

Mastering the Art of Technical Due Diligence

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Summary by



InhouseVentures

Overview

Venture capital firms place significant emphasis on technical due diligence when evaluating startups, particularly those whose products center around specialized technology or proprietary algorithms. For founders, understanding and effectively navigating this process is crucial to securing investment and building trust with potential investors. This guide offers an overview of preparing for technical due diligence, highlighting key strategies to demonstrate the robustness of your technology and the integrity of your intellectual property.

20-Point Summary:

1. **Understanding Technical Due Diligence:** Technical due diligence is crucial for VCs, especially for products reliant on specific technologies like algorithms.
2. **Importance of IP Ownership:** VCs need assurance that startups own the IP of critical technologies, which serves as a significant mode of business.
3. **Mutual Trust:** Establishing trust between startups and VCs is essential, given past issues of IP theft or idea appropriation.
4. **Using NDAs:** Startups concerned about IP theft should prepare legally binding NDAs for VCs during the due diligence process.
5. **Impressive Demos:** Treat assessors like end customers; impress them with demos to garner positive interest in your technology.
6. **Documentation of Key Systems:** Document critical system parts thoroughly but keep sensitive details confidential to protect your IP.
7. **Transparency:** Be transparent about using third-party technologies and the associated implications, ensuring clear communication with VCs.
8. **Third-party Agreements:** Disclose any third-party agreements that are integral to your product, as VCs consider these details crucial.
9. **Process Disclosure:** Explain your team's and system's operational processes as technical assessors evaluate these alongside the technology.
10. **Separating Core Tech:** Divide your technology into core and non-core parts to manage what is disclosed during assessments effectively.
11. **Sharing Selective Details:** Offer general descriptions and white papers on core technologies without revealing full access to critical algorithms.
12. **High-Level Descriptions:** Provide high-level overviews of how crucial algorithms work, aiding assessors while protecting detailed implementations.

13. **Assessor's Role:** Understand that assessors aim to be neutral and objective, not to hinder funding opportunities but to provide a fair evaluation.
14. **Objective Reporting:** Assessment reports to VCs are unbiased, focusing on an objective evaluation of the technology and operational systems.
15. **Preparation Over Examination:** View technical assessment as a preparation opportunity, not an exam, sharing ample information for a thorough evaluation.
16. **Legally Binding NDAs:** Maintain NDAs to secure your IP from being shared or stolen during the due diligence process.
17. **Comprehensive Documentation:** Keep detailed records and documentation of all systems, which assessors highly value.
18. **Neutral Language in Reporting:** Ensure that the language in assessment reports is neutral, avoiding overly positive or negative phrases.
19. **Key Recommendations:** Technical assessments typically include recommendations for system improvements, providing an external perspective.
20. **Overall Preparedness:** Being well-prepared with documentation, demos, and NDAs can significantly influence the positive outcome of technical due diligence.