# Chapter 9: Due Diligence, Simplified

Raising capital is exciting, but between a successful pitch and a signed check lies the **due diligence** gauntlet. If you’ve ever watched shows like *Shark Tank* or *Dragon’s Den*, you know the scene: founders wow investors with a slick presentation, only for the deal to fall apart when a hidden issue surfaces (say, undisclosed debt or a lawsuit)[[1]](https://dealroom.net/blog/startup-due-diligence#:~:text=The%20presentation%20is%20slick%20and,something%20which%20was%20really%20important). That “gotcha” moment is due diligence in action. In this chapter, we demystify due diligence – what it is, why it matters, what investors actually check – and show you how to **prepare without the stress**. With the right approach, due diligence transforms from a dreaded audit into an opportunity to shine. Let’s break it down in plain English, with a friendly blend of formality and founder-to-founder conversation.

## What is Due Diligence and Why Does It Matter?

**Due diligence** is essentially a deep dive “audit” investors conduct on your startup before they commit money. It’s a systematic process of verifying all the claims you’ve made and stress-testing whether your business can stand up to scrutiny[[2]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=Due%20diligence%20is%20the%20systematic,or%20structure%20emerged%20too%20late). In other words, investors use due diligence to confirm your company *“is as it appears”* and to uncover any potential risks or liabilities before writing a check[[3]](https://visible.vc/blog/startup-due-diligence/#:~:text=Startup%20due%20diligence%20is%20the,flags%20could%20delay%20or%20derail). This isn’t about distrust or trying to trip you up – it’s about **building confidence**. A great pitch might open the door, but due diligence decides whether an investor will actually step through it[[4]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=Due%20diligence%20is%20the%20systematic,or%20structure%20emerged%20too%20late)[[5]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=This%20process%20isn%E2%80%99t%20about%20mistrust%3B,how%20to%20sharpen%20their%20plan). Many promising startups with brilliant pitch decks have stumbled in due diligence because gaps in their financials or legal structure emerged too late[[6]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=This%20is%20where%20you%20verify,or%20structure%20emerged%20too%20late).

Due diligence matters immensely to investors because they have a **fiduciary responsibility**. A venture capital (VC) firm, for example, is accountable to its limited partners (the folks whose money the VC invests). VCs *must* do thorough due diligence to ensure they aren’t putting that money at undue risk[[7]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=Any%20VC%20investing%20in%20your,finance%20companies%2C%20and%20rich%20people). If a VC skipped this step and a nasty surprise surfaced later, they could lose their reputation and their investors. As one guide puts it, *some angel investors do almost no due diligence (since it’s their own money), but VCs* *need* *to do more because they have a duty to their fund’s backers*[[8]](https://growthequityinterviewguide.com/venture-capital/types-of-venture-capital/angel-investors-vs-venture-capitalists#:~:text=,responsibility%20to%20their%20limited%20partners). In short, **investors verify so they can invest with eyes wide open**.

For founders, due diligence is often less familiar territory – and it can feel daunting. But it’s important to realize this process can benefit you, too. It forces you to get your house in order and **showcase the strength of your business**. Think of it as the ultimate credibility test: if you pass, the investment is likely to close smoothly; if you fail, the funding could be delayed or even derailed[[9]](https://visible.vc/blog/startup-due-diligence/#:~:text=position,flags%20could%20delay%20or%20derail). The good news is that by being transparent and well-prepared, you *gain* an investor’s trust. In fact, seasoned founders learn to welcome due diligence as a chance to **prove their venture is solid** and even get free feedback on weak spots[[10]](https://dealroom.net/blog/startup-due-diligence#:~:text=Due%20diligence%20is%20an%20opportunity,its%20operations%2C%20and%20its%20financials). Embrace it, and you’ll not only secure that check but also come out with a stronger company.

## The Essentials of Due Diligence: What Investors Examine

So, what exactly are investors looking at during due diligence? The short answer: **pretty much everything** that could impact your startup’s success[[11]](https://dealroom.net/blog/startup-due-diligence#:~:text=What%20are%20investors%20looking%20for,in%20due%20diligence). Of course, no one is going to comb through every trivial file on your Google Drive; investors focus on key areas that reveal your venture’s health and potential. Let’s break down the core elements of a typical due diligence review – from your finances to your codebase – and explain what investors really want to see in each.

### Financial Records and Projections

**Numbers tell your startup’s story**, and investors will read them carefully. One of the first stops in due diligence is your financial performance[[12]](https://visible.vc/blog/startup-due-diligence/#:~:text=One%20of%20the%20first%20areas,they%20plan%20to%20achieve%20profitability). Expect investors to pore over your **historical financials** – income statements, balance sheets, cash flow statements – to evaluate how you’ve managed money so far. They’ll look at revenue growth trends, profit margins (or losses), burn rate, and cash runway. Are you efficiently using cash? Are revenues growing? Any unexplained spikes or dips in expenses? You should be ready to explain *any* anomalies in plain terms[[12]](https://visible.vc/blog/startup-due-diligence/#:~:text=One%20of%20the%20first%20areas,they%20plan%20to%20achieve%20profitability).

Equally important are your **financial projections** (the forecasted numbers for the next few years). Investors fully expect your projections to be ambitious – they know you’re selling a vision of high growth – but projections must also be realistic and backed by logic[[13]](https://dealroom.net/blog/startup-due-diligence#:~:text=don%E2%80%99t%20know%20to%20be%20good,custodians%20of%20their%20money). If you claim you’ll go from zero to \$100M revenue in two years with no clear driver, you’ll lose credibility fast. Overly *“hockey-stick”* forecasts or budgets that don’t account for known costs (like hiring or customer acquisition) are red flags[[14]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=Forecasts%3A%20Optimistic%20or%20Delusional%3F%20Financial,Red%20flags). Savvy investors can smell **fantasy numbers**, so base your models on sound assumptions and evidence. During diligence, be prepared to discuss your revenue model, unit economics (e.g. customer acquisition cost vs. lifetime value), gross margins, and how fundraising will propel growth. If you can show that you know your numbers cold and have a sensible path to profitability (or a next funding round), you’ll score major points.

### Equity and Cap Table (Ownership Structure)

Investors will also examine your **cap table** and equity structure in detail. The cap table is a breakdown of who owns what percentage of the company – founders, investors from prior rounds, employees with stock options, etc. Due diligence will verify that your equity is properly documented and identify any complexities that might affect a new investment[[15]](https://visible.vc/blog/startup-due-diligence/#:~:text=4). For example, VCs will look at how much equity has been given out in each round and on what terms. They want to understand if any earlier investors have special rights that could complicate things (like big liquidation preferences or veto powers), or if there’s any outstanding debt or convertible notes that will convert to equity[[16]](https://dealroom.net/blog/startup-due-diligence#:~:text=VC%20investors%20are%20used%20to,investors%2C%20and%20other%20VC%20investors).

