30-Day Due Diligence Framework

PE / Corporate Development — Risk-First Underwriting

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1 Purpose of the Framework

This document presents a structured 30-day due diligence framework designed to support **investment and acquisition decisions under incomplete information**.

The framework is built to answer a single overarching question:

> *Should capital be placed at risk, and if so, under what explicit conditions?*

The objective is **not** to maximize analytical coverage. The objective is to **minimize avoidable capital loss** by identifying risks that materially impair decision quality.

2 Core Principles

This framework is governed by the following non-negotiable principles:

- **Risk precedes return**: Upside is evaluated only after downside survivability is established.
- **Judgment over precision**: Explicit uncertainty is preferable to false accuracy.
- **Execution is economic**: Operational failure is treated as a financial risk.
- **Missing information matters**: Disclosure gaps are decision inputs, not inconveniences.

Any diligence activity that does not advance these principles is deprioritized.

3 What This Framework Is Not

This framework is intentionally **not**:

- A valuation model
- A post–data room diligence checklist
- A consultant-style workplan
- A forecasting exercise

Those tools may follow. They do not precede decision framing.

4 Structural Overview

The diligence process is divided into four sequential phases, each designed to answer one dominant question:

Phase	Days	Primary Question
Phase 1	1–7	Should we stop looking at this?
Phase 2	8–15	How does this business actually generate cash?
Phase 3	16–23	What breaks in real life?
Phase 4	24–30	What decision can we defend?

Failure to answer the primary question of a phase invalidates the diligence process.

5 Phase 1: Kill-Risk Identification (Days 1–7)

5.1 Objective

The objective of Phase 1 is to identify **non-mitigable risks** that render the opportunity non-investable regardless of price, structure, or leverage.

This phase exists to prevent sunk-cost bias.

5.2 Key Questions

- Is the core business structurally viable?
- Are there dependencies that cannot be controlled or replaced?
- Is there embedded leverage not visible on the balance sheet?
- Are there regulatory, contractual, or legal constraints that cap strategic flexibility?

5.3 Focus Areas

- Revenue concentration and customer power
- Contract enforceability and termination rights
- Regulatory approvals and ongoing compliance
- Structural separation risks (TSAs, stranded costs, shared systems)

5.4 Deliverable

Kill-Risk Memo (2–3 pages)

This memo explicitly states:

- Conditions under which diligence should stop immediately
- Risks that cannot be mitigated through pricing or structuring

If no kill-risk memo exists by Day 7, diligence discipline has failed.

6 Phase 2: Economic Reality Check (Days 8–15)

6.1 Objective

The objective of Phase 2 is to understand the **true economic engine** of the business, independent of forecasted upside or management narratives.

6.2 Key Questions

- What activities generate cash versus accounting profit?
- Which costs are structurally fixed versus optically variable?
- How does cash conversion behave under stress?

6.3 Focus Areas

- Revenue quality (recurring vs episodic)
- Cost structure rigidity
- Working capital dynamics
- Maintenance versus growth capital expenditure

6.4 Deliverable

Economic Bridge

A qualitative and quantitative bridge from:

Revenue $\rightarrow$ EBITDA $\rightarrow$ Cash $\rightarrow$ Capital

No projections are required. Only drivers, sensitivities, and dependencies.

7 Phase 3: Execution Stress Test (Days 16–23)

7.1 Objective

The objective of Phase 3 is to pressure-test the opportunity against **real-world friction** rather than base-case assumptions.

This is where most deals fail quietly.

7.2 Key Questions

- What must go right simultaneously?
- Where does timing risk compound?
- Which costs accelerate under delay?

7.3 Focus Areas

- TSA unwind feasibility
- Systems and process migration
- Talent retention and incentive alignment
- Governance latency and decision rights
- Cost duplication windows

7.4 Deliverable

Execution Risk Map

A structured mapping of:

Risk $\times$ Probability $\times$ Impact

Including identification of non-linear failure points.

8 Phase 4: IC Readiness (Days 24–30)

8.1 Objective

The objective of Phase 4 is to convert uncertainty into a **defensible investment decision**.

8.2 Key Questions

- What are we underwriting?
- What are we explicitly not underwriting?
- What reverses this decision?

8.3 Focus Areas

- Downside protection
- Liquidity sufficiency
- Capital structure resilience
- Exit optionality, even if theoretical

8.4 Deliverable

Investment Committee Memo

The memo must contain:

- A clear recommendation
- Explicit conditions for approval
- Defined walk-away triggers

9 Decision Standard

A diligence process is successful only if:

- The IC understands the downside
- The risks are explicitly owned
- The decision is defensible ex-post

Uncertainty is acceptable. Unacknowledged uncertainty is not.

10 Closing Statement

Most capital losses arise not from incorrect forecasts, but from:

- Ignored execution risk
- Underestimated downside
- Overconfidence under incomplete information

This framework exists to prevent those failures.

This document reflects how diligence is conducted when accountability is real and information is incomplete.