describing a founder as “young” or “mature” – instead, focus on experience (lacking, substantial, etc). Examples of inappropriate questions are: How do you juggle your kids and your work?; Is your husband/wife ok with the demands of a startup? Are you sure you have enough energy for the rigors of a startup?*

**Write a one-page summary (anything more can be placed in an appendix)**

* Start the writeup with two concise bulleted list on why you scored them as you did:
	+ Key Strengths (aka, positives) and
	+ key Concerns (aka, negatives)
* Provide the names, titles, and LinkedIn links of the CEO and other key leaders
* Bullets are a great way to present highlights of the founder(s)’ backgrounds
* Highlight any prior startups, including size and scope at the peak and exit
* Focus on: domain experience, leadership/scalability ability, and temperament
* **Be honest in your assessment and criticism without being personal. Be aware that the founder(s) will read the final deal memos.**

**The three key things we want to know about the leaders are:**

* **Domain experience** – relevant knowledge, experience, education, training, and connections
* **Ability to scale the company** – leadership qualities, strategic/vision, communication skills, coachable
* **Temperament** – maturity, perseverance, emotional intelligence, transparency, honesty, highly confident but not arrogant, able to pivot/redirect. Note that these are unknowable attributes – we’re making an assessment from the behaviors we observe, information they provide, and references.

**Getting Started: review the pitch deck and,** along with other team members, review the **cap table**. Anything noteworthy? Such as:

* + A founder with little or no equity - a red flag. If an original founder is not the CEO but has controlling ownership of the company, this is a major matter of concern. We have seen situations where the original founder prevents the CEO from being effective. It is key to understand the extent to which the original founder has a high-control personality. This may best be done by speaking with former work associates of the founder.
	+ “Dead Equity”, e.g. – an equity stake by a departed founder – why did they leave? Struggling company, or no respect for leadership?

**How to Gather Your Information / Questions to ask company’s leaders**

Schedule video interviews with the CEO (1-1 ¼ hour) and other key leaders/founders (1 hour) – typically two or three people total. If there is a key employee, it’s good to speak with him/her for 20 minutes or so (good way to get insight on the leadership skills of the boss(es).

1. “In connection with SWAN’s due diligence, I’d like to learn about your professional background. Using your LinkedIn profile for chronology, let’s go through your experience – briefly on your education and early work experience and then in more depth for more recently.”
	1. For each prior job, find out:
		1. Relevant domain knowledge
		2. Management experience – did they hire/fire/supervise others? Build a team? Scale a process? Manage a budget? Mentor others? How many?
		3. Successes and failures (note – failures are valuable – what did they learn?)
		4. If they have started a company before, at its peak, what were revenues and # of employees? What did they learn? Details of the exit?
2. “How do you know the other team members? For how long?”
3. “Tell me about your role and roles of other leaders (i.e. – who does what)”.
	1. Is everyone a full-time, W-2 employee? (vs. part-time and/or 1099 contractor)
		1. Are there NDAs in place to protect the IP?
	2. What are the current key talent gaps and plans to fill them? For near-term key hires, do you have candidates in the pipeline?”
	3. Note whether the leaders have appropriate experience for their roles/titles
	4. Note – by definition, our companies will not have complete management teams and won’t for a while (e.g. – a full-time CFO is typically not needed till much later).
4. “How do decisions get made? Can you give me an example of how you resolved a conflict?”
	1. “Tell me about your advisors; how do you interact with them? How are they helpful?” (We’re looking for coachability).
5. “How do you see your role changing as the company grows to $1M, $5M or $25M in sales? How will the org chart look? Approx # of employees?”
	1. Look for awareness of transitioning from **doing** to **leading**.
	2. Look for awareness that they will need to hire people and build infrastructure to support revenues
	3. For CEOs that don’t have a lot of management experience, “How do you see yourself growing into being CEO of a multi-million $ company? Do you think you might work with a coach?”
6. Throughout the process, observe things like:
	1. Timely responses to emails
	2. Consistency between information provided at different times and places such as on their LinkedIn profile, different conversations, and what references say (honesty).
	3. Follow through – do they do what they say they’re going to do?
	4. Obstacles they have overcome (perseverance).
	5. Do they make all appointments on time or have good reasons if need to reschedule?
	6. Their attitude – welcoming of ideas or sure they’re right?
	7. Poised and collected or frenzied or visibly under pressure?

