

# DUE DILIGENCE REPORT

|  |  |  |
| --- | --- | --- |
| **Client name** | **VENTURE NAME** | **Investment round** |
| Britam Holdings PLC | Shannon Technologies Limited | Pre-Money |
| **Date:** | **Consultant:**  Eddy G. Thiongo | **Overall Opinion**  Below expectations. |

**Background.**

Knight Castle & King is a corporate venture studio that specializes in Venture building, corporate strategy, and Tax. We bridge the gap between the startup ecosystem and corporate innovation, where we facilitate the development of agile business models for corporates. As part of our broad- based services, we undertake in depth pre-investment due diligence on behalf of our corporate investors. This report is therefore prepared for the benefit of the client. This report is our professional opinion and is based on the review of documents and interviews with the founders of the venture. Our opinion is in the form of industry expectations based on the investment round. The scoring criteria is as set out below.

|  |  |  |
| --- | --- | --- |
| Above expectation | This means that the venture has outperformed the standards of the industry based on the stage funding round. | This score allows the investment to proceed without any significant adjustments to the venture. |
| Meets expectations | This means that the venture’s performance is within the range of standards of the industry based on the stage of the funding round | This score indicates that the venture is in the right direction and investment can proceed. However, the venture must make adjustments as a  condition precedent to  the investment. |

|  |  |  |
| --- | --- | --- |
| Below expectations | This means that the venture has performed below the standards of the industry based on the stage of the  funding round. | This score indicates that investment cannot  commence unless key adjustments are made. |

# Venture profile.

Shanon Technologies Limited is a limited liability company incorporates in the Republic of Kenya under certificate number PVT-JZU9BZ8. The venture operates a software as a service (SAAS) model. According to the CR12 dated the 21st of May 2024 the registered shareholders are Erick Otieno Oyugi who owns 700 ordinary shares and Samuel Thenya MAINA who owns 300 ordinary shares. The venture has a nominal share capital of Ksh. 100,000 divided into 1000 shares of Ksh. 100 each.

# Summary of Findings.

This summary of findings is based on the interaction with the founders of the venture as well as the desk review of documents presented by the venture. Whereas we could verify the information presented in the documents, we relied on the founder’s perspective as well as the market dynamics. The venture is an early stage business built on the leverage of similar technology deployed by the founders through their venture “Malipo circles”. In this regard, the founders intend to utilize the know how of the Malipo circles team at the inception of the venture products, however, this is expected to pave way for internal capacity building through knowledge transfer. As a new venture, there is need for strong partnerships to navigate regulatory

challenges and market access barriers that are akin to this industry. Our overall opinion on this venture is that investment discussions can commence but subject to the areas of nonconformity where the score is below

expectations being addressed.

|  |  |  |
| --- | --- | --- |
| **DD Category** | **Opinion** | **Score** |
| Team management | The venture does not have an internal team and seeks to depend on malipo circles team.  Malipo circles has not put in  place incentive plans to keep the employees long term. The  company has not put in place key human capital policies that  can be leveraged upon to build  a viable corporate culture. | **Below Expectations.** |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Business model and venture structure | Some of the critical components of the business model and organizational design are missing. For instance, we observed that the venture did not have in place a workable business model canvass and a go to market strategy. The following areas of non-conformity need to be addressed prior to investment  draw down; | **Below Expectations.** |
| Market & Product | The venture has met most of the standards of its section. We observed that there is a clear market for the product with a potential to scale. We however noted some areas of non  conformity detailed here under: | **Below Expectations** |
| Technology, assets, and Intellectual property | On this front, the company has met most of the standards expected of the company at this stage of funding. The founders  have demonstrated their ability to develop and manage the  infrastructure supporting the product based on the successful deployment of a similar  technology stack. There are however non-conformity areas related to intellectual property and regulation that need to be optimized. | **Meets Expectations** |
| Finance, legal & Tax | Whereas the venture has  identified a great market and an aligned product, we were not presented with financial  statements that demonstrate tangible revenues. The areas identified for non-conformity  relate to revenue, margin growth, cashflow management and  accounts receivable. | **Below Expectations.** |

# Section 1- Team management.

This section evaluates the overall structure of the human capital within the venture. Team includes full time and part time employees, consultants,

mentors, full time, and part time directors working for the benefit of the venture.