A **clean, accurate cap table** is crucial. If your ownership records are messy or riddled with errors, it signals poor governance (and will slow the deal as lawyers untangle it)[[17]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=A%20disordered%20data%20room%E2%80%94missing%20financial,risk%20is%20being%20concealed%20elsewhere). Common cap table red flags include undisclosed shareholders, promises of equity that aren’t documented, or an excessive number of small shareholders that make future equity management cumbersome. Investors will also check that founders and key team members **retain enough equity**; if a founder owns very little due to too many early grants, the VC may worry about the founder’s incentives going forward[[18]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=Cap%20Table%20%26%20Ownership%3A%20A,Watch%20for). To prepare, ensure your cap table is up-to-date and reflects all shares, options, warrants, and convertible instruments. Be ready to explain any unusual entries. A transparent equity structure gives investors confidence that there won’t be nasty surprises about ownership after they invest.

### Legal Documents and Organization

**Legal due diligence** is where investors verify that your startup is on solid legal ground and isn’t hiding ticking time bombs. Expect investors (and their lawyers) to review your company’s formation documents, key contracts, and compliance records with a fine-tooth comb[[19]](https://visible.vc/blog/startup-due-diligence/#:~:text=Investors%20pay%20close%20attention%20to,that%20its%20intellectual%20property%20is). They will likely request your **articles of incorporation, bylaws, and any amendments** to confirm the company is properly formed and in good standing. They’ll want to see your **shareholder agreements, past financing documents, and board meeting minutes** to understand how the company has been managed and financed so far[[20]](https://dealroom.net/blog/startup-due-diligence#:~:text=,respective%20shareholding%20and%20capitalization%20table)[[21]](https://dealroom.net/blog/startup-due-diligence#:~:text=,advisory%20board%20and%20their%20committees).

Investors will scrutinize all major **legal agreements**: founder stock purchase agreements, investor rights agreements, employee offer letters (especially confidentiality and invention assignment clauses), contractor agreements, leases, loan agreements, partnership or vendor contracts – essentially any binding document that the company has signed[[22]](https://dealroom.net/blog/startup-due-diligence#:~:text=Image)[[23]](https://dealroom.net/blog/startup-due-diligence#:~:text=Material%20Importance%20Agreements). The goal is to uncover any liabilities or restrictions. For instance, are there pending lawsuits or disputes? Any regulatory violations or fines? Are all your material contracts valid and in good order? If you have intellectual property, investors will confirm that the **IP is properly owned by the company** – e.g. checking patents or trademarks and ensuring employees/contractors signed their IP over to the startup[[19]](https://visible.vc/blog/startup-due-diligence/#:~:text=Investors%20pay%20close%20attention%20to,that%20its%20intellectual%20property%20is)[[24]](https://visible.vc/blog/startup-due-diligence/#:~:text=5,IP). An **unclear IP situation** (such as a founder who developed the code on their own laptop and never assigned it to the company) is a big red flag that can scare investors away[[25]](https://dealroom.net/blog/startup-due-diligence#:~:text=,When%20a).

Furthermore, compliance matters: depending on your industry, investors may ask for proof of any required licenses or compliance with regulations (for example, if you’re a fintech, are you following financial regulations; if handling user data, are you GDPR compliant, etc.)[[19]](https://visible.vc/blog/startup-due-diligence/#:~:text=Investors%20pay%20close%20attention%20to,that%20its%20intellectual%20property%20is). Any **outstanding legal or regulatory issues** – be it an expired permit, an unresolved tax liability, or a threatened lawsuit – will be viewed as risks[[26]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=5,Issues). It’s far better to disclose these upfront with a plan to resolve them than for an investor to find them independently. During due diligence, honesty is the best policy. Hiding legal problems is a sure way to kill a deal if (when) they surface. In contrast, showing that your legal house is in order (or that you’re proactively fixing any gaps) gives investors peace of mind.

### Customer Traction and Revenue Verification

If your startup already has customers or revenue (even just pilots or LOIs), investors will **validate your traction**. It’s one thing to claim in a pitch deck that “customers love us!” – due diligence is where investors seek proof of those claims. They will likely request data on your **revenues** (monthly recurring revenue, total sales to date, growth metrics) and may examine your accounting records or bank statements to verify income. Significant **customer contracts or sales deals** will get a close look: investors might review your top customer contracts to understand terms, ensure there are no unusual cancellation clauses, and confirm that the deals are real and signed. For example, if you say you landed a big enterprise client, expect the VC to ask for that signed contract or a reference call with the client.

In fact, investor due diligence often includes **customer reference calls**. Especially in B2B startups, it’s common for VCs to ask, “Great, can we speak to a couple of your customers as references?”[[27]](https://www.jermainebrown.org/posts/fundraising-customer-references#:~:text=This%20week%2C%20I%20connected%20with,they%20should%20rethink%20the%20relationship)[[28]](https://www.jermainebrown.org/posts/fundraising-customer-references#:~:text=If%20a%20company%20has%20a,your%20customers%3F%E2%80%9D%20goes%20the%20thinking). This can feel nerve-wracking – essentially your customers are vouching for you – but it’s a powerful credibility test. Smart investors won’t skip it if you have paying customers. As one VC noted, *if your product is so great, why wouldn’t they be allowed to hear it directly from customers?*[[28]](https://www.jermainebrown.org/posts/fundraising-customer-references#:~:text=If%20a%20company%20has%20a,your%20customers%3F%E2%80%9D%20goes%20the%20thinking). The key for founders is to prepare your customers (especially any big-name clients) for this possibility: let them know that investors might call, and ensure your customers are comfortable speaking honestly. Generally, investors just want to confirm that the product delivers value and that the customers are happy (or at least that any issues are being handled well). **Not allowing investors to talk to a reference customer can be construed negatively**, so it’s usually better to accommodate the request if possible.

Beyond calls, investors might look at **user metrics or engagement data** if applicable. For example, if you run an app with a freemium model, they’ll want to see user growth, active users, retention rates, etc. If you have **letters of intent (LOIs) or pilot programs**, investors may ask to see those documents and potentially verify them. Assume that any major claim of traction you’ve made will be checked. The best approach here is to be **truthful in your traction claims from the start** – don’t hype fake numbers, because due diligence will reveal the truth. If your traction is modest but genuine, that’s fine; it’s worse to claim unverified “pipeline” revenue that disappears under scrutiny. Provide investors with clear data on your key performance indicators (KPIs) and be ready to discuss how you plan to grow those metrics post-funding.

