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Due Diligence for the Rest of Us

How to Evaluate Any Private Deal Without an MBA, a Bloomberg Terminal, or a Rich Uncle

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WHY THIS GUIDE EXISTS

Here's a number that should stop you: **88%.**

That's the percentage of impact investors who report meeting or exceeding their financial return expectations, according to the Global Impact Investing Network. Compare that to the venture capital industry, where roughly **75% of funded startups fail** to return investor capital.

The difference isn't luck. It isn't insider access. It isn't connections or a Bloomberg terminal or an MBA.

The difference is **due diligence.**

Here's the math on skipping it. The average first-time alternative investor puts $2,500–$10,000 into a deal. Without a framework, they're evaluating based on gut feeling, a polished pitch deck, and whatever the founder told them on a 30-minute call. That's not investing — that's hoping. And hoping costs real money: 18 months of silence, a company that quietly shuts down, and a lesson that cost thousands to learn.

A professional due diligence review runs $1,500–$5,000 per deal. This guide gives you the same framework for $7.

Investors who do the work — who verify what they've been told, find what they haven't been told, and ask the questions most people skip — consistently outperform those who invest on story alone.

> *The deals that blow up aren't the ones that looked bad on the surface. They're the ones that looked good — until someone asked the second question.*

This guide teaches you that framework. Not the institutional version — the one that requires a team of analysts and weeks of review. The real-world version: a disciplined process you can run in under an hour, on any deal, from anywhere.

By the end, you'll have a complete evaluation system, a printable checklist, a terms glossary, and a list of the five mistakes that cost new investors the most money.

Print this. Use it. Every time.

THE FOUNDATION

What Due Diligence Actually Is

Most people overcomplicate this. Due diligence is two things:

- **Verifying what you've been told —** Is the story accurate? Do the numbers hold?
- **Finding what you haven't been told —** What risks are real but unspoken? What would change your mind?

That's it. Everything in this guide is a tool for doing one of those two things faster and more reliably.

The Five Layers — Your Complete Framework

Every private deal can be evaluated through five layers. Together they take about 50 minutes. Skipping any one of them is where investors get hurt.

LAYER	WHAT YOU'RE CHECKING	TIME
1 — Story Check	Is the narrative coherent and defensible?	~5 min
2 — Numbers Check	Do the financials hold up?	~15 min
3 — Terms Check	Are you being treated fairly?	~10 min
4 — People Check	Can this team actually execute?	~10 min
5 — Outside Check	What does the world say about this?	~10 min
Total	—	~50 min

Run these in order. Don't skip to what interests you. The Story Check keeps you from wasting 45 minutes on a deal that fails the first question.

LAYER 1

The Story Check

Before you open a spreadsheet or read a single investor update, you need to know whether the story makes sense. Four questions. Five minutes.

Q1 — Can I explain this in 30 seconds?

If you can't summarize the business in plain language after reading the pitch, that's a signal. Either the business model is unclear, the materials are poorly written, or both. Neither is good.

GOOD ANSWER

"They make software that helps small dental practices manage insurance billing. They charge $299/month per practice and have 400 paying customers."

RED FLAG ANSWER

"It's an AI-powered, blockchain-integrated platform that disrupts the intersection of healthcare and fintech using proprietary algorithms."

Q2 — Is the problem real and specific?

Every business claims to solve a problem. The test is specificity. A real problem can be described in terms of who experiences it, how often, and at what cost. Vague problems produce vague businesses.

- Who has this problem exactly?
- How are they solving it today (without this company)?
- What does that workaround cost them in time or money?

Q3 — Why now?

Timing matters more than most investors acknowledge. A great idea launched five years too early or five years too late rarely succeeds. Look for a credible answer about what changed recently to make this moment the right one.

STRONG ANSWERS

WEAK ANSWERS

New regulation created a compliance gap. A key technology just became affordable. A behavior shift (remote work, aging demographics, AI adoption) created a new need.

"The market is growing" (it was growing before, too). "We have a better product" (everyone says that). No answer at all.

Q4 — Is the market size realistic?

Founders love TAM numbers. Take them apart. A $500 billion market means nothing if the realistic addressable segment is $50 million. Ask: what slice of this market can they actually reach in five years, through what channels, at what customer acquisition cost?

> *A good story is necessary but not sufficient. The story has to survive contact with the numbers.*

LAYER 2

The Numbers Check

You don't need a finance degree. You need to know which numbers matter and what to look for in each one. Here are the five that tell most of the story.

Revenue

What stage is this company at?

STAGE	WHAT TO LOOK FOR
Pre-revenue	Letters of intent, waitlists, paying pilot customers — any evidence of real demand beyond the founder's belief
$1K – $50K/month	Is it growing? Month-over-month trend matters more than the absolute number
$50K+/month	Growth rate, consistency, and concentration (are 3 customers responsible for 80% of revenue?)

