

# Due Diligence

## INVESTOR CHECKLIST

For Experienced  
Investors

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**Key areas to explore when assessing the current position and potential performance of an early stage company prior to investing.**

**GCV**

[www.growthcapitalventures.co.uk](http://www.growthcapitalventures.co.uk)

## In this resource

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Before investing in any early stage company, it is crucial investors conduct adequate due diligence to ensure an informed decision can be made on the opportunity and transaction.

The level of due diligence that should be completed will differ from investor-to-investor and transaction-to-transaction, and may be influenced by the involvement of other parties and the due diligence they subsequently complete.

Yet regardless of any other factor, an investor should feel confident they have carried out sufficient due diligence for their own individual requirements.

**In this resource, we have provided examples of two due diligence processes:**

**Pages 03 to 08** an individual investor due diligence checklist, incorporating five key areas including questions that we believe every venture capital investor should be asking or understand of an early stage company prior to investing.

**Pages 09 to 19** a sample of GCV's own extensive due diligence documentation that our investment team uses to assess the current position and potential performance of a portfolio company prior to an investment transaction.

Whilst these are key areas we have outlined to be influential in determining the growth potential of an early stage company, fulfilling all of this criteria does not guarantee that a startup investment will be successful. Subsequently, investors should always be aware of the full range of risks associated with early stage venture capital prior to investing

01.

# Investor Due Diligence Checklist

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**Section 1: The Team & Management**

1. Is your gut instinct toward the team a positive one? Do you think you could connect with the entrepreneur on a professional basis? The venture could prove to be a long term relationship, so mutual trust is valuable.

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2. Have you carried out background checks on the entrepreneur or business? Personal references, credit checks, Company House Records and social media platforms can all help to paint a more objective picture of the startup or entrepreneur.

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3. Do they appear to understand their business from end-to-end? How accurately and with how much confidence do they explain/portray it to you? Do they understand and are they realistic about their weaknesses and obstacles?

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4. Are they realistic about their own personal limitations? Do they know what skills they require to add to complete the team? Do they have the management skills to market the business in its early stages? Do they have the skillset to collect the right data and manage their finances?

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5. Has the team outlined a realistic exit plan? What is the long term vision for the business?

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6. Are founders fully committed? Are they able to support themselves through the early stages, or are they in desperate need of support? Do they have personal financial commitments that may make taking risks harder e.g. mortgages?

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7. Has the team created a sophisticated business plan? Have the founders created it themselves or have they sought external support from professionals? Has the market data been manipulated to reinforce their narrative or is it substantiated in real data?

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8. Are the founders flexible in terms of shareholder control? If the founders are determined to maintain executive control, do they possess the expertise to execute it?

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9. Do the founders have a strong relationship with one another? Have they worked alongside each other before? Do they present themselves as being able to survive and excel under the pressures of running a company?

**Section 2: The Business**

- 1.** Have you reviewed the shares already issued? You should request permission to see how the current ownership of the business is split according to class of share. You will most likely be investing in ordinary shares, you should check that there aren't any share classes with preferential rights that could dilute the value of your shares.

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- 2.** Do they have a realistic strategy for achieving their funding? What are the funds required for? Are they asking for too much or too little to achieve this? Do they envisage future rounds? And if so will this round provide them with what they require in order to raise another round at a higher valuation?

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- 3.** Have you examined the share prices? What does it mean for the overall value of the company and how did they decide on it? Make sure you understand their valuation as the post-money valuation will dictate the proportion of the company you end up owning.

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- 4.** Have you found out what the business owns? It is unlikely that early stage companies will possess a considerable portfolio of tangible assets, so intangible value adds will be very important in justifying their valuation.

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- 5.** Does the company have a potential exit value? If so, does the team have reasonable exit prediction and strategy to achieve it? Will the exit give you a sufficient ROI to justify the risk?

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- 6.** Has the company received sound external advice from reputable sources, whether that be legal, financial or IP related? Has the company identified risks and potential routes to overcome them?

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- 7.** Has the company registered for any tax efficient investment schemes? Schemes such as the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) are available to UK startups and scaleups that fit within a certain eligibility criteria. These schemes can offer investors a host of additional benefits - from 50% tax relief to capital gains tax exemption - and so enquiring of their inclusion can prove a valuable task.

