

>: What are the first 3 questions you should ask before investing into a private company?

Saturday, February 23, 2008 / Chuck

While there are so many questions to ask, these are three I ask myself before I even look at the business plan. My thought process is if they can't pass my "sniff" test, why would I waste any time reading their business plan?

1. How much "skin in the game" does the person looking for money have in the proposed venture?

If this person is not putting any money into the venture..pass! No need to even ask questions 2 and 3 listed below.

If this person is putting money into the venture, under what terms and how much. I also want to make sure this person is not investing every last dime they have into the venture. If things don't go as planned and cash flow projections do not pan out thus requiring an equity infusion, will this individual need to scramble for additional financing from other sources (ie. me) or will they be able to step to the plate?

2. What is this individual's personal lifestyle?

Nothing irks me more than when someone starting a new venture has all the toys (and possibly the debt to finance the purchase of the toys) and must turn to other parties to finance a business venture from which they expect to reap most of the benefits.

If their business venture is all that great, then sell the toys and sink the money raised from the sale of these toys into the business venture. Buy the toys at a later date if the venture pans out.

If the person looking for financing is not willing to do this, then it makes you wonder how much confidence they have in their venture!

3. What is this person's track record and character?

If someone looking for financing has a track record of "soaring with the eagles while the pigeons are pooping on their head", what makes you/them think things will be different with the proposed business venture?

Character...Perhaps THE most important "C" in the lending process! Capacity to repay and collateral are meaningless if the individual's character is

suspect.

I look forward to reading the feedback from others.

Chuck