**Reference Checks**

Ask the executive director to do online background for the CEO, looking for any criminal history.

The CEO has been asked to provide two business references (other than those provided as customer or business partner references). If another team member has more than 50% ownership, we ask for two business references for that person as well.

Types of references we prefer, in order of desirability, are: current advisors of the company, investors in this or a prior company, former business partners/colleagues or former bosses.

**How to conduct a reference check**

Schedule a 20-minute phone or video appointment at a convenient time for the reference provider.

1. After thanking them, briefly introduce SWAN and the purpose of the call – to get insight into so-and-so for our due diligence”:
	* “How do you know \_\_\_\_\_\_\_\_\_\_\_; for how long? What is/was your [business] relationship?
	* “What are his/her strong suits?”
	* “Limitations/areas for growth?”
	* “Level of commitment to the business?”
2. Ask one or two relevant questions for the situation, e.g. –
	* Founder’s name doesn’t have x, y, or z – how do you think he/she will overcome that?
	* What do you think will be the biggest challenges for **this** business?
	* Would you do business again/work again/invest again with \_\_\_\_\_\_\_\_\_\_\_\_?

# Product and Technology - Score:

It is ideal that the contributor has subject matter expertise.

If one person does all sections if may require 15+ hours, depending on the complexity of the technology.

This section can be broken up by assigning a separate person(s) to do the Competition subsection and Intellectual Property subsection.

**Section Contributor(s):**

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**Start off by reviewing all available information.** Review their website and any other materials they have provided.

* When IP is relevant, review the documents that were provided.
* Perform internet research as needed to learn about their product category.
* Prepare questions for the team meeting with the founder(s).

**Then list here the most significant two or three questions that need to be answered before the section can be completed. Please list only those questions that you feel are highly material in assessing risk. Coordinate with the deal lead about how to best get those questions answered.**

* Question 1
* Question 2

**Write a one-page summary (anything more can be placed in an appendix) that focuses on:**

* Start with two concise bulleted list on why you scored them as you did:
	+ Key Strengths (aka, positives) and
	+ key Concerns (aka, negatives)
* What the product is/does, what problem it solves and for whom (i.e. - product-market fit)
* Readiness for sale and product roadmap
* Uniqueness of the solution
* For industries where patents have more obvious value (e.g., hardware, chemical, pharma), value of intellectual property.

**Here are potential questions for the company; try not to ask questions that have already been answered. Which these feel most important for this particular company?**

* How ready is the product for full release – concept, alpha, beta, or shipping? (Note: concept and alpha stages would most likely result in discontinuing due diligence).
* What key architecture decisions have been made?
* Has LEAN, Agile or other technique been used in your product development?
	+ Have the developers validated the product with customers along the way?
* How will you scale the technology?
* What are the risks associated with your technology?
* Does your current staff have the skills to complete the product?
* What features and future products are planned? Is there a product roadmap (i.e. plan?)
* If hardware is involved, is the supply chain in place?
	+ Where are your components coming from? (look for stability; reliability)
* What is the current cost of goods (COGs)? At what sales levels will the COGs come down and how much?
* Product/technical competitive advantages
	+ Note that none technology competitive advantages are discussed in the Marketing and Sales Section.
	+ What are the company’s product or technology competitive advantages (what are the barriers to entry for others), that will keep them competitively successful until an exit (maybe 5 to 7 years)?
	+ How easy is it for a competitor to develop the same technology?
	+ Who are the competitors most likely to be able to develop similar technology or products?
	+ Intellectual Property
		- Are there patents or trade secrets that will provide a competitive advantage for the 5 to 7 years needed for the company to get to an exit?
		- What is the status and quality of the patents or patent applications?
		- For best protection, the patent shouldn’t be too broad (it’s not as enforceable), or too narrow (easier for a competitor to work around).
		- It may be helpful to take note of the law firm and attorney that is handling their IP work. Check their LinkedIn profile for experience. The best IP attorneys will have made their own determination of patent worthiness before taking them on as a client.
	+ If there is a license agreement, for example, with a university, here are considerations:
		- What is the licensed field of use?
		- What is the exclusivity? Note that if research leading to the patent was funded in part by the federal government, then the government retains the right to use the IP for its own benefit, despite the exclusivity language in the license. That generally is not a practical concern unless the company’s only customer is the federal government.
		- What is required to maintain the license and/or exclusivity
		- Downsides of typical university license agreements are:
			* Since the university owns the IP, the university decides whether to sue patent infringers. The company does not make that decision
			* The royalty terms can affect acquisition. The license agreement may state that if the IP is used in conjunction with other technology in a product that is sold, then the royalty applies to the selling price of the entire product. If the acquirer intends to integrate the IP into a larger system, then the royalty can be prohibitively large.