### Founder Background and References

Investing in a startup is as much about backing the **people** as it is about the product. Investors will therefore conduct diligence on you and your team’s background. This ranges from informal gut checks to formal background investigations, depending on the investor and stage. Early on (say pre-seed or seed with angel investors), the diligence on the founder might be quite simple – an angel might just rely on personal trust or a mutual connection’s endorsement[[29]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=If%20an%20angel%20investor%20is,in%20terms%20of%20due%20diligence)[[30]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=However%2C%20it%E2%80%99s%20up%20to%20the,table%20and%20your%20incorporation%20paperwork). They may ask themselves and others basic questions: *What do her peers or former colleagues think of her? What does her accelerator program say about her?* For first-time founders, there may not be much to dig into beyond personal impressions and maybe a reference or two[[31]](https://www.saastr.com/what-kind-of-due-diligence-do-vcs-do-on-the-founder-as-a-person/#:~:text=It%20varies%20based%20on%20stage).

However, as the check size and stage increases, **the bar goes up**. VCs writing larger checks will often do formal **reference checks on founders and key executives**[[32]](https://www.saastr.com/what-kind-of-due-diligence-do-vcs-do-on-the-founder-as-a-person/#:~:text=Later%2C%20the%20bar%20goes%20up,What%20your%20partners%20think). Don’t be surprised if a VC asks you for a list of references – former bosses, co-founders, employees, or professors – and then calls not only those but also some *back-channel* references (people you didn’t explicitly list) from their network. It’s common for a VC to do 4-5 “on-sheet” reference calls and even more informal off-sheet checks[[32]](https://www.saastr.com/what-kind-of-due-diligence-do-vcs-do-on-the-founder-as-a-person/#:~:text=Later%2C%20the%20bar%20goes%20up,What%20your%20partners%20think). They’ll also gauge what your current team thinks of your leadership, and even what **customers or partners think of working with you**[[33]](https://www.saastr.com/what-kind-of-due-diligence-do-vcs-do-on-the-founder-as-a-person/#:~:text=Later%2C%20the%20bar%20goes%20up,What%20your%20partners%20think). If anything concerning comes up – e.g. claims of dishonesty, lack of integrity, or poor work ethic – it could jeopardize the deal.

Aside from references, some investors do **background checks** – verifying your education (did you really get that degree?), any criminal record, past startup failures, etc. High-profile later-stage deals might even involve professional background search firms. For most early-stage deals this is light, but it’s good to be aware. The best strategy is straightforward: be honest on your resume and in describing your past. If you had a failed venture or a blip in your history, be up front about it and what you learned. Investors understand that not every past job was a soaring success; they mainly want to confirm there are no skeletons in the closet that you failed to mention.

Beyond checking for *negative* information, investors use this part of diligence to answer a crucial question: **“Do we believe in this team?”**[[34]](https://dealroom.net/blog/startup-due-diligence#:~:text=At%20its%20most%20fundamental%2C%20the,startup%20is%20a%20business%20relationship). They’re assessing your team’s experience, skills, and dynamics. They might ask themselves: *Do the founders have relevant domain expertise? Does the team communicate openly and have good chemistry?* Often, how you behave *during* due diligence – your responsiveness, clarity, and honesty – influences this assessment. As one VC described, due diligence on the team isn’t just about ticking boxes on a checklist; it’s about understanding the *“chemistry of the team, their resilience in the face of challenges, and their ability to execute the plan”*[[35]](https://hgventures.com/demystifying-due-diligence-what-founders-should-expect-from-venture-capitalists/#:~:text=This%20isn%E2%80%99t%20just%20about%20ticking,to%20highlight%20not%20just%20past). Every interaction during this period either builds or erodes trust. If you handle the process professionally, it reassures investors that you’re the kind of people they want to partner with long-term.

### Product and Technology Review

Finally, investors will dive into your **product and technology** to ensure it’s sound. The depth of this **technical due diligence** often depends on your startup’s nature. If you’re a software or tech-driven company, expect a thorough review of your tech stack and product roadmap[[36]](https://visible.vc/blog/startup-due-diligence/#:~:text=Technical%20Due%20Diligence). Investors (or sometimes an expert they hire) will look at *how* your product is built and whether it can scale. For example, they might examine your system architecture and infrastructure: Is your app built on modern, maintainable technology? Can it handle growth in users or data? Are there any glaring security vulnerabilities? It’s common for investors to ask about your hosting environment, security measures (encryption, access controls, backups), and technical processes (deployment, testing, etc.)[[37]](https://visible.vc/blog/startup-due-diligence/#:~:text=examine%20the%20startup%E2%80%99s%20technology%20stack%2C,are%20scrutinized%20to%20gauge%20how). If your startup deals with sensitive data and you lack basic security protocols, that will be noted as a risk (security is taken seriously; weak security is seen as a liability that can sink value overnight)[[38]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=2.%20Security%20Non)[[39]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=liability,wipe%20out%20enterprise%20value%20overnight).

In many cases, **product due diligence** also means actually trying the product. Don’t be surprised if investors ask for a demo account or to play with a beta version. They want to experience what customers experience and see if the product does what you claim. If you’re pre-product or very early, they’ll focus more on your technical plans and feasibility. If you already launched, they’ll be keen on user feedback, product engagement metrics, and what the roadmap looks like.

For software companies, it’s possible an investor will even request a look at the **source code** or a code review by an expert[[40]](https://dealroom.net/blog/startup-due-diligence#:~:text=In%20the%20case%20of%20software%2C,to%20see%20the%20source%20code). This is more likely in later rounds or if your technology is your secret sauce. (Early-stage VCs might not dive into code unless something feels off, but be prepared in case.) Ensure your codebase is well-managed and documented enough that if someone knowledgeable peeked at it, it wouldn’t be an embarrassment. Investors basically want to confirm there are no technical showstoppers – e.g. the product isn’t all smoke and mirrors. They’re also checking for **technical debt**: if your entire product is a hastily written prototype held together with duct tape, that’s a risk (it might not scale or might require a complete rebuild).