Burn Rate

How much cash does the company spend each month? Calculate it yourself from the financials: opening cash balance minus closing cash balance divided by number of months. Then ask: how many months of runway do they have at current burn? If the answer is under 12 months and they haven't started the next raise, that's a material risk.

Gross Margin

Revenue minus cost of goods sold, divided by revenue. This tells you how much of each dollar of sales actually flows to the business. Gross margin varies widely by industry — compare against the benchmark, not a generic standard.

BUSINESS TYPE	HEALTHY GROSS MARGIN
SaaS / Software	70 – 90%
E-commerce	30 – 60%
Service Business	50 – 70%

Hardware	25 – 50%
Marketplace	40 – 70%

Customer Acquisition Cost (CAC)

How much does it cost to acquire one paying customer? Divide total sales and marketing spend by the number of new customers added in the same period. The golden rule: **CAC should be less than one-third of lifetime value**. If it costs $900 to acquire a customer worth $800 over their lifetime, the business model is broken regardless of how fast it's growing.

Lifetime Value (LTV) and LTV:CAC Ratio

LTV is the total revenue you expect from one customer over the entire relationship. LTV:CAC is the single most important efficiency ratio in early-stage investing.

LTV:CAC RATIO	WHAT IT MEANS
Below 1:1	Losing money on every customer
1:1 – 2:1	Barely breaking even — leaves no room for error
3:1	Healthy. Industry standard for SaaS.
5:1+	Very efficient. May indicate room to invest more in growth.

> *Revenue is a story. Unit economics are the truth underneath the story.*

LAYER 3

The Terms Check

How you invest matters as much as what you invest in. Two investors can back the same company and have radically different outcomes depending on the terms of their investment.

Know What You're Buying

Before anything else, identify the investment structure:

- **Common Stock —** Direct equity ownership. You own a percentage of the company. Simplest structure; lowest preference in a liquidation event.
- **SAFE (Simple Agreement for Future Equity) —** A promise to convert your investment into equity at a future round. Defined by two terms: a valuation cap (the maximum price at which you convert) and a discount (the reduction from the next round price). You want both.
- **Convertible Note —** A short-term loan that converts to equity. Includes an interest rate, maturity date, cap, and discount. More investor-protective than a SAFE in default scenarios.
- **Revenue Share —** You receive a percentage of ongoing revenue until you hit a defined return multiple. No equity. Useful when valuations are unclear or growth is predictable.

Is the Valuation Reasonable?

The valuation sets your entry price. High valuations are not inherently bad, but they compress your upside. Use this as a general benchmark by stage — actual valuations vary widely by sector and market conditions.

STAGE	TYPICAL VALUATION RANGE
Pre-revenue (idea stage)	$1M – $3M
Pre-revenue (product built)	$2M – $5M
Early revenue ($1K – $50K/month)	$3M – $10M
Growth ($50K – $200K/month)	$8M – $25M
Scaling ($200K+/month)	$15M – $50M+

If a pre-revenue company is asking for a $20M valuation, you need a very clear reason why. The burden of proof is on them.

Three Terms That Protect You

- **Pro-rata rights —** The right to participate in future rounds to maintain your ownership percentage. Without this, you get diluted every time a new investor comes in.
- **Liquidation preferences —** In a sale or dissolution, preferred shareholders get paid before common shareholders. Know what class you're in and what the stack looks like above you.
- **Information rights —** The right to receive regular financial reports. If you can't see the books, you can't protect your investment.

LAYER 4

The People Check

Most investments that return well do so because the team adapted when the original plan didn't work. Most investments that fail do so not because the market was wrong, but because the team wasn't capable of adjusting. Bet on people first.

What to Look For

Domain Expertise

Has the founder spent meaningful time in this industry or solving this specific problem? The best founders understand the market not from research, but from lived experience. They know the customer's vocabulary. They've felt the pain firsthand.

Complementary Skills

Strong founding teams cover three functions: someone who builds (product and technology), someone who sells (revenue and distribution), and someone who knows (domain and relationships). A team of three engineers with no commercial experience is a risk. A solo founder covering all three is also a risk — but different.

Track Record

What have they built before? What did they learn from it? First-time founders can succeed — but experienced founders make fewer preventable mistakes. If this is their first venture, what in their background suggests they can handle what's coming?

The 3-Question Founder Test

Ask these three questions directly — in a call, a Q&A session, or an email. Watch how they respond.

QUESTION 1

"What's the biggest thing that could kill this company in the next 18 months?"

A confident, self-aware founder answers this without hesitation. Evasion or over-optimism is a warning sign.