# Market opportunity & Sales Strategy - Score:

It is ideal that the contributor has subject matter expertise.

When done by one person, this section generally takes 15 - 18 hours, including customer references. It can easily be broken up by subsection: Market Size; Go-to-market Strategy; Sales Traction/Pipeline, and Customer References to become a 4-8 hour project per person.

**Section Contributor(s):**

**INSTRUCTIONS FOR NON-HEALTHCARE COMPANIES**

**Please keep in mind: Our goal in writing a deal memo is to assess risks. We should focus especially on risks that the company faces in the next 24 months. Risks in years 3 and 4 are often harder to assess. A capable team will likely be making pivots that may change how they approach years 3 and 4.**

**Get started: review the company’s pitch deck and your notes from the live pitch, then,**

* Review their website and any other materials they have provided.
* Perform internet research, if necessary, to learn about their product category.
* Determine what additional information/questions you have for the team meetings with the founder(s).

**Then list here the most significant two or three questions that need to be answered before the section can be completed. Please list only those questions that you feel are highly material in assessing risk. Coordinate with the deal lead about how to best get those questions answered.**

* Question 1
* Question 2

**Write a 1 to ½ page Summary following the sections below (additional info can be placed in an appendix).**

* Start with two concise bulleted list on why you scored them as you did:
	+ Key Strengths (aka, positives) and
	+ key Concerns (aka, negatives)

**Here are potential questions for the company; try not to ask questions that have already been answered. Which these feel most important for this particular company?**

**Market Opportunity/Market Size/Problem Validation:**

* What is the **TAM** (Total Addressable Market – the total demand for a product/service; the **SAM** (Serviceable Available Market – the segment of TAM targeted by their products/services and within their geographical reach); and the **SOM** (Serviceable Obtainable Market (the portion of the SAM they expect to capture).
	+ Note that this data is usually in the pitch deck; your job is to see if you can follow their logic on how they calculate these measures, do some googling to roughly validate them, and form an opinion of how realistic they are.
* Have they demonstrated that they solve a painful problem that a group of customers are anxious to have and are willing and able to pay for?

**Competition**

Note that competitive advantages based upon Technology are discussed in the Product and Technology section above. This section is more focused on broad competitive challenges in this market segment. For example:

* Who has the market power to lock our new entrants, even entrants with interesting innovations?
* Does the company have any secret sauce in terms of how it engages with customers?
* Will the company achieve a critical mass in a niche social network?
* As a barrier to entry, how much traction do they have vs. competitors?

**GO-TO-MARKET Strategy**

* What is their plan to reach their target market(s)? What channels (e.g. – DTC via Internet, direct salesforce, distributors/partners, etc.)? “What are the challenges?”
	+ Assess whether the plan realistic or are they trying to do too much at one time?
	+ Assess the likelihood of success/level of difficulty of these channels
	+ Provide input to the Finance lead(s) on the appropriate level of marketing expenditures will be necessary.
* What partnerships/alliances are you looking to develop? What’s the status on those?

**Sales Traction & Pipeline**

* Sales; total to date, year-to-date, current MRR (monthly recurring revenue).
* How do they plan to scale revenues? (note – selling to your rolodex is not scalable)
* For B2C companies, what is the cost of acquiring one incremental customer?
* For B2B, what is the sales cycle? Who do you sell to in the organization(s) you sell to?
* What will it take to achieve sales of $1M, $10M+?

**How to conduct a customer reference check.**

The CEOs have been asked to provide two customers as references. Schedule 20-minute phone calls and customize the questions as appropriate.