**Section 3: The Market**

- 1.** Has the company defined their target audience and why customers will require/desire their product or service?

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- 2.** Does the company boast attractive USPs (unique selling points)? These are the features that will largely differentiate themselves from their market and ultimately define their brand.

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- 3.** Is the market demand for this product sufficient? If demand is not currently high, will it grow in the future? If the company suggests so, they should provide relevant data to reinforce this.

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- 4.** Is the company entering a highly competitive industry? If competitive density is high within the company's target market, the business will have to work harder to differentiate themselves and ultimately succeed.

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- 5.** Has the company explicitly stated their sales channel? Whether B2c (business-to-consumer), B2B (business-to-business) or a more complex combination of the two, understanding a business's sales channel can be crucial in judging its potential profitability.

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- 6.** Is the selling price justified? Has the team accounted for why their product or service is priced at this figure, and whether customers will be happy to pay it? Current economic trends and fluctuations may be crucial to consider here.

**Section 4: The Technology/Product**

1. Does the technology operate as a standalone or does it rely on integration with other businesses/technologies? Are the businesses it relies on customers? And if so, has the business substantiated a demand from them?

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2. Does the technology have many potential applications (platform technology such as SaaS [Software-as-a-Service])? If so, has the business calculated and justified an initial focus?

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3. Is the company's technology or unique product features protected by intellectual property rights? If so, has the company stated this explicitly?

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4. Does the technology disrupt or improve upon existing tech in its industry? For disruptive tech, you will want to see proof of its efficacy and justification for the potential market adoption. For an improved tech, there is potentially reduced risk because the market is established, but could this be enough of an improvement to be a success?

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5. If it has already launched on the marketplace so far, has the initial response been a positive one? If not, is there a justifiable reason for this?

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6. Should the technology not yet be ready for market, does the company possess a sufficient skill set and network to reach this point once growth capital has been deployed?

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7. Given the nature of certain technology and product spaces in which trends are rapidly changing and advancing, does the company's proposition appear to be sturdy enough to withstand these changes should they apply?

**Section 5: Finance and Tax**

1. Does the company have detailed and well-substantiated projections?

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2. Has the company used an independent accounting firm to prepare and audit its financials? Has the company made sound assumptions in preparing its projections?

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3. Are the expected revenues realistic? Are they supported by evidence from existing orders?

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4. How long before the company is cash-flow positive and what cash requirements are needed to get it there?

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5. Has the company raised money previously? If so, how much was raised and what were the terms?

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6. How much funding, if any, will the company need in future? Has the company thought about its future needs properly?

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7. What are the on-going financial commitments of the business (leases, debt repayments, salary costs)? How far can the overheads be varied to support the business in case of a slump in performance?

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8. Is the company's balance sheet in good order? Are creditors being paid on time and is every liability accounted for?

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9. What is the value of the assets given on the balance sheet? Are these valuations reasonable?

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10. What's the company's exit strategy? How far does this depend on factors beyond the management's control?



02.

# GCV Invest Due Diligence Checklist

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**Section 1: The Company**

- 1.** Group structure chart for the Company and all its subsidiaries and details of all former companies in the Company's group (if any).

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- 2.** Share capitalisation table showing the current shareholdings of each shareholder and any options or warrants.

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- 3.** Confirmation that the Company does not have any branch offices, agencies and places of business other than its registered office.

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- 4.** Copy of any shareholders' (or similar) agreements.

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- 5.** Details of (and copies of relevant documents relating to) all options, warrants and other rights to subscribe or purchase shares in the Company.

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- 6.** Details of any holding of any share or loan capital in any corporate body other than a subsidiary; any partnership or loan interest in any partnership; and any unit or interest in any unit trust or fund or similar entity of investment.

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- 7.** Details of any claims, liens, charges, equities, encumbrance or adverse rights affecting any shares in a group company.

**Section 4: Business and Trading**

- 1.** List of major suppliers (i.e. those accounting for more than 5% of goods or services bought in the last 12 months).

