10 Common Issues observed during Tech Due Diligence - and how to address them.

Technology challenges are in every target investment. They are either an immediate problem that pose a problem for investment or impact a future exit.

Capturing these issues in early-stage businesses can help develop better practices and reduce risks - a benefit for both the target company and potential investor.



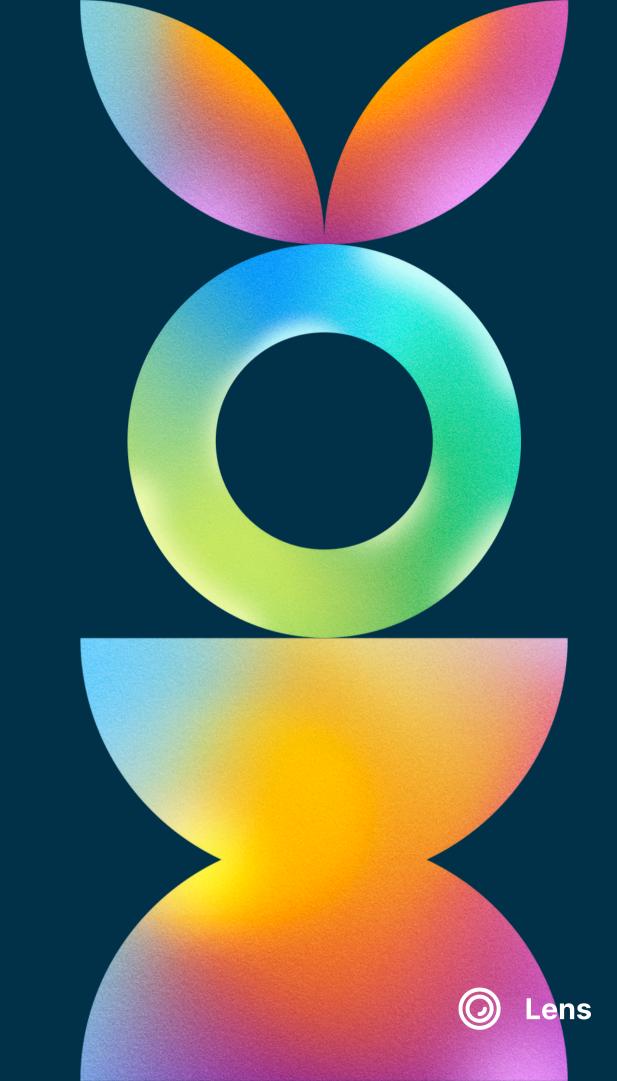
# Unclear ROI

- Unable to determine value of technology efforts.
- Management used to 'sunk cost' financial modelling.
- Poor product roadmap rationalisation.



Firms can grow significantly (>£50m ARR) without this observation being addressed, so there is a strong argument not to address it.

But new investors mean a higher level of acountability so plan and report accordingly.



### Wage Inflation

- Lack of plans to address incumbent
  - team's wages.
- Unrealistic hiring plans.



### Wage inflation not evident in the

financial forecast.



Develop a Target Operating Model (TOM) this will help guide your total operation and hiring plans.

Create a plan for wage increases, employee retention and realistic expectation of new hires.





# Tech Debt

- Lack of clear accountability for technology debt / processes.
- No evidence of prior housekeeping.
- Lack of rigour when selecting tech stack / components.







Creating tech debt isn't an accident; it tends to be a strategy of a high focus on customer value - i.e. bringing new product features to market quickly.

Eradicating Tech Debt is not something you can accomplish before a deal completes, but seeing evidence that you have awareness of the types of debt (e.g. code quality, component sprawl, etc) and an approach to address it is key.

In the best teams the need to address tech debt are evident in the team's/CTO DNA.

# Serial entrepreneurs

- The longevity and intention of the venture is questionable.
- Hence the quality of the offering is poor.
- Sustainability not high on the agenda.



Of course, the entrepreneurs themselves are not a concern. But we are looking for those that have built something to 'flip', and if built quickly, we need to understand how well it has been built. In the worst cases, buyers have had to rebuild entire platforms after a deal.



# Buzzword bingo

- Artificial intelligence, Machine Learning etc. in pitch.
- But currently in the product.
- Typcically not enough data / access to prove models.