* After thanking the reference provider, introduce SWAN Impact Network and the purpose of the call – “to get insight into the Company for our due diligence and potential funding”:
* How long have you been a customer? How did you learn about the product?
* Which competitive products did you also consider? What were the key factors in the purchase vs. competitors? (product features; price; etc.)
* Who in your organization approved the purchase?
	1. How hard was it to get the budget approved?
	2. Did you estimate potential ROI? Estimate pay-back timeframe? Any known results yet?
* What benefit(s) have you derived? If it was no longer available, how much would you miss it?
* For B2B: will you renew? For B2C: will you buy again? Recommend to others?
* Technology / Usability (when relevant)
	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. When there’s a problem, how timely and capable is the support?
	4. What are the major deficiencies of the product? What additional features would you like the product to have?

**INSTRUCTIONS FOR HEALTHCARE COMPANIES**

**Please keep in mind: Our goal in writing a deal memo is to assess risks. We should focus especially on risks that the company faces in the next 24 months. Risks in years 3 and 4 are often harder to assess. A capable team will likely be making pivots that may change how they approach years 3 and 4.**

**Collect here questions that need to be answered before the section can be completed.**

* Question 1
* Question 2

**Write a 1 to ½ page Summary following the sections below (additional info can be placed in an appendix).**

* Start with a simple statement on why you scored them as you did, identifying key Strengths (aka, positives) and key Concerns (aka, negatives)

**For healthcare companies, the most critical elements we evaluate are:**

* What is their path to revenue
* How they intend to manage risk (market acceptance; potential regulatory issues)
* What is their exit timeframe, since these companies can take a long time till commercialization

As you review their pitch materials, keep in mind that the **user** of a device or service may not be the party who makes the decision to purchase it or pay for it – and sometimes the company’s claims can be misleading in this regard.

As you speak with the company about customer types, payers, market segments, and commercial partners (e.g. – distributors), listen for how much knowledge they have about their proposed sales channels how well that aligns with their go-to-market strategy.

**Get started: review the company’s pitch deck and your notes from the live pitch, then,**

* Review their website and any other materials they have provided.
* Perform internet research, if necessary, to learn about their product category
* Determine what additional information/questions you have for the team meetings with the founder(s).

**Market Opportunity/Market Size:**

* If this is a consumer device, 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 is the **TAM** (Total Addressable Market – the total demand for a product/service; the **SAM** (Serviceable Available Market – the segment of TAM targeted by their products/services and within their geographical reach); and the **SOM** (Serviceable Obtainable Market (the portion of the SAM they expect to capture).
	+ Note that this data should be in the pitch deck; if not, they should be able to quickly provide it; if they can’t that’s a big negative.
	+ Your job is to see if you can follow their logic on how they arrived at their numbers, do some googling to roughly validate them, and form an opinion of how realistic they are.
* Considerations include:
	+ Is this an emerging technology that will require new awareness and a change of behavior?
* Does this solution replace an established product? How does its cost compare to the established product? If the cost is an increase, have they substantiated their value? (Example: a diagnostic might be two minutes faster, but the market might not value two minutes faster).
* How has this problem been validated (early revenue/LOIs/100 customer interviews)?

**GO-TO-MARKET Strategy**

* Describe their plan to reach their target market(s)? What channels (e.g. – DTC via Internet, direct salesforce, distributors, etc.)? and what is the timeline for entering each market?
* What market segments do they propose to target in the next five years? Are these segments growing, declining, or evolving?
* If this a technology that will require new awareness, change of behavior/paradigm shift, how will they address that?
* Do they see opportunities to pivot or adapt their GTM strategy if necessary?
* What will it take to scale revenue and what infrastructure will be needed to grow sales to $1M, $10M, $20M?
* Do they have any key relationships with KOLs (key opinion leaders) or other significant market players?
* For the proposed entry market, what are the main challenges/barriers-to-entry?
	+ E.g. - they may need to plan to navigate various procurement committees, Group Purchasing Organizations (GPOs), and other stakeholders to gain entry.