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- 2.** List of major customers (i.e. those accounting for more than 5% of goods or services supplied in the last 12 months).

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- 3.** Details and a copy of the standard terms of business (whether of supply, sale, purchase or otherwise) of the Company.

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- 4.** Details/copies of all outstanding contracts entered into by the Company which are material to the business, including:
  - a.** customer contracts;
  - b.** contracts or agreements which cannot be terminated by the Company on less than six months' notice;
  - c.** contracts entered into by the Company outside the ordinary course of business;
  - d.** agreements or arrangements which will or may be subject to termination or early termination or alteration in the event of any change in the ownership or management of the Company.

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- 5.** Details of any negotiations of material importance to the Company or its business that are currently in progress, and details of any outstanding quotation or tender for any material contract.

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- 6.** Details of all transactions entered into within the last six years between the Company and any of its directors or persons directly or indirectly associated with its directors (or any of them).

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- 7.** Details of (and copies of all documents relating to) any anti-corruption policies and procedures that have been implemented by the Company to ensure compliance with the Bribery Act 2010.

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- 8.** Copies of all regulatory or trading licences, permissions, authorisations and consents necessary and held by the Company (other than software related licences) and details of the same which the Company knows will be necessary to procure in the next six months for the carrying on of its business in its current form and any known forthcoming regulatory consents as required

### Section 3: Acquisition and Disposals

1. Copies of all contracts for the sale or acquisition by the Company of any shares or other securities in any other body corporate or any part of its business (other than stock disposals in the ordinary course of business) within the last six years.
2. Copies of, and details of, any or potential material liabilities outstanding and arising under any share or business acquisition agreement (whether in relation to acquisitions or disposals).
3. Details of any intragroup reorganisations carried out.

### Section 4: Assets

1. Details of assets acquired or disposed of by the Company otherwise than at arm's length.
2. Details of any assets used in the business in respect of which the Company is not the legal and beneficial owner (including details of IP licences and all other intangible assets).
3. Details of all plant, machinery, tools, vehicle and equipment of the Company and of any maintenance contracts or arrangements relating to any of them.

**Section 5: Directors, Employees and Workers**

- 1.** Schedule with anonymised details of directors and employees employed including job description, gender, date of birth, place of work, commencement date (and date on which continuous service began, if different), hours of work, remuneration (including privileges and benefits), notice period (or if fixed term, expiry date and details of previous renewals), and the company which employs or engages them.

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- 2.** Copies of any letters of appointment, service or other agreement with all directors and members of the management team.

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- 3.** Copies of the standard contract (or contracts) for all those employed or engaged by or in the Company and anonymised details of any person not employed or engaged on a standard contract, together with copies of their contract (or contracts).

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- 4.** Details of any existing or proposed bonus and commission arrangements for directors and employees.

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- 5.** Details of any permanent health/disability insurance arrangement.

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- 6.** Details of any contractual entitlement of review of the level of benefits paid to employees or workers in respect of terms or conditions of employment.

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- 7.** Details of any offers, promises or agreements to any future variation in any contract of any person employed or engaged by or in the Company.

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- 8.** Copies of any staff handbooks, policies, office procedure guides, or internal regulations which set out terms of employment and employment practices and a summary of any unwritten policies or procedures, whether or not contractual, which apply to any person employed or engaged by or in the Company.

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- 9.** Details of (and copies of any relevant documents relating to) any disciplinary and grievance procedures which are in force.

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- 10.** Details of (and copies of any relevant documents relating to) any special redundancy or severance arrangements.

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- 11.** Details of any indebtedness from any director or any associate of any director.

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- 12.** Details of any amounts outstanding or promised to any person employed or engaged by or in the Company and any liability incurred by the Company which remains undischarged.

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- 13.** Details of (and copies of any documents relating to) any stakeholder pension scheme or other pension arrangements offered by the Company to its employees.

**Section 6: Intellectual Property**

- 1.** Details of all registered trade marks and trade mark applications registered in the name of the Company together with copies of the certificates of registration and (if not shown on the certificate itself) the number, date, country and specification of each trade mark registration and application.