If your startup is hardware or biotech or another non-software field, due diligence will involve assessing prototypes, lab results, manufacturing plans, etc. In all cases, investors will evaluate **IP protection for the product** (patents filed? trade secrets?) and how you plan to defend or differentiate your technology[[41]](https://dealroom.net/blog/startup-due-diligence#:~:text=Whether%20it%E2%80%99s%20a%20physical%20product%2C,unit%20margins%2C%20and%20production%20process)[[42]](https://dealroom.net/blog/startup-due-diligence#:~:text=Scalability%2C%20IP%20protection%20for%20the,unit%20margins%2C%20and%20production%20process). Be ready to discuss what truly sets your product apart and how you’ll sustain an advantage. Also be honest about the product’s stage – if it’s MVP with bugs, don’t pretend it’s fully polished. Acknowledge what’s *not* built yet and what the plan is to get there. Remember, investors don’t expect an early-stage startup to have a perfect product; they just need confidence that the tech is viable and the team can deliver on their product roadmap. Showing a clear grasp of your technology, its challenges, and its future development path will give investors that confidence.

## Preparing for Due Diligence Without the Stress

By now it’s clear that due diligence covers a lot of ground. The key to surviving it (and even acing it) is **preparation**. Founders who prepare proactively can hand over the needed info with ease, answer questions calmly, and keep the process moving swiftly. Those who don’t… well, they end up scrambling, which is no fun for anyone. The good news: preparing for due diligence is very doable and will greatly reduce your stress. This section lays out how to get ready – including checklists of documents, organization tips, best practices, and common pitfalls to avoid. Think of it as your due diligence game plan.

### Get Organized: Data Rooms and Document Checklists

First and foremost, **organize your documentation**. Nothing will frustrate an interested investor more than chaotic record-keeping – missing files, inconsistent data, or delays in producing information. The solution is to create a **data room**, which is a centralized repository (usually a secure cloud folder or a specialized platform) for all the documents and files you’ll need to share. A well-structured data room lets you grant investors access to everything they require in one go, rather than emailing piecemeal files back and forth[[43]](https://visible.vc/blog/startup-due-diligence/#:~:text=1,a%20Data%20Room). It also signals that you’re a professional who came prepared.

So what should you collect and include in your due diligence data room? While exact lists vary, most early-stage due diligence checklists cover a similar set of categories. Below is an *early-stage friendly* checklist of documents you should have ready (or at least know how to get quickly):

* **Corporate and Legal:** Articles of incorporation and any amendments, corporate bylaws, and organizational chart; documentation of all stock issuances and transfers (your stock ledger); an up-to-date **cap table** showing all shareholders; board meeting minutes and consents; copies of any material corporate resolutions[[20]](https://dealroom.net/blog/startup-due-diligence#:~:text=,respective%20shareholding%20and%20capitalization%20table)[[44]](https://dealroom.net/blog/startup-due-diligence#:~:text=certificate%20of%20incorporation%20,pledges%2C%20security%20interests%2C%20options%2C%20nominee).
* **Founder and Equity Agreements:** Founders’ stock purchase agreements (and vesting schedules if any); any **founder IP assignment agreements** (ensuring the company owns the IP); employee and contractor agreements, especially NDAs and invention assignment clauses; any advisor agreements or equity grant contracts[[45]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=Your%20incorporation%20documents).
* **Financial Documents:** Historical financial statements (P&L, balance sheet, cash flow) for past years/quarters; **financial projections** or your current budget/operating plan; a summary of key metrics (monthly burn rate, revenue, customer count, etc.); records of any loans or debt instruments; past tax returns (if applicable)[[46]](https://dealroom.net/blog/startup-due-diligence#:~:text=,by%20revenue%2C%20product%2Fservices)[[47]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=,or%20until%20founding%2C%20if%20less).
* **Material Contracts:** All major contracts and agreements – e.g. customer contracts, partnership or distribution agreements, supplier or vendor contracts, leases for office or equipment, loan agreements, license agreements, etc. Include a summary of the key terms of each (duration, termination clauses, dollar values)[[23]](https://dealroom.net/blog/startup-due-diligence#:~:text=Material%20Importance%20Agreements)[[48]](https://dealroom.net/blog/startup-due-diligence#:~:text=,licensees%2C%20agents%2C%20or%20other%20persons). Also include any **pending contracts or term sheets** that are relevant (for instance, an LOI from a potential big customer).
* **Intellectual Property:** List of all IP assets – patents (filed or granted), trademarks, copyrights, trade secrets – and their status; copies of patent filings or registration certificates; any IP **licenses** (e.g. if you use third-party IP or open source, note the licenses); and documentation that all founders/employees have assigned IP to the company[[49]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=Intangible%20property).
* **Team and HR:** Resumes or bios of founders and key team members; number of employees and contractors; an org chart if you have one; copies of any stock option plan and option grant agreements; summary of compensation (salaries, bonuses, etc.); any outstanding or past issues with employees (like disputes or departures) if relevant.
* **Miscellaneous/Other:** Depending on your business, include any regulatory licenses or permits, any insurance policies (common in later stages), and any industry-specific documents (e.g. clinical trial data for a biotech, or user analytics reports for a consumer app).

That might look like a lot, but you likely have most of it – it’s just scattered across folders or inboxes. Start assembling these documents **early** in the fundraising process, ideally *before* an investor is in diligence. Founders who wait until the term sheet to scramble for docs often end up stressed and pressed for time[[50]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=,compliance%20controls%2C%20and%20policies%20critically). By organizing a data room in advance, you can share it with a few clicks and appear supremely prepared (which you will be!).

A tip: **keep the data room tidy and logically structured**. Create subfolders for categories like “Corporate”, “Financial”, “Legal”, “HR”, etc. Use clear filenames (e.g. XYZ\_Inc\_Articles\_of\_Incorporation.pdf instead of scan0001.pdf). Also, control access carefully – use a secure service and only invite the investors (and their lawyers) who need to see it. Most investors will appreciate a well-run data room; it saves them time and shows you have nothing to hide[[51]](https://visible.vc/blog/startup-due-diligence/#:~:text=key%20documents%20needed%20for%20investor,your%20ability%20to%20manage%20the). As one platform provider notes, *a clear and organized data room demonstrates professionalism and preparedness*[[52]](https://visible.vc/blog/startup-due-diligence/#:~:text=A%20secure%20data%20room%20is,A%20clear). It’s an extension of you as a founder.

### Do Your Own Diligence (Identify and Fix Gaps)

Before investors arrive with their magnifying glass, do some **self-inspection**. Think like an investor and scrutinize your company for weaknesses – then address them proactively. This could be as formal as running an internal “pre-diligence audit”[[50]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=,compliance%20controls%2C%20and%20policies%20critically), or as simple as a weekend project where you and your cofounder pretend you’re VCs investigating your startup.