For B2B and payer models

* When selling into facilities (instead of direct to consumers or OTC), be aware that:
	+ Oftentimes the largest market segment for a product is not the easiest to enter.
	+ A good strategic entry plan is NOT just a list of every possible application for a technology sorted by the largest economic dollar to the smallest.
	+ The company needs to be specific on the types of facilities that will initially adopt their product:
		- “Hospitals”, for example, is too broad, but “Integrated Delivery Networks (or IDNs)” is a segment of hospitals that have common procurement and commercial practices;
		- Similarly, “laboratories” can mean many different things, but “Physician Office Labs” or even “central labs” better defines the requirements to move through the typical entry pathway.
* How does the product lead to revenue for the facility?
	+ Can the facility generate revenue from the product itself or are the benefits of adoption abstractly calculated through metrics such as productivity, patient impact, or error reduction?
	+ If value-based care and patient impact is at the center of the model, do they demonstrate an understanding of how their initial target segment evaluates these benefits?
	+ If the product is a sunk-cost for the facility, how is the value derived calculated by the organization? (Example: Telemetry is required infrastructure that does not directly generate revenue for the facility).
	+ If the product is valued for reducing risks/errors and/or reducing costs, how will they calculate the benefits?
* When selling into large facilities or chain facilities (such as long-term living), do they show an understanding of how budgets are bundled and cut? Do they know who within that organization executes that budget and who manages it? Note if the product affects an interdepartmental budget (which makes it more difficult). Do third-parties come into play?
* Do they have a reimbursement strategy and payer mix outlined? If the product is paid by a payer, note if there is a precedent CPT code and/or if there will be any shifts in reimbursement from the established product to the new. Consider if a facility will make more or less revenue from the product through reimbursement.

**Sales Traction & Pipeline**

* What traction do they have (paid pilots, letters of interest, relationships with Value Analysis Committees, etc.) that directly address those barriers?
* Is the sales process scalable (as opposed to dependent on one relationship, account, or scenario)?
* What is the current revenue? Revenue per account? What is the purchasing frequency?
* Will the cost to acquire new accounts change over time?

**Customer Reference Checks.**

The CEOs have been asked to provide two customers as references. Schedule 30 minute phone calls and customize the questions as appropriate. Summarize key findings in a few bullets (option to put more in the appendix).

* After thanking the reference provider, introduce SWAN Impact Network and the purpose of the call – “to get insight into the Company for our due diligence and potential funding”:
* Are you (your facility) using the product? (adjust questions to hypothetically if the product isn’t ready for sale)
* How did you learn about the product?
* How was the budget approved for the purchase (what was the chain of command for the decision?
	+ How hard was it to get the budget approved?
	+ Have you calculated your ROI. If so, pay-back timeframe?
	+ What benefit(s) have you derived from using the product?
	+ Is this product a nice-to-have or a must-have?
* Why did you choose the product? Which, if any, competitors did you consider? Lower costs? Features? Ease of use? Other?
* What are the biggest challenges in getting the most benefit from the product?
* Will you renew?
* Would you recommend the product to a friend/another organization?
* 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?
	+ Was staff training required and if so, how did that work?
	+ How easy is it to use on an ongoing basis?
	+ How stable/buggy is the product? What has been the quality of support?
* Are there any regulatory constraints you must comply with when using this product?
* What additional capabilities would you like the product to have? What are the major deficiencies of the product?

Competition

* What are their competitive advantages? Did customers care about the advantages listed in the same way or priority that the company suggests?
* If their competitors have an inferior product but currently have key target accounts, does the company have a plan to upend the incumbent?
* What keeps them competitively successful for the next five or ten years until an exit occurs?
	+ Critical mass of customers?
	+ Sales channel lock?
	+ Supply chain lock?
	+ IP?

# Finances – Score:

It is expected that the contributor to this section has accounting or finance experience, or both.

 This section generally takes:

* If you have experience with typical early-stage company financial models: 4-6 hours
* If you are new to early-stage company financial models and are being coached by an experienced mentor: 8-12 hours.

**Section Contributor(s):**

**Please keep in mind: Our goal in writing a deal memo is to assess risks. We should focus especially on risks that the company faces in the next 24 months. Risks in years 3 and 4 are often harder to assess. A capable team will likely be making pivots that may change how they approach years 3 and 4.**

**Start off by reviewing all available information. Then list here the most significant two or three questions that need to be answered before the section can be completed. Please list only those questions that you feel are highly material in assessing risk. Coordinate with the deal lead about how to best get those questions answered.**

* Question 1
* Question 2

**Write a one-half to one-page Summary (additional info can be placed in an appendix) that focuses on:**

* Start with two concise bulleted list on why you scored them as you did:
	+ Key Strengths (aka, positives) and
	+ key Concerns (aka, negatives)
* Your assessment of how realistic their financial projections are.
* Any major concerns, risks or deal-breakers
	+ Report on things like dead equity on the cap table; unrealistic forecasts; failure to include marketing or sales expense when scaling revenues, etc.

