

Introduction

Due Dilligence is an important stage in the investment decision process. It is realistically the last chance to spot that a potential investment has major problems and that we should not proceed. Alternatively the due dilligence might identify serious weaknesses in the business, and lead to conditions on the investment to deal with these.

Due Dilligence in the Investment Process

Due dilligence will be carried out on target investee companies that have been approved by the Investment Committee. The Investment Committee will recomend the degree of due dilligence required, based on our existing knowlege of the company. This will fall into two categories

Full A full investigation into all aspects of the company operation

Update For companies where other trusted parties (e.g. predecessor holdings, SBA members) have already carried out due dilligence, or are already working with the company, the due dilligence will be limited to issues around the business plan for the new funding round.

The Investment Committee will nominate an individual to lead the due dilligence (hereafter refered to as the "Investigator". This person will be somebody different from the sponsor/introducer, the idea being the due dilligence is an independent review.

The output of the due diligence will be a report to the Investment Committee with recommendations, together with the copies of the complete set of documents from the Investee Company. It is possible further expert analysis will be requested by the person leading the due diligence or the investment committee.

A template for the report is provided, describing the areas to cover.

Due Diligence Objectives

The due diligence exercise is NOT intended to redo the work of the investment committee. Rather it is intended to

- Ensure that the information used by the Investment Committee is actually true
- Find out any additional information the Investment Committee should have been told, but were not.
- Probe into the assumptions in the business plan, to check they are valid and realistic
- Identify the principal risks to the business and if there is a plan to address them.
- Conduct a more detailed analysis of the current state of the company – e.g. maturity of technology, strength of the sales pipeline, detail of agreements etc.
- Further analyse the competitive environment and the place of the investee company within it.

In addition to these points, the aim is also to get a subjective “feel” of the company – is there a good impression when you walk in the door, do people seem to be working hard, and focussed, is it a mess etc. |

Due Diligence Conduct.

Due diligence is expected to involve ~1 day’s visit to the company’s principle site, questioning the Entrepreneur and other senior management s on various aspects of their business, and examining records and documentation. The time required may be more or less depending on the complexity of the business and the length of its trading history.

Prior to the visit, the Investigator must make sure they are familiar with the company, its business plan and the material provided to the Investment Committee when it made its decision.

In addition to the visit, the Investigator may also need to research the company’s competitors and customers.

The Investigator must question the Entrepreneurs hard, always seeking as much hard fact and detail as possible. To give some examples:-

If technology is being patented

- what is being patented
- what stage are they at
- What evidence do they have that the patent is applicable
- who are they using to do lodge the patent
- Can we talk to them, contact details?

If they have a “global agreement with Orange”

- What does the agreement cover
- Is it exclusive, or if not how many other companies have similar agreements?
- Can it be cancelled, and if so under what terms
- What money changes hands and when
- What activity has happened under this agreement to date?

Fees

A standard due diligence fee of €1000 will be paid to the investigator, inclusive of expenses. If the company is not local, then additional expenses may be paid, but these must be agreed with the Director General of EBAN in advance.