Financial Due Diligence: Fundraising Preparation Guide

> *Audience: founders and finance leaders preparing for seed through Series B diligence. Outcome: a clean, credible data room and confident answers to investor probes.*

1) Diligence Timeline

- Pre-process cleanup: 60–90 days before raise—close books, clean chart of accounts, reconcile ARR/MRR, document policies.
- Pre-LOI: assemble data room, narrative, and forecasts; run internal Q&A.
- Confirmatory: respond fast with consistent answers; track all requests; keep a change log for updates during the process.

2) Financial Package

- Historical financials: GAAP and management view; P&L, BS, CF with bridges; segment/product views if material.
- Revenue quality: ARR/MRR bridge, cohort tables, NRR/GRR, logo churn, contraction/expansion detail, revenue concentration.
- Gross margin detail: by product/plan where possible; include allocations policy.
- Unit economics: CAC, payback, LTV, burn multiple, acquisition channel efficiency.
- Bookings/Billings/Cash: clear waterfalls and timing assumptions.

See our SaaS Financial Metrics guide for detailed metric definitions.

3) Quality of Earnings (QofE) Basics

- Adjustments: one-time items, related-party transactions, normalization of owner comp, FX impacts, and non-recurring projects.
- Working capital: AR/AP trends, inventory (if relevant), deferred revenue; identify seasonal swings.
- Policies: revenue recognition, capitalization vs expense, reserves/allowances; document in plain language.

4) Data Room Checklist

- Financials: historical statements, trial balances, revenue bridges, forecasts, variance analyses.
- Corporate: cap table, option pool, board minutes, org chart, key contracts (customers, vendors, leases).
- Tax: filings, NOLs, sales tax nexus assessment, transfer pricing (if applicable).
- HR/Payroll: headcount by function/geo, compensation bands, contractor list, benefits.
- Security/Compliance: SOC 2/ISO status, policies, vendor security, incident history.
- Product/Metrics: product roadmap, uptime/SLAs, activation metrics, retention cohorts.
- Versioning: date-stamp every upload; maintain an index and change log.

5) Forecast Narrative

- Assumptions: GTM productivity, conversion rates, pricing/discount policy, churn/expansion rates, hiring plan, seasonality.
- Sensitivities: base/downside/upside; highlight cash runway in each.
- Use of proceeds: allocation to GTM, product, hiring, working capital; timeline.
- Ties to metrics: show how NRR, CAC/payback, burn multiple trend under each case.

6) Metric Expectations by Stage (Investor Lens)

- Seed: clean ARR/MRR definitions, early churn patterns, gross margin directionally improving.

- Series A: NRR >105%, payback <18 months, burn multiple <2.5x; basic controls and close cadence.
- Series B: NRR 115%+, payback <12–15 months, burn multiple ~1.5x or better; stronger controls, security posture, and forecasting discipline.

Our Fractional CFO Services can help you prepare for investor scrutiny.

7) Red Flags & Mitigations

- Churn spikes or heavy concentration: present root cause and remediation plan; show recent trend improvement.
- Messy revenue recognition: lock definitions, reconcile billing to revenue, and document policies.
- Weak controls: outline remediation steps (segregation, approvals, SOC 2 path).
- Cap table complexity: clean data, clarify SAFEs/notes, refresh 409A if stale.

8) Founder/Finance Q&A Bank (Samples)

- "How reliable is your forecast?" → Point to historical forecast accuracy, drivers, and variance controls.
- "Why is churn X%?" → Provide cohort view, causes, actions, and recent improvements.
- "What drives expansion?" → Upsell motions, pricing levers, adoption metrics.
- "How long is runway post-raise?" → Show base/downside cases, triggers for spend gates.
- "What are your controls?" → Close calendar, approvals, access controls, security posture.

9) Templates

- Data room index with owners and dates.
- Diligence tracker with requests, status, owners, and links.
- KPI one-pager for investors (ARR/MRR, NRR/GRR, CAC/payback, burn multiple).
- Board/investor update outline: highlights/lowlights, metrics, cash, risks, asks.

10) Call to Action

Need a readiness check? Schedule a diligence prep review or request a proposal to get started.

About 1CFO

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Our Services:

- Fractional CFO – Strategic finance leadership
- FP&A Services – Financial planning and analysis
- Cash Flow Management – Liquidity and runway optimization

Resources:

- Free Assessment – Evaluate your finance function
- ROI Calculator – Estimate your potential savings
- All Guides – More CFO resources

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