**Here are potential questions for the company; try not to ask questions that have already been answered. Which these feel most important for this particular company?**

* + Cap Table (list of equity owners and percentage ownership)
	+ Annual P&L’s and balance sheets for each year in business.
	+ Financial model – minimum three-years forward in Excel with the forward-year-one detailed by month and forward-years-two and three by either month or quarter.
	+ Copies of any agreements associated with any debt listed on the current balance sheet, (including, but not limited to, convertible debt, bank loans, personal loans, lines of credit, credit card debt, accounts payable, and other obligations to third parties)

**A perspective on financial analysis of very early-stage startups.**

* Any financial projection is at best an estimate and will be proven wrong. And the company will typically takes twice as much time and twice as much money to accomplish initial milestones. We don’t want the company to run out of money before the company achieves its immediate goals. It is better for the company to raise too much money than too little. And it is very hard for a company to raise money when they are running on fumes. Likely in a first fund raise, a company should never seek to raise less than $500k.
* Revenue Projections, while uncertain, can tell us something about the company. A company that expects to achieve $500k in annual revenue in year five is not fundable by angels because an exit is unlikely. A company that expects $1B in annual revenue in year five results in our having zero confidence in the CEO. Likely companies need to get to $20M to $50M in revenue to get acquired. Can they reasonably be expected to accomplish that in 5 to 7 years?
* How was the revenue projection created? Is it a customer-driven revenue plan that is based upon the number of customers willing to pay how much to solve a must-solve problem? Can the company demonstrate that they solve a problem for a payer who strongly feels that pain, and who has a budget to pay for a solution? Are there enough of those payers to generate enough revenue (big market)? Early revenue is strong validation. Not a credible statement: ”we will get 1% of a big market”.
* Was the proforma forward looking P&L created using a detailed bottom up plan built? For example, is the income calculated by number of customers and average revenue per customer?
* Does the P&L include line items for: Revenue, Cost of Goods Sold, Gross Income, Development expenses, Marketing and Sales expenses, Other operating expenses and Net Income?
* Does the financial model should the following balance sheet items: year-end cash balance and investment dollars per year for future years?
* Here are some ballpark development costs for a minimally viable product. These are ballpark only and should not be used as a hard criteria.
	+ Software based company -$250k
	+ Company building simple consumer hardware - $1.5M to $4M
	+ Pharma or medical device company, to get ready for a FDA phase 1 review- - $2M - $4M
	+ Complex hardware - $5M to $15M
* Is the company presenting rational and defendable on-going investments in Development and Marketing/Sales. Remember that it takes about seven years to get to an exit
	+ To stay competitive, companies have to be investing in research and development. Going out of business scenario: “My product is ready to go”. Maybe 15% of revenue spent on development, forever
	+ To stay competitive, companies have to continue to invest in marketing and sales. Maybe 20% of revenue, forever

**Perform the work (you can ask questions during a team call that includes the CEO or via email through the deal lead who will aggregate team questions for the convenience of the CEO):**

* Review their financial model/projections:
	+ Are their forecasts top down or bottom up? (bottom up is way better – X expenditure yields Y revenues; x customers paying Y yields Z revenues)
	+ How good are the assumptions? (rate of growth, acceptance rate, pricing, multiple revenue streams, costs)
	+ Have they planned realistically for marketing and sales expenses, staff, and other costs relative to their sales and product development goals?
	+ Are investing in marketing/sales and engineering/development at expected levels in the farthest out years of their model? Someone not continuing investing in the product will go out of business. Companies not investing adequately in marketing and sales may not scale revenue as expected?
	+ Do the out-years; net income and gross profit percentages reflect norms for the market segment they operate in? For example, 60% net income may not be not sustainable or realistic; competitors will see those profits and flock into that market segment.
* How much in total have they spent since the company was formed? (have they spent money well or spent a lot of money to not get very far?)
* What are the company’s plans for additional fundraising and/or path to profitability?
* Do they appear to be raising an appropriate amount of money to reach their milestones?
* Determine if any of this fundraise will be used to reduce balance sheet liabilities.
* What is the current cash balance? What is the fume date if new money isn’t raised?

