

EXERCISE

DUE DILIGENCE FOR VENTURE DEALS

Background

You've been asked by a senior associate to help out on a Series A financing for Wave Metrics. This is Wave Metrics' first equity financing after completing two rounds of financing with convertible notes.

The senior associate tells you that the term sheet has been signed and she'll begin drafting the main financing documents. In the meantime, she'd like you to help the company through the due diligence process. Since it's their first time doing detailed diligence, she thinks you should schedule a call with the co-founders to walk through the diligence process, what's expected from the company and the typical scope of the investors' review. The senior associate also tells you that she thinks the company's cap table is "a mess!"

Before holding the call, the senior associate would like to discuss the topics you plan to cover.

Instructions

Consider the diligence process in an early stage venture financing and be prepared to discuss the topics you will cover with the client. In particular, consider:

- What tasks the company is responsible for and which ones you will take care of.
- How diligence materials are usually organized and shared with the investor.
- Where the company can find a list of materials that must be shared.
- The general timing and process of a due diligence review.
- The most important types of diligence materials that the investors will want to review.
- Whether there is any problem sharing a "messy" cap table with the investor.