We understand the investment is needed to deliver against your vision. But be realistic about what is possible today and let your DD assessor know -as they might be able to present it as an opportunity for the investor.



# Architectural Opaqueness

- Lack of diagrams/documentation.
- next stage of growth.



Either document or practice whiteboarding both the product and tech diagrams. Followng this. ensure you have presented the architecture internally before DD to practice and iron out issues.

• Inability to articulate how the architecture operates. • Raises concerns if the team are the right people for the



## Professional Services

- Professional Services (PS)
  - needed to implement early-
  - stage product.
- Is currently a significant
  - contributor to revenues.
- Tea the





- Team want to eradicate PS with
  - the next round of funding.

Not all firms can be 'pure' SaaS. And some, especially when serving Enterprise, will benefit from a high level of human interaction to keep business relationships ongoing.





### Poor IP Protection

- place
- repositories)



Some of these observations cross over to Legal Due Diligence. From a technology perspective, how well are you protecting and backing up your IP?

The main barriers tend to be awareness and focus, and they are all easy items to fix postdeal.

• Basic assets (e.g. brand, company name, logo etc) not trademarked. • IP agreements between staff not in

• No NDAs, employment contracts etc. • Lack of data backups (inc. code



### Free cloud credits

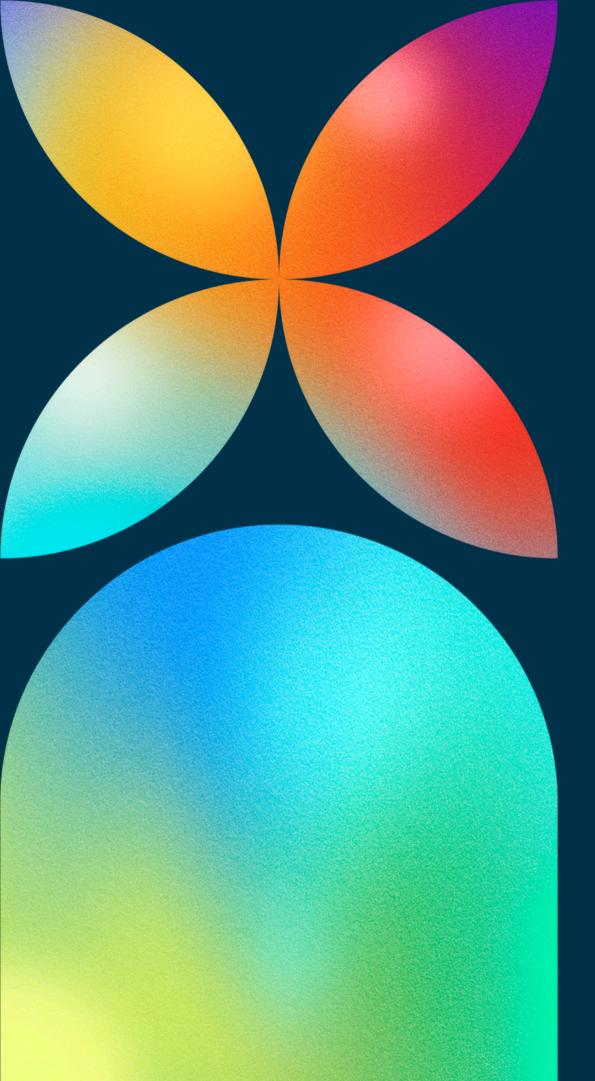
- Financial Model relies on free cloud credits from vendors.
- High-risk cloud usage is not price-optimised.
- If standard pricing kicks in, the ratio of technology costs can be unsustainable.



Ensure your financial model (a) indicates the duration of your free cloud credits, and your risk register states the cost and remediation actions.

Ultimately be prepared for additional costs.





### Poor Resilience

Single Points of Failure are common in many SaaS firms assessed.



If your product fails, you don't have a technology concern - you have a brand reputation one. Often the CTO is aware of the points of failure, and there haven't been enough resources to address them. The issues would have been mentioned to the management team but often soon forgotten as the customer base increased.

This is a key benefit of IT Due Diligence as an investor can help bring this type of issue to the forefront and resources to address it.

#### Typically the board/senior leadership team are unaware of this risk.



# Get in touch

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