QUESTION 2

“What has surprised you most about building this company?”

This reveals intellectual honesty. The best founders have been surprised many times and learned from each one.

QUESTION 3

“Who is the most important customer you’ve lost, and what did you learn from it?”

If they haven’t lost a customer yet, ask about the hardest customer conversation. What they did with the feedback tells you everything.

> *You’re not just investing in an idea. You’re handing capital to a human being and trusting them to navigate uncertainty for the next five to ten years.*

LAYER 5

The Outside Check

Everything you've evaluated so far came from the company. This layer comes from everywhere else. Ten minutes of external research catches things that no amount of internal review will reveal.

Five Things to Do Right Now

- **Google the company name + "lawsuit," "complaint," and "scam." —** Do this for the company and the founders individually. What you find matters. What you don't find also tells you something.
- **Search the founders on LinkedIn. —** Verify that their experience matches what's in the pitch. Look at the timeline. Look at what former colleagues say in endorsements. Look at whether they're connected to anyone you know or trust.
- **Map the competitive landscape. —** Google the problem the company is solving. Who else is building a solution? Are there well-funded incumbents? Has anyone already failed at this? Why?
- **Read the Q&A if it's a platform deal. —** Crowdfunding platforms like Republic and Wefunder have public Q&A sections. Read every question and every answer. The founder's response to hard questions in public is one of the most revealing data points available.
- **Talk to someone who knows. —** Do you have a contact in this industry? A friend who works in adjacent space? Even a 10-minute conversation with someone who understands the market can surface risks that hours of self-research would miss.

THE PRINTABLE TOOL

The Complete DD Checklist

Print this page. Complete it for every deal you evaluate. A written record protects you from yourself — from rationalizing, from memory gaps, from the enthusiasm that fades when a deal goes quiet.

Deal Information

DEAL / COMPANY NAME

DATE REVIEWED

PLATFORM / SOURCE

AMOUNT CONSIDERING

Layer 1 — Story Check

- Can explain the business in 30 seconds
- Problem is real and specific with identified customers
- “Why now” is credible — timing driven by real change
- Market size claim is believable and grounded

Layer 2 — Numbers Check

- Revenue stage and trajectory understood
- Burn rate calculated — runway is 12+ months
- Gross margin is within healthy range for this business type
- CAC is less than one-third of LTV
- LTV:CAC ratio is 3:1 or better

NOTES ON FINANCIALS

Layer 3 — Terms Check

- Investment structure is clear (equity, SAFE, note, revenue share)
- Valuation is reasonable for stage and sector
- Pro-rata rights included or noted as absent
- Liquidation preference stack is understood
- Information rights secured

INVESTMENT STRUCTURE AND KEY TERMS

Layer 4 — People Check

- Domain expertise is verifiable, not just claimed
- Team covers build + sell + know functions
- Track record reviewed — experience is relevant
- Founders responded to hard questions with honesty

Layer 5 — Outside Check

- Company + founders Googled with negative keywords
- LinkedIn profiles verified against pitch materials
- Competitive landscape mapped
- Platform Q&A or public forum reviewed
- Talked to someone with industry knowledge

Overall Assessment

Score each layer 1–5 (1 = serious concerns, 5 = very strong).

LAYER	SCORE (1–5)	KEY CONCERN OR STRENGTH
Story Check		
Numbers Check		
Terms Check		
People Check		
Outside Check		

SCORING GUIDE

20 – 25: Strong deal — proceed with confidence
15 – 19: Decent deal — resolve remaining questions before committing
10 – 14: Weak deal — significant concerns need answers
Below 10: Hard no — pass and document why

Decision

- Invest — amount: ______________
- Pass — reason: ______________
- Follow up — outstanding question: ______________

BONUS

The Term Sheet Translator

These are the thirteen terms you will encounter most often in private deal documents. Know them before you read. This glossary alone would take hours to compile from scattered sources — it's included as a bonus you can reference every time you evaluate a deal.

TERM	WHAT IT MEANS	WHY YOU SHOULD CARE
SAFE	Simple Agreement for Future Equity — a contract that converts to equity at a future funding round	Common in early-stage crowdfunding; know your cap and discount before signing
Valuation Cap	The maximum valuation at which your SAFE or note converts to equity	Lower cap = better deal for you; protects your upside if the next round is at a high valuation
Discount	A percentage reduction applied to your conversion price vs. the next round's share price	A 20% discount means you convert at 80 cents on the dollar compared to new investors
Pre-money Valuation	The company's value before new investment comes in	Your ownership percentage is calculated on the post-money valuation (pre-money + new investment)
Post-money Valuation	The company's value after new investment	The higher the post-money, the smaller your percentage stake for a given dollar invested
Dilution	The reduction in your ownership percentage when new shares are issued	Every future funding round dilutes existing shareholders; pro-rata rights protect you
Liquidation Preference	The right of certain shareholders to be paid before others in a sale or liquidation	Know where you stand in the payment queue; common stock is typically last