Go through each key area (legal, financial, etc.) and ask: *If I were an investor, what would worry me here?* For example, review your finances critically – are the books reconciled? Any large unexplained expenses? Ensure your QuickBooks or spreadsheet is up-to-date and accurate. Review your legal docs – are all your past stock agreements properly signed and stored? Do you actually have copies of all those NDAs and contracts you signed? It’s common to discover a few missing signatures or documents; better **you** find and fix that now than an investor does[[53]](https://visible.vc/blog/startup-due-diligence/#:~:text=A%20thorough%20legal%20review%20is,builds%20investor%20trust%20and%20avoids). Also, check compliance things like taxes or annual filings – is anything overdue?

If you identify **minor gaps or issues, resolve them before diligence** if possible. For instance, if you never got around to filing a trademark for your brand and it’s important, go ahead and file it now (or at least start the process). If a former contractor never signed the IP assignment, track them down and get it signed (or have your lawyer draft a workaround). If you have a small outstanding legal issue (maybe a threatened dispute or an unhappy ex-employee), consider resolving it or at least preparing a clear explanation and resolution plan. The idea is to **eliminate obvious liabilities** so they don’t become sticking points[[54]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=Financials%2C%20contracts%2C%20HR%20records%2C%20and,Investors). As one diligence expert put it, *“resolve minor lawsuits, renew lapsed licenses, close out old regulatory issues – investors treat unresolved problems as patterns”*[[54]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=Financials%2C%20contracts%2C%20HR%20records%2C%20and,Investors). In other words, leaving loose ends suggests you have a habit of neglecting issues until they fester, which is not the signal you want to send.

One commonly overlooked area for early startups is **security and data practices**. In today’s environment, even seed-stage companies are expected to have basic cybersecurity and data protection measures in place[[38]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=2.%20Security%20Non). If you haven’t already, implement fundamentals like using strong passwords and two-factor authentication on important accounts, securing your databases, having data backup procedures, and perhaps creating a simple privacy policy if you collect user data. You don’t need a full SOC 2 compliance at seed stage (unless you’re selling to enterprise clients already), but showing investors that you take security seriously is increasingly important. Lack of any security protocol is seen not just as an IT issue but a **leadership issue** (i.e. not prioritizing risk management)[[39]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=liability,wipe%20out%20enterprise%20value%20overnight)[[55]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=Early,contractual%20pressure%20as%20it%20grows). So shore up what you can – it’s good for your business anyway.

After addressing what you can, **prepare clear explanations for any remaining issues or tough questions**. Not every single thing can be fixed overnight – maybe you do have a small lawsuit ongoing, or your growth is flat this quarter – but if you know it’s likely to be questioned, have a response ready. Preferably, acknowledge the issue before investors even have to pry, and explain what you’re doing about it. For example: “We had a dispute with a contractor that led to a lawsuit; we’re in settlement talks and expect it to be resolved shortly. Here’s the context and why it won’t affect the business going forward.” Owning up to imperfections demonstrates integrity and maturity. Remember, **no startup is perfect**; investors understand that. They are mainly looking to see how you handle imperfections – with proactivity and transparency, or with denial and evasion.

In short, **an ounce of prevention is worth a pound of cure** in due diligence. By cleaning up your house and fixing small problems early, you prevent them from becoming big red flags. You’ll glide through diligence more easily and with far less panic. As a bonus, your company will be better organized and run more smoothly as a result of this cleanup. Many founders find that after assembling a data room and cleaning up their records, they themselves feel *more confident* going into investor meetings, because they truly know their business inside and out.

### Best Practices During the Diligence Process

Once due diligence officially starts (i.e. you get that request list from the investor), it’s game time. Here are some **best practices** to follow during the process to keep things moving efficiently and to maintain a great impression:

* **Be Responsive and Timely:** Aim to answer investor requests and questions promptly. You don’t have to drop everything within minutes, but don’t go dark for a week either. Set expectations (“We’ll gather those customer metrics and have them to you by Friday”) and meet them. Prompt responses show you’re on top of things and treat the process with the urgency it deserves. If something will take time (e.g. your accountant needs a few days to pull reports), communicate that rather than missing a deadline.
* **Communicate Clearly and Calmly:** It’s normal for investors to ask dozens of questions during diligence. Don’t get rattled. Provide clear, factual answers backed by data or documents. If a question is unclear, ask for clarification. Keep your tone professional and factual, not defensive. For example, if asked about a dip in sales last quarter, a good answer might be, “Yes, Q2 was slower (down 15% QoQ) due to seasonal cycles and a key sales hire leaving. We’ve addressed this by hiring a new salesperson and Q3 numbers are back up – here’s the data.” This shows you acknowledge reality and take action on issues.
* **Honesty and Transparency (No B.S.):** This is crucial. If you don’t know an answer, say so and promise to find out (and then follow through). If there’s a problem, don’t spin an elaborate excuse – acknowledge it and explain how you’re mitigating it. Investors are *much* more forgiving of issues that are met with candor and plans, versus issues that you try to hide or sugarcoat[[56]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=as%20patterns.%20,leadership%20recognizes%20and%20remediates%20them). Remember the purpose of diligence is to build trust. Being forthright, even about negatives, builds credibility. As one investor advises, *when issues are raised, candor matters – investors care less about the fact something went wrong and more about whether the founders recognize it and are fixing it*[[56]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=as%20patterns.%20,leadership%20recognizes%20and%20remediates%20them).
* **Stay Organized and Enable Easy Access:** Continue to use your data room or organized document hub. If investors ask for something not already in it, add it there rather than sending random email attachments. This keeps a clear record of what’s been provided. Also, version-control any updated documents (e.g. if you revised your financial model during diligence, label it clearly as v2). Little touches like an index of documents or notes explaining certain files can be helpful.
* **Anticipate Questions and Proactively Address Them:** Seasoned founders often include a brief FAQ or a “diligence prep memo” alongside the data room. This might highlight key points or potential concerns and address them upfront. For example, if you know your churn rate is higher than industry average, you could include a note in the data room like, “Regarding churn: We experienced 12% monthly churn in the first half of the year due to X reason, but have since improved it to 5% after implementing Y strategy.” Proactively answering tough questions can shorten the back-and-forth and again shows you’re not trying to hide anything. It’s akin to anticipating investor questions as you would in a pitch Q&A, but in written form.
* **Keep the Dialogue Open:** It’s wise to have regular check-ins with the investor during the diligence period. For instance, a weekly call to touch base on any open questions or documents. This helps prevent miscommunication. Ask if they need anything else and if everything provided makes sense. This also gives you a chance to **gauge their mood** – if an investor grows silent or seems bothered by something, a check-in can surface that issue so you can address it.