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- 2.** Details of all patent and design applications and registrations in the name of the Company together with copies of the certificates of registration and (if not shown on the certificate itself) the number, date, countries and title of each patent registration and application.

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- 3.** Details of all domain names used by, and registered in the name of, the Company together with all e-mail addresses associated with them and copies of the certificates of registration and (if not shown on the certificate itself) the "url" address, date and administrator of each domain name registration and application.

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- 4.** Details of all business names, logos and unregistered trade marks owned and used by the Company with copies of any logos.

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- 5.** Details of all other unregistered intellectual property rights owned by, used by or licensed to or by the Company where significant to the business (including but not limited to know-how, confidential information, copyright works, unregistered design rights and rights in the design of the company's products), and where such rights are used, but not owned, by the Company, copies of all relevant licences and sub-licences.

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- 6.** Details of databases used by the Company including details of ownership, control and any third party use of such databases.

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- 7.** Confirmation that all intellectual property, confidential information and technology has been developed exclusively by employees of the Company who were at all material times at the time of creation subject to contracts which vested effective ownership of such rights in the Company.

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- 8.** Details of (and copies of relevant documents relating to) all intellectual property developed by third parties on behalf of the Company (including designs and copyright works e.g. website design, website content, marketing and promotional materials and literature) and confirmation that all intellectual property rights in the same were assigned to the Company.

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- 9.** Details of (and copies of relevant documents relating to) all rights and licences that the Company has given to third parties to use the Company's registered and unregistered intellectual property.

**Intellectual Property (Continued)**

- 10.** Details of any known circumstances which might adversely affect registration, subsistence, enforceability or validity of any intellectual property rights owned by or licensed to the Company.

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- 11.** Details of any claim or allegation against the Company in respect of infringement of the intellectual property rights and/or rights in software of any third party and of any such suspected infringement, whether or not any claim or allegation has been made.

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- 12.** Details of third party intellectual property rights that are or may be relevant to any present or contemplated future operation of the Company and of circumstances that may give rise to infringement of any such rights (including written notifications by third parties or their advisers, opinions of counsel, patent and trade mark agents or other advisers) and the terms of any settlement proposals.

**Section 7: Information Technology**

- 1.** Details of (and copies of relevant documents relating to) the computer system owned or used by the Company, including details of the system architecture, software and hardware.

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- 2.** Details of (and copies of relevant documents relating to) all off shelf software programs used by the Company under licence with details of the same including the identity of the licensor, any material terms on which the software is licensed.

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- 3.** Details of all software applications (including bespoke software) and programming used or developed by, or on behalf of, the Company.

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- 4.** Details of (and copies of relevant documents relating to) on-going maintenance and support arrangements for hardware and software used by the Company.

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- 5.** Details of (and copies of relevant documents relating to) all rights and licences that the Company has given to third parties to use the Company's software applications.

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- 6.** Details of (and copies of relevant documents relating to) the design, development and maintenance of the Company website(s).

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- 7.** Details of (and copies of relevant documents relating to) any rules or policies concerning computer security and unauthorised use of the Company's computer system and employee use of computers, Company databases, the internet (or any other public access online networks) and e-mail.

**Information Technology (Continued)**

8. Details of any defect, design or maintenance issues which relate to the computers or software owned and/or used by the Company that have taken, or are anticipated to take, any material time to complete or which have caused any material interruption to the Company's business.

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9. Details of any arrangements that the Company and its suppliers have in place for disaster recovery and business continuity in the event of system failure.

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10. Details of all open source software used by the Company.

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11. Specification of any fundamental software used by the Company and copies of documentation showing ownership by the company.

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12. Details of any open source software used in the fundamental software of the Company, or confirmation that none is used.

**Section 8: Data Protection**

8. Confirmation that the Company is a data controller for the purposes of the Data Protection Act 1998 (the "**DPA**") (and a copy of its registration certificate).

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9. Confirmation of whether the Company processes personal data on its own behalf and/or on behalf of a third party for the purposes of the DPA and details of the type of personal data processed/held by the Company e.g. on marketing /client databases, employee/contractor details.

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10. Details of any steps taken by the Company towards ensuring compliance with the DPA, and copies of any relevant policies.