TERM	WHAT IT MEANS	WHY YOU SHOULD CARE
Convertible Note	A short-term loan with interest that converts to equity, usually at the next round	More protective than a SAFE in default scenarios; watch the maturity date
Pro-rata Rights	The right to invest in future rounds to maintain your ownership percentage	Without this, you're diluted every time a new investor enters; always ask for it
Cap Table	A document listing all shareholders and their ownership percentages	Reveals existing obligations, prior rounds, and who controls the company
Accredited Investor	An investor meeting SEC income or net worth thresholds who can participate in private offerings	Most private deals require accreditation; verify your status before investing
Reg CF	Regulation Crowdfunding — SEC exemption allowing companies to raise up to $5M from the public	Opens deals to non-accredited investors; platforms like Republic and Wefunder operate under Reg CF
Reg D	SEC exemption for private placements offered only to accredited investors	No investment limit, but restricted to accredited investors; most institutional deals use Reg D

INVESTOR TRAPS

Five Mistakes That Cost the Most

These are not theoretical. These are the patterns that show up repeatedly in post-mortems of private investments that went wrong. Read them before you write a check, not after.

Mistake 1 — Falling in Love with the Story

A compelling founder, a resonant mission, a market that feels personally meaningful — all of this is valuable. None of it replaces the numbers. The story gets you interested. The due diligence decides whether you should be.

THE FIX

Complete Layers 2 through 5 before you revisit your emotional response to the story. Sequence your diligence to separate feeling from analysis.

Mistake 2 — Investing What You Know Instead of What You've Researched

"I work in healthcare, so I know this will work." Domain knowledge is an asset, but familiarity creates blind spots. You may know the industry and still miss the specific dynamics of this particular company's model, team, or market position.

THE FIX

Run the full checklist every time, even when the deal feels obvious. Especially when it feels obvious.

Mistake 3 — Anchoring on the Raise Amount

"They're raising $2 million, so they must be legit." The size of a raise is not a validation signal. Companies can raise any amount for any reason from investors who did insufficient diligence. The raise amount tells you about momentum, not quality.

THE FIX

Treat raise amount as neutral information. Ask who the other investors are and whether any of them are institutional or experienced in this sector.

Mistake 4 — Skipping the Q&A

On crowdfunding platforms, the founder's Q&A section is public and unfiltered. Real investors ask hard questions. Founders who dodge, deflect, or answer questions with marketing language are telling you something. Most investors never read it.

THE FIX

Always read every Q&A entry on a platform deal. Sort by most recent. Look for patterns in both the questions asked and the quality of the answers given.

Mistake 5 — Investing Emergency Fund Money

Private investments are illiquid. You will not be able to sell your position on a Tuesday afternoon when you need cash. Every dollar you put into a private deal should be money you genuinely do not need for five to ten years. The investor who needs liquidity in year three of a ten-year fund has no good options.

THE FIX

Before any private investment, confirm you have 12+ months of liquid reserves, zero high-interest debt, and a diversified existing portfolio. Alternatives come after the foundation is solid.

> *The best due diligence doesn't find more deals to invest in. It finds fewer deals — and those few are the ones that matter.*

INCLUDED: VIDEO WALKTHROUGH

Deven's 5-Minute Video: "The 3 Numbers That Tell You Everything" — Watch Deven break down the three financial metrics that separate real businesses from pitch-deck fantasies. Delivered separately via email after purchase.

THE NO-BRAINER GUARANTEE

If this guide doesn't save you at least 10 hours of research on your next deal evaluation, email us for a full refund. You keep the framework, the checklist, and the Term Sheet Translator. We take the risk so you don't have to.

YOU ARE HERE: FRAMEWORK READY

You can evaluate any deal.
Now learn to decode the ones that matter.

The BS Detector tells you whether a deal passes or fails. The Deal Decoder shows you what the best deals look like from the inside — how to read cap tables, model returns at different exit scenarios, and build a portfolio strategy that compounds over time. It's the difference between screening deals and understanding them.

What's inside:

• Cap table analysis framework ($200 value)
• Return modeling at 3 exit scenarios ($150 value)
• Portfolio construction guide ($100 value)
• The No-Brainer Guarantee — if it doesn't save you 10+ hours, full refund

Total value: $450+. Your investment: $17.

Get the Deal Decoder — $17

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Share this guide with someone who's evaluating their first private deal. It could save them from the mistakes that cost most investors the most.

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Due Diligence for the Rest of Us — Version 1.0, February 2026