Finally, maintain a **professional mindset**: treat diligence as a collaborative process, not an adversarial one. The investor *wants* to invest (otherwise they wouldn’t be doing diligence); your job is to help them get comfortable saying yes. Each request you fulfill and each answer you give is moving both of you toward the same goal of a successful partnership.

### Common Pitfalls and How to Avoid Them

Even well-prepared founders can stumble in due diligence if they’re not careful. Here are some **common pitfalls** that derail due diligence, and tips on avoiding them:

* **Pitfall 1: Disorganized or Incomplete Documentation.** This is perhaps the #1 culprit for extending diligence or killing deals. A disordered data room – missing financial statements, unsigned contracts, errors in the cap table – **signals deeper issues**[[57]](https://sprinto.com/blog/red-flag-due-diligence/#:~:text=1). It suggests you may not have control of your business or, worse, might be concealing risk. *Avoidance:* Start organizing early (as we’ve hammered home). Do a thorough sweep to ensure all critical documents are present, signed, and consistent. If something is missing (e.g. you can’t find a contract), let the investor know you’re retrieving it (and then do so). Double-check that numbers tie out across documents – for instance, your financial statement revenue matches the sum of your customer invoices. These consistency checks catch a lot of problems.
* **Pitfall 2: Surprises and Inconsistencies.** Investors don’t like surprises in diligence. If information in diligence contradicts what you claimed earlier, you’ve got a trust problem. Examples: you said you had 100 customers, but detailed data shows only 60 active; or you claimed no debt, but a liability shows up on the balance sheet. *Avoidance:* Always align your pitch claims with reality. If you gave any hyperbolic figures in excitement, clarify them in the data (better yet, don’t overstate metrics to begin with). Review your past communications and ensure nothing in the data room will make you have to say, “Actually, the real number is different.” Investors understand if things changed (e.g. a customer pulled out – just explain it), but if they catch what looks like a lie, the deal is likely off.
* **Pitfall 3: Ignoring Red Flags Instead of Addressing Them.** Some founders hope that if they don’t mention a weakness, investors might miss it. That’s wishful thinking; due diligence exists to find red flags. For instance, hoping an investor won’t notice a founding team breakup or a looming patent issue is a mistake. When investors *do* find it (and they usually do), the fact you stayed silent makes it seem like you were hiding it. *Avoidance:* Be upfront about known issues from the start of diligence. It might feel counterintuitive to shine a light on your startup’s warts, but it’s far better coming from you with context than appearing as a nasty surprise. Plus, many “red flags” are survivable if handled openly. Investors are often willing to work through a risk (adjusting terms or helping solve it) if they trust you. They are **not** willing to proceed with a founder they feel is hiding information. As the saying in venture goes, *bad news is OK, no news is not*.
* **Pitfall 4: Overconfidence or Combativeness.** Due diligence can be emotionally taxing – it’s easy to get defensive when your life’s work is being nitpicked. However, getting combative (“Why do you need that? That’s a dumb question.”) or overly salesy (“Everything is absolutely perfect, no risks at all!”) will backfire. *Avoidance:* Stay humble and cooperative. If you disagree with a premise (say, an investor expresses concern about something you think is trivial), calmly provide your perspective and evidence, but don’t turn it into an argument. Choose your battles very wisely; most of the time it’s better to say “We understand your concern, here’s how we see it…” rather than “You’re wrong.” Remember, part of what investors are judging is what it’s like to work with you. Be the founder who can handle tough questions with grace.
* **Pitfall 5: Team Not Aligned or Prepared.** If you have cofounders or key team members, make sure everyone is on the same page during diligence. It looks bad if an investor asks your CTO a technical question and they give a completely different answer or tone than you. Or if one founder seems checked out of the process. *Avoidance:* **Coordinate with your team** beforehand. Decide who will be the point person for most communication (often the CEO) and who will join which meetings. Brief your team on the key messages and facts – you might even hold a prep session to role-play some Q&A. Ensure your cofounders are as honest and forthcoming as you, and that they alert you if any issue arises in their realm. A united, prepared team inspires confidence; disorganized internal communication does the opposite. As an example, investors often note that *getting the team through diligence is itself a test of cohesiveness and leadership – if the team fumbles here, it sends a negative signal*[[58]](https://dealroom.net/blog/startup-due-diligence#:~:text=,send%20quite%20the%20opposite%20signal).

By being mindful of these pitfalls, you can steer clear of most common traps. Many essentially boil down to **lack of preparation or transparency**. The theme is clear: prepare well, be honest, work collaboratively, and you’ll navigate due diligence just fine.

## How Diligence Differs by Investor Type (VCs, Angels, Accelerators)

Not all investors approach due diligence in the exact same way. The process and depth can vary depending on whether you’re dealing with venture capitalists, angel investors, or startup accelerators. As an entrepreneur, it helps to understand these nuances so you know what to expect from each type of investor.