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11. Details of any notices that the Company has received from the Information Commissioner regarding any breach by the Company of its obligations under the DPA.



## Section 9: Properties

1. Schedule of all land and buildings owned, occupied or otherwise used by the Company (the "**Properties**"), including an indication for each of the Properties as to whether it is freehold or leasehold and whether it is registered or unregistered title and, in the case of registered title, the registered title number(s) and (where possible) office copy entries of those title numbers.
2. Copies of all leases (including headleases and underleases if appropriate) granted to or by the Company.
3. Details of all contracts or arrangements in existence, and of any negotiations in progress to acquire or dispose of any estate or interest in land or to vary or renew the terms thereof.
4. Details of any disputes in relation to the Properties.

## Section 10: Litigation and Disputes

1. Details of any current litigation or dispute in which the Company is or may become involved (and details of any circumstances which could give rise to such litigation or dispute), whether in the United Kingdom or elsewhere together with details or copies of any statements of claim, opinions from Counsel or others of settlement levels and estimated legal costs.
2. Details of any judgments affecting the Company, including details of any injunctions or other orders against the Company.

**Section 11: Insurance**

1. Schedule of all insurances (and copies of all relevant policies) effected for the Company including:
  - a. name of insurer;
  - b. name of broker;
  - c. nature and extent of cover;
  - d. premium; and
  - e. renewal date.

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2. Details of any claims (whether settled or not) made by the Company under any insurance policies in the last five years.

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3. Details of any circumstances which may give rise to any insurance claim not yet notified to the Company's insurers.

**Section 12: Finance, Borrowings and Liabilities**

1. Schedule of all the Company's existing borrowings and bank facilities and copies of terms on which these are available.

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2. Copies of all outstanding mortgages, charges and trust deeds constituting loan stocks.

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3. Copies of all hire purchase, credit sale, rental, leasing and similar agreements.

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4. Details of all guarantees, sureties and indemnities given in favour of or by the Company including details of any charge or other security interest given in favour of the Company.

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5. Details of any grants or other financial assistance from any authority or agency received or applied for by the Company in the last five years and also of all such financial assistance (whenever received) which is now or may in any circumstances in the future be liable to be repaid.

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6. Details of any factoring invoice, discounting or similar arrangements in relation to any of the Company's debts.

### Section 13: General

1. Provision of the company's business plan, management presentation, latest accounts and management accounts.

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2. Provision of replies to the manager questionnaire and VCT questionnaire supplied separately.

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3. Any other matter which might reasonably be considered material or significant in relation to the Company or any other group company, its business or prospects, having regard to the proposed investment by the Investors.

# About the Author

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## **Norm Peterson**

Growth Capital Ventures  
Chief Executive Officer

**Connect with Norm:**



Norm Peterson, Growth Capital Ventures' (GCV) Chief Executive Officer, has over 30 years experience in alternative finance.

Norm has held senior positions in startups, mid-sized SMEs and PLCs operating across a variety of sectors, including finance, telecoms, infrastructure and property.

Throughout his career, Norm has been involved in raising finance to support business growth and large scale infrastructure projects.

His experience includes founding and leading Growth Capital Ventures - an investment firm that has co-invested over £100m into alternative investment opportunities, securing expansion capital (£60m) for an Internet Service Provider (ISP) and development capital for infrastructure projects. Norm is an Approved Person with the Financial Conduct Authority (FCA).

He holds the RICS Postgraduate Diploma in Project Management, he studied his MBA at Bradford and completed the Oxford Private Equity Programme, Saïd Business School, University of Oxford.

Norm is also an active investor, with a portfolio spanning banking, fintech, HR tech, property and house building.

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## **Growth Capital Ventures**

GCV is an FCA authorised investment firm that operates a private investor network (GCV Invest). GCV Invest brings together an online and offline investor network of experienced private investors and institutional investors to access and co-invest in growth focussed investment opportunities.

We provide access to tax-efficient and growth focused investment opportunities that have the potential to deliver better returns than more mainstream investment products.

We facilitate investment across three asset classes; Venture Capital, Private Equity and Property, targeting an internal rate of return (IRR) of 25% for our investors.



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