# Governance, Deal terms, Exit Potential: Score:

This section generally takes:

* If you have experience in this topic: 2-3 hours
* If you are new to this topic and are being coached by an experienced mentor, 4-5 hours.

**Section Contributor(s):**

**Please keep in mind: Our goal in writing a deal memo is to assess risks. We should focus especially on risks that the company faces in the next 24 months. Risks in years 3 and 4 are often harder to assess. A capable team will likely be making pivots that may change how they approach years 3 and 4.**

**Start off by reviewing all available information. Then list here the most significant two or three questions that need to be answered before the section can be completed. Please list only those questions that you feel are highly material in assessing risk. Coordinate with the deal lead about how to best get those questions answered.**

* Question 1
* Question 2

**One-quarter to one-third page Summary (additional info can be placed in an appendix)**

* Start with two concise bulleted list on why you scored them as you did:
	+ Key Strengths (aka, positives) and
	+ key Concerns (aka, negatives)

Here are potential questions for the company; try not to ask questions that have already been answered. Which these feel most important for this particular company?

**Governance**

* It is a red flag when the makeup of the Board of Directors, post-funding, can be arbitrarily changed at the discretion of the company, and the founders can arbitrarily remove investor board members. In this situation exists, the deal lead should get an executed side-letter before investing that identifies that the post-funding board structure will be either:
	+ A three-person board consisting of the current CEO, an investor rep and third (independent) member who is designated by the board. Note that the company rep is the current CEO and not some other common share holder.
	+ A five-person board consisting of the current CEO, one common representative, two investor representatives and a fifth (independent) member who is designated by the board. Note that the company rep is the CEO and not some other common share holder,

and that the board structure cannot be changed without the consent of the investor reps.

* It is a red flag when, post-investing, a founder who is not the CEO, has controlling ownership of the company, meaning that the CEO is effectively subordinate to the founder. In this situation, it is critical to perform an exhaustive background check of the non-CEO founder using secondary references who have previously worked closely with the founder.
* State the type of corporate structure (e.g. – incorporated in Delaware); note, if LLC, determine company’s plans to convert to a stock-issuing form, and, if relevant indicate this requirement before funding here and in the executive summary)
* Are there any other legal entities or complexities to their corporate structure?
* Along with other team members, review the cap table. Anything noteworthy? Such as:
	+ A founder with little or no equity - a red flag
	+ “Dead Equity”, e.g. – a large ownership stake by a departed founder
	+ Strategic investors
	+ What is/are the founder(s) ownership stakes? Is enough to be a strong incentive, but not so large as to ignore board?
* Is there a board? Is it an advisory board or a board with voting rights and a chairperson?
* Do the board members have relevant background for the company?
* Who are the current board members (as per incorporation documents)?
* Are there outside directors?

**Deal Terms**

* State the proposed valuation and form of investment (priced equity or convertible note); for convertibles, indicate type of note and any unique features).
* Is the valuation defendable given similar companies we see?
* Are founder(s) willing to give SWAN investors pro-rate rights for follow-on investments (to address dilution)?

**Exit Potential**

* Is there a plausible exit?
* What are some relevant exits for this type of company and/or in this industry sector? At what revenue levels and exit multiples (if you can determine)?
* Are the potential acquirers among their current customers, partners or investors?
	+ If there is a strategic investor, does that enhance or limit exit options?
* Who are potential acquirers / what are the most likely exits and in what timeframe?

# Disclosure of Relationship with the Company

Relationships between deal memo authors and the company may result from ,but are not limited to:

* Having an ownership or potential ownership position, for example, from possessing:
	+ An investment (equity or note)
	+ Warrants
	+ Stock options
	+ Stock grants
* Currently serving or previously serving as a paid consultant or advisor to the company
* Serving as a Board Member or Board Observer
* Serving on an Advisory Board Member
* Serving as an informal advisor, mentor or coach to the company

The following deal memo author, including SWAN Angels, SWAN Associate or Guests, have the following relationships with the company:

# Appendix – additional notes that support the one-page summaries above

# Attachments - Company Provided Information

Company Pitch Deck

Company Application form

Other documents