* **Angel Investors:** Angels are individual investors (often ex-founders or high-net-worth individuals) who invest their own money. Due diligence by angels can be relatively lightweight – sometimes almost non-existent if the trust is strong. Early angel rounds (friends & family or pre-seed) often operate on *“good faith and mutual trust”*, without extensive legal or financial vetting[[59]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=Chances%20are%2C%20you%20already%20have,like%20in%20a%20VC%20fund). Many angel investments are decided quickly based on the personal relationship and the pitch. As a result, an angel might simply ask for a few cursory items (like a cap table and incorporation documents) and trust the rest[[60]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=However%2C%20it%E2%80%99s%20up%20to%20the,table%20and%20your%20incorporation%20paperwork). Of course, this isn’t universal: some sophisticated angels will dig deeper, especially if they don’t know you well. They might do a few reference calls and ask for a bit more data. But in general, angels have **flexibility** – since it’s their own money, they can rely on their gut more and skip some formalities. Don’t be surprised if an angel’s due diligence feels more like friendly advice sessions than an audit. Still, *be prepared to provide whatever they do ask for* in a timely manner. Impressing an angel with readiness can only help (and if they’re light on diligence, you’ll be pleasantly over-prepared rather than caught off guard).
* **Venture Capitalists:** VCs manage other people’s money (from LPs) and thus tend to be **more rigorous and structured** in due diligence. Expect a VC firm, especially at Series A or later, to run you through all the paces we described earlier – full deep dives into product, market, team, legal, and financials. VCs often use *standardized checklists* and bring in lawyers and sometimes outside experts (for technical or market diligence)[[61]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=Emotions%20run%20high%20in%20early,for%20better%20comparison%20across%20opportunities)[[62]](https://medium.com/@kelechiachinonu/009-startup-due-diligence-done-right-backing-your-gut-with-process-2a580ffe7ad2#:~:text=diligence%20checklist%20for%20VC%20deals%2C,for%20better%20comparison%20across%20opportunities). The timeline is usually longer: VC due diligence commonly takes a few weeks to a couple of months, depending on complexity[[63]](https://dealroom.net/blog/startup-due-diligence#:~:text=From%20here%2C%20the%20amount%20of,requests%20and%20analyzes%20the%20information). They will likely send a formal **“due diligence request list”** after a term sheet, outlining exactly what documents and information they need[[64]](https://dealroom.net/blog/startup-due-diligence#:~:text=the%20investor%2C%20the%20process%20can,begin%20in%20earnest). VCs also have to justify to an investment committee or partners that your company is solid, so they are motivated to be thorough. Compared to angels, VCs also do more **legal due diligence** via law firms (they’ll review your contracts, IP, etc. with attorneys). As discussed, they may do background checks and more reference calls as well. In short, **VC diligence is comprehensive**. It can sometimes feel exhausting (and yes, a bit intrusive), but remember why: the VC is **fiduciary-bound** to verify they’re making a wise investment[[7]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=Any%20VC%20investing%20in%20your,finance%20companies%2C%20and%20rich%20people). The upside is, once you pass, they’re often willing to invest significant capital and support. Just be ready for a more formal process with VCs. One practical tip: when you know you’ll be seeking VC funding, *get your legal documents in order beforehand*. Many startups have to spend thousands on legal cleanup (fixing their cap table, issuing missing stock, etc.) when a VC comes on board[[65]](https://capbase.com/how-to-prepare-your-startup-for-due-diligence/#:~:text=As%20part%20of%20a%20term,front%20on%20those%20legal%20reimbursements). You can save time and money by doing that housekeeping in advance.
* **Accelerators:** Startup accelerators (like Y Combinator, Techstars, etc.) have their own twist on due diligence. Accelerators invest relatively small amounts (often on standardized terms like SAFEs) and on tight timelines (they have fixed program start dates), so their due diligence is often **focused on fundamentals and logistics**. The accelerator’s main selection happens through the application and interview process – once you’re *accepted*, the “due diligence” is usually about making sure your company can legally take investment and participate. For example, many accelerators require that your startup is incorporated (often as a Delaware C-Corp for US-based programs) and that all founders are on board with the equity split. If you applied as just an idea or project, you may need to formally incorporate before they fund you. In one real case, a startup accepted to Techstars had to *restructure and incorporate a new entity in Delaware, set up a bank account, allocate founder equity and an option pool, prepare a cap table, and transfer all IP to the new company – all as part of the accelerator’s diligence process*[[66]](https://www.legalnodes.com/article/preparing-inputsoft-for-techstars-due-diligence#:~:text=,property%20to%20the%20new%20company). These steps were required because accelerators have a limited list of jurisdictions they can invest in and want to ensure the startup’s house is in order before the program[[67]](https://www.legalnodes.com/article/preparing-inputsoft-for-techstars-due-diligence#:~:text=It%27s%20widespread%20when%20the%20accelerator,that%20they%20can%20invest%20in). In general, **accelerator due diligence** will check that your legal entity is set up correctly, your intellectual property is owned by the company, and there aren’t any major legal impediments (like disputes between cofounders or existing investor conflicts) that would derail the program. They might also verify you can commit to the program full-time (some accelerators ask if all founders have quit their day jobs, etc.). Compared to VCs, accelerators usually *don’t* comb through your financials with a fine lens (many teams are pre-revenue anyway), and they might not scrutinize market size in depth (the assumption is you’re early and will figure a lot out during the program). Think of it this way: an accelerator’s diligence is about checking **“Are there any reasons we *can’t* invest in or work with this team for the next 3 months?”**. No surprise, it’s generally faster and simpler. But don’t mistake it for a free pass – if you have unresolved legal or equity issues, you may still lose your spot. Get those basics sorted so you can hit the ground running on day one of the program.

One more nuance: **stage of investment** matters too. Early seed investors (angel or VC) might forgo some deep analysis simply because there’s not much to analyze yet – there’s limited data, so they focus on team and vision. Later stage investors (Series B, C, etc.) will dig far deeper into metrics, cohorts, maybe even commission third-party research on your market. By Series C, due diligence can resemble a mini M&A process with very in-depth checks. But that’s beyond the scope of this chapter. For early- and mid-stage entrepreneurs, just remember: an angel round might feel like a handshake, a VC Series A will feel like an audit, and an accelerator is somewhere in between (with a dash of paperwork bootcamp to get your startup structured right).

## Staying Calm, Professional, and Investor-Ready

Due diligence can certainly test a founder’s nerves. It’s like a spotlight on every corner of your business. But with preparation and the right mindset, you **don’t have to dread it**. In fact, you can approach it with confidence. Here are some closing tips on staying calm and professional during diligence, and truly being *investor-ready*:

