



Due Diligence Questions for HealthTech Startups – Preparing for Acquisition

Introduction:

As a HealthTech startup business owner, preparing for an acquisition can be an intense process, particularly during due diligence. Buyers will scrutinise every part of your business, from your financial health to compliance with healthcare regulations.

At **Foundy**, we specialise in supporting business owners through **long-term exit planning** and **deal execution**, ensuring a smooth and successful process. You can learn more here: foundy.com/sellers. Foundy has over 14,000 self-registered acquirers, and we have data on over 1 million historical transactions, including funding rounds and acquisitions.

This guide outlines key due diligence questions that buyers are likely to ask, with context and recommendations for each one to help you prepare. By understanding what buyers are looking for, you'll be in a stronger position to impress them and achieve a favourable outcome. The result? You can unlock additional significant share value, possibly 7 or 8 figures.

Section 1: Due Diligence Questions

1. Company Structure & Overview

- **Context:** Buyers need a clear understanding of how your business is organised, including who the decision-makers are and how ownership is distributed. A well-structured company signals efficient governance, which is a **green flag** for buyers.
- **Question:** *Can you provide an organisational chart detailing key personnel and decision-making structures?*
- **Green Flag:** Clear ownership, defined roles, and a transparent decision-making hierarchy.
- **Red Flag:** A complex or unclear ownership structure, or key decision-makers with overlapping roles.

- **Actionable Recommendation:** Ensure your organisational chart is up-to-date and easy to understand. Provide clarity on who holds decision-making power. Use tools like **Lucidchart** to create professional diagrams. Learn how to create an organisational chart [here](#).
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2. Financial Data

- **Context:** Financial health is one of the top priorities for buyers during due diligence. They will want to see that your business is profitable, sustainable, and can scale. Discrepancies or poor record-keeping are serious **red flags**.
 - **Questions:**
 - *What are your most recent annual financial statements, and can you provide a summary of your P&L for the past three years?*
 - *What is your current cash flow position, and how do you manage working capital?*
 - **Green Flag:** Consistent profitability, strong cash flow management, and clear growth projections.
 - **Red Flag:** Unexplained financial fluctuations, incomplete financial records, or heavy reliance on short-term debt.
 - **Actionable Recommendation:** Ensure your financial statements are audit-ready, and that your working capital is well-managed. Use **QuickBooks** or **Xero** for streamlined financial management. Explore Xero's financial reporting features [here](#).
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3. Contracts & Customers

- **Context:** Buyers will evaluate your customer base and contracts to assess revenue stability. Long-term contracts with reputable customers increase the attractiveness of your business.
 - **Questions:**
 - *Can you provide an overview of your key customer base and the duration of existing contracts?*
 - *What is your customer retention rate, and how have you dealt with customer churn?*
 - **Green Flag:** Strong, long-term customer contracts and recurring revenue.
 - **Red Flag:** Heavy reliance on a few customers or expiring contracts with no renewal negotiations underway.
 - **Actionable Recommendation:** Keep your contracts up-to-date and seek renewals before due diligence begins. Consider using a **contract management tool** like **PandaDoc** for clear record-keeping. Learn more about contract management [here](#).
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4. Intellectual Property

- **Context:** Intellectual property (IP) is often one of the most valuable assets of a HealthTech company. Buyers want to ensure that your IP is protected and not subject to disputes or infringement.
 - **Questions:**
 - *What patents, trademarks, or proprietary technologies does your company own?*
 - *How are these protected legally, and what measures do you have in place to prevent IP theft?*
 - **Green Flag:** Registered patents, trademarks, and strong legal protections.
 - **Red Flag:** Unregistered IP or disputes over ownership.
 - **Actionable Recommendation:** Ensure your IP portfolio is well-organised and protected. Consult an **IP attorney** if needed, and regularly review your protections. For more on protecting your IP, visit the UK's **Intellectual Property Office** here.
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5. Personnel & Employment Matters

- **Context:** Buyers will look at your workforce and key personnel to determine if talent is in place to sustain the business post-acquisition. High staff turnover or disputes can be warning signs.
 - **Questions:**
 - *What are your key employee retention strategies, and how do you incentivise talent?*
 - *Are there any existing or potential employment disputes or litigation that the buyer should be aware of?*
 - **Green Flag:** Low turnover and long tenures for key personnel, clear talent development strategies.
 - **Red Flag:** High turnover, unresolved employment disputes, or key staff resigning in the run-up to acquisition.
 - **Actionable Recommendation:** Formalise retention strategies and review any outstanding HR disputes. Consider implementing **employee incentive programs** such as equity or bonuses for high-performers. Explore employee incentive strategies here.
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Section 2: HealthTech-Specific Due Diligence Questions

1. Regulatory Compliance (UK & USA)

- **Context:** Regulatory compliance is critical in the HealthTech sector, particularly when dealing with patient data and clinical products. Buyers want assurance that your company is compliant with healthcare regulations like **HIPAA** (USA) and **GDPR** (UK/EU).
- **Questions:**
 - *What healthcare regulations (e.g., HIPAA, GDPR) apply to your products/services, and how do you ensure continuous compliance?*

- *Can you provide documentation on any FDA approvals (USA) or CE markings (UK/EU) for your technology?*
 - **Green Flag:** Full compliance with healthcare regulations, with documented evidence.
 - **Red Flag:** Lack of clarity on compliance measures or missing certification documentation.
 - **Actionable Recommendation:** Maintain updated compliance documents and certifications. Consider using **TrustArc** or **OneTrust** for ongoing GDPR and HIPAA compliance management. Learn more about healthcare compliance at **HIPAA Journal** [here](#).
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2. Clinical Data & Validation

- **Context:** Buyers in the HealthTech space want evidence that your products or technologies have been clinically validated and are effective in real-world healthcare settings.
 - **Questions:**
 - *Have any of your technologies undergone clinical trials or validation studies? If so, can you provide evidence of their efficacy?*
 - *What feedback have you received from healthcare providers in the UK and USA regarding the performance of your products?*
 - **Green Flag:** Positive clinical trial results, well-documented real-world feedback from healthcare professionals.
 - **Red Flag:** No clinical validation or negative feedback from healthcare providers.
 - **Actionable Recommendation:** If you haven't conducted clinical validation, consider partnering with academic institutions or research firms. For more on conducting clinical trials, visit **NIHR** (National Institute for Health Research) [here](#).
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3. Healthcare Partnerships & Collaborations

- **Context:** Strong partnerships with healthcare providers or institutions increase your credibility and the value of your business to acquirers.
 - **Questions:**
 - *Which healthcare institutions or providers in the UK and USA do you partner with, and how are these relationships structured?*
 - *How do your partnerships enhance the credibility and reach of your product in both markets?*
 - **Green Flag:** Established partnerships with key players in the healthcare industry.
 - **Red Flag:** A lack of partnerships or reliance on unverified collaborators.
 - **Actionable Recommendation:** Build and formalise partnerships with reputable healthcare institutions. Review how to establish healthcare partnerships [here](#).
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Next Steps:

At **Foundy**, we are dedicated to helping **HealthTech business owners** in the **UK and USA** not only prepare for sale but also navigate the complexities of the acquisition process from start to finish. Our unique approach combines **long-term exit planning** with **deal execution**, ensuring that our clients are always in the best position to achieve a successful outcome.

Download this resource now and reach out to Foundy if you're considering selling your HealthTech startup. With our specialised expertise, we'll support you in planning the **best exit strategy** for your business, sourcing relevant acquirers, readying your company for sale and securing the best deal.