* **Remember It’s Routine:** First, keep in mind that due diligence is a standard hurdle, not a personal judgment or an interrogation. Every startup that raises significant money goes through it. Investors *expect* founders to be a bit nervous, but also to treat it as business as usual. Normalize it in your mind: “This is a normal part of the fundraising journey. It’s not a witch hunt, it’s a collaboration to prove we’re worth the investment.”
* **Trust Through Transparency:** The fastest way to build trust in diligence is through open and transparent communication, as we’ve emphasized. If you hit a snag or discover something problematic, let the investors know sooner rather than later, and explain how you’ll resolve it. Hiding it will only increase your stress (you’ll be worrying if they’ll find out) and could blow up later. Transparency is disarming; it turns potential explosions into manageable discussions. Many investors have said that *bad news doesn’t kill deals, but surprises do*. So if you stay transparent, you eliminate the nasty surprises that cause panic.
* **Lean on Advisors and Mentors:** You don’t have to go through diligence alone. If you have mentors, advisors, or investors from previous rounds, lean on them for advice. Often they can give you perspective (“Yes, VC Firm X always asks for that, here’s how you answer”) or help you gather documents (maybe your lawyer or accountant can help with the data room). Just ensure any outside helpers are trustworthy and, if needed, have signed NDAs – you don’t want sensitive info leaking. Advisors can also do mock Q&A with you to practice answers for tough questions, which can really boost your confidence.
* **Stay Professional and Courteous:** It should go without saying, but always maintain professionalism with the investor’s team (including analysts, associates, lawyers, etc.). Even if diligence drags on or some requests feel overkill, stay courteous. For example, if a junior analyst asks something that was already in a document, resist the urge to snap “It’s in the deck, didn’t you read it?” Instead, politely clarify or point them to the right file. How you handle these moments shows your character. Investors appreciate founders who remain *calm under pressure* – it bodes well for how you’ll handle business challenges too.
* **Manage Your Stress:** Internally, make sure to manage your own stress and energy. Diligence can be time-consuming, which is tough because you still have a company to run! Divide duties among founders if possible (maybe one handles most of the data requests while another keeps operations going). Take care of yourself physically and mentally – get sleep, take short breaks, remember that a failed diligence isn’t the end of the world (you can often fix issues and try again). Keep the big picture in mind: this process is temporary and aimed at achieving your goal of scaling the business with new funding.
* **Learn and Improve:** Finally, treat due diligence as a learning experience. You’ll likely get questions you hadn’t deeply considered about your business. Rather than being irritated, use them to sharpen your thinking. If an investor uncovers a weakness (say, a hole in your go-to-market plan or an unexplored competitor), take that as valuable insight. It’s better to address it now than be blindsided later. Some founders come out of due diligence saying, “That was like a free consulting project on my business.” It can reveal gaps that you now have the capital and focus to fix. So stay open-minded to feedback that emerges.

### Real-World Resilience: Diligence Successes and Cautionary Tales

To wrap up, let’s look at a couple of real anecdotes that underline the importance of everything we’ve discussed:

* **Cautionary Tale:** A few years ago, a startup founder was deep into closing a Series A with a VC. The product was great, customers were growing, and the term sheet was signed. But during due diligence, the VC’s legal team discovered a serious issue: the founder had been using a patented technology without permission. The startup didn’t own the IP and hadn’t disclosed this. This revelation – essentially an undisclosed legal risk – completely shattered the trust. The investor walked away, and the round fell through. The founder later admitted that he hoped it “wouldn’t be a big deal” and tried to fly under the radar. The lesson: **withholding critical information is a deal-killer**[[1]](https://dealroom.net/blog/startup-due-diligence#:~:text=The%20presentation%20is%20slick%20and,something%20which%20was%20really%20important). If the founder had been upfront and perhaps negotiated a license for the tech earlier, the outcome might have been different. Instead, the omission was viewed as a breach of integrity, something no investor can accept.
* **Success Story:** Contrast that with a positive example – the founders of *InputSoft*, a startup accepted into Techstars. They realized they had a ton of legal to-dos to pass Techstars’ diligence: incorporate in the right jurisdiction, formalize equity, transfer IP, etc. Instead of fumbling through it alone (and risking mistakes or delays), they proactively engaged a startup-specialized legal team. Those lawyers created a roadmap and swiftly executed all the needed steps: registering a Delaware C-Corp, issuing founder shares and setting up an option pool, drawing up a clean cap table, and transferring all IP into the company[[68]](https://www.legalnodes.com/article/preparing-inputsoft-for-techstars-due-diligence#:~:text=,property%20to%20the%20new%20company). It was still a lot of work, but with experts driving, InputSoft finished the due diligence prep in record time and with **no red flags**. They sailed through and kicked off the accelerator program on schedule[[69]](https://www.legalnodes.com/article/preparing-inputsoft-for-techstars-due-diligence#:~:text=It%20all%20seems%20like%20a,best%20left%20to%20the%20experts). The CEO later said she was *“glad we partnered with [the legal team] to help with diligence…they were on top of all things we needed to achieve”*[[70]](https://www.legalnodes.com/article/preparing-inputsoft-for-techstars-due-diligence#:~:text=Anastasiia%20Smyk%2C%20CEO%20%26%20Co,InputSoft%2C%20has%20said). The takeaway: **prepare early and get help where needed**. By treating diligence prep as a priority (and not hesitating to use experienced help), the founders turned it into a smooth process, actually impressing their investors with how organized they were.

Most stories aren’t that extreme, but nearly every founder has a diligence story – a hiccup or a save. You will have yours too. The goal of this chapter is to ensure your story trends toward the latter category of success.

## Conclusion: Turning Diligence into a Victory Lap

Due diligence doesn’t have to be a nightmare. Yes, it’s thorough. Yes, it can be nerve-wracking to have someone examine your work. But when you approach it prepared and in the right spirit, it can actually be one of the most empowering parts of fundraising. It’s the moment you **prove, with evidence, that your idea is truly investable**.

Let’s summarize the key points to remember:

* **Know what investors care about:** They will check your finances, ownership, legal footing, customer traction, team and tech – all to verify your startup’s potential and surface risks. Now *you* know this too, so no aspect should catch you off guard. Prepare for each category and you’ll be ready.
* **Preparation is the antidote to panic:** Use checklists, organize a data room, and do a self-audit well in advance. This upfront work turns a daunting request list into a manageable sharing of files and facts. An organized founder = a confident founder.
* **Different investors, different styles:** Understand that an angel might not pry as much as a VC, and an accelerator just wants your basics in order. Calibrate your expectations, but when in doubt, lean toward being *more* prepared than needed.
* **Transparency builds trust:** You win by being honest about the good, the bad, and the ugly. No startup is perfect, and investors don’t expect perfection. They expect **truthfulness and professionalism**. If you hit a snag, share it (with context and a solution) rather than concealing it. This approach will rarely lose you an investment, whereas hiding things often will.
* **Keep calm and founder on:** Throughout the process, maintain your composure and professionalism. Treat diligence like the partnership-building exercise it ultimately is. Every question answered thoroughly is a step toward a stronger investor relationship. And if you ever feel overwhelmed, remember why you’re doing this – to secure the support to take your startup to the next level. The prize at the end (the investment, the mentorship, the validation) is worth the effort.

In the end, due diligence is about **confidence** – the investor’s confidence in backing you, and your confidence in knowing your business inside-out. By simplifying and demystifying the process, we hope you’ll approach your next diligence not with dread, but with determination. You’ve got the tools and knowledge to turn due diligence into a victory lap on your fundraising journey. So go forth, be prepared, and show them that your idea isn’t just a dream – it’s a solid, investable venture ready to conquer the world (with their help). Good luck!

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