|  |  |  |  |
| --- | --- | --- | --- |
| **Expectations** | **Below** | **Meets** | **Above** |
| 1. Are the corporate governance structures clear and adhered to? Is there in place a  formal board with a documented mandate. | X |  |  |
| 2. Do the founders possess the key technical  competencies required? What level of risk will be assumed in scaling the business? |  |  | X |
| 3. Has the company put in place clear incentive plans for the key men in the  organization such as ESOPS and clear bonus  schemes? | X |  |  |
| 4. Have the founders executed a binding shareholders agreement with clear mandate and responsibilities? Are all fully time directors under contract with documented  remuneration and termination terms. | X |  |  |
| 5. Is there a clear organizational structure with clear work streams and structured reporting lines that correspond to its value proposition? |  | X |  |
| 6. Are all the team members holding contracts of employment or independent contractor  agreements? Do these agreements provide sufficient control for the business? | X |  |  |
| 7. Does the company have in place clear workplace policies such as the Human Resources manual, performance  management, conflict of interest, diversity and inclusion and sexual harassment policies? | X |  |  |
| 8. Does the company have a clear career progression plan for the team members and a corresponding learning and development  plan? | X |  |  |
| 9. Are there clear job ranks with a  corresponding remuneration structure? Is the | X |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| remuneration structure equitable with safeguards against abuse? |  |  |  |
| 10. Is there a formal culture that drives the  cohesion of the team and are such culture principles well documented? | X |  |  |
| **Summary and general opinion.** | **Summary Score** | | |
| The venture has not put in place the basic human capital guidelines to motivate and retain talent. Its is prudent that the venture also executes shareholder’s agreements to clarify the responsibilities and expectations of the  shareholders. For the key men in the organization, it is our opinion that the venture has not secured their retention as non of them holds a share option or other retention benefit to guarantee their  commitment to the venture long term. Human capital is a critical component for the venture since it is in the service industry. The success of the  products rolled out depends on the sustainability of the team. In summary the following areas of non-  conformity were identified:   1. Drafting of Key human capital policies such as the HR manual, benefits and   compensation policies.   1. Adopting incentive plans such as variable   compensation, bonus plan, and commission structures for the key team members.   1. Execution of shareholder agreements   detailing the responsibilities and rights of the founders and other shareholders.   1. Adopting corporate structures such as board polices and mandate to guide on risk and governance. 2. Establishing an employee share ownership plan (ESOP) for the key team members. 3. Adopting a documented job grading and ranking framework to guide on recruitment and compensation.   In this regard, we recommend that this be addressed prior to investment draw down. | **Below expectations** | | |

# Section 2- The Business & Venture Structure

The business structure is significant for the overall growth of any venture. In this section, we evaluated the organizational design specifically the governance and shareholding structure. The capitalization table and the shareholding agreements and restrictions are important for this section as they inform the overall investment structure.

|  |  |  |  |
| --- | --- | --- | --- |
| Expectations | Below | Meets | Above |
| 1. Is there an updated shareholding structure supported by a fully diluted capitalization table? Have all the shareholders paid up all  the issued share capital? | X |  |  |
| 2. Are there any outstanding warrants, options or any other covenants entitling the holders to a discounted purchase option or  committing the company to a valuation  cap. |  | X |  |
| 3. Do the founders have a documented exit strategy with a corresponding exit value. Is there evidence of implementation of the exit  plan as documented? | X |  |  |
| 4. Has the venture adopted a formal strategy with a detailed business model canvass, go to market strategy, research and development plan and corresponding  budgets? | X |  |  |
| 5. Are there clear business processes such as  finance manuals, tax plans, board policies, licenses and business permits? | X |  |  |
| 6. Does the venture have in place a  competent technical team to support in all back-office functions such as finance, legal, human capital, information technology etc. where the services are outsourced, are there binding contracts in place? |  | X |  |
| 7. Does the venture have consistent and strong suppliers of key services and materials needed for the business? Are there binding and flexible contracts in evidence of this relationship? |  | X |  |
| 8. Does the venture have long term contracts with key customers? Are these agreements | X |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| binding enough to secure consistent flow of revenue? |  |  |  |
| 9. Are there any agreements either in place or under negotiations that may negatively  affect the ability of the company to pivot, scale or otherwise remain agile? Such  contracts include minimum order volume contracts, single source and exclusive  contracts, contracts with restrictive covenants among others. |  | X |  |
| 10. Has the venture been the subject of or is anticipating litigation related to either its suppliers, customers, directors, shareholders, employees or regulatory agencies? |  | X |  |
| 11. Has the venture taken out the requisite insurances for its business to include but not limited to work injury benefits, general insurance, professional indemnity and general insurance? | X |  |  |
| **Summary and general opinion.** | **Summary score** | | |
| Some of the critical components of the business model and organizational design are missing. For instance, we observed that the venture did not have in place a workable business model canvass  and a go to market strategy. The following areas of non-conformity need to be addressed prior to investment draw down;   1. Development of a business model canvass 2. Development of a go to market strategy 3. Documentation of shareholding through a fully diluted capitalization table. 4. Contracting with malipo circles for the provision of development services with a clear plan of transitioning the competence to the venture. 5. Adoption of key business policies such as the finance manual and insurance policies. 6. Engaging all suppliers through binding   contracts with terms favorable for scaling and growth. | **Below expectations.** | | |

# Section 3- The Market & Product.

This section deals with the assessment of the product for market fitness. Under this section, we narrow down on the unique selling point (USP) and measure its alignment with the market demands. We also evaluate the ability of the product to differentiate itself in the market considering all factors related to

competition. Lastly, we assess the impact of macro factors on the product offerings.

|  |  |  |  |
| --- | --- | --- | --- |
| Expectations | Below | Meets | Above |
| 1. Has the venture, identified clear customer segments and the unique offering for each segment? Is the offering aligned to the needs of the customers? |  |  | X |
| 2. Has the venture identified its competition and their respective competitive advantages? Has the venture consolidated its competitive advantages and are these  advantages differentiating enough? |  | X |  |
| 3. Has the venture identified a sustainable total addressable market (TAM) and serviceable available market (SAM) and  serviceable obtainable market (SOM). Has the company executed any contracts with key customers? |  | X |  |
| 4. Is the company able to control most of the significant components of its value proposition to the customers? Is there significant dependance on third parties to deliver this value. | X |  |  |
| 5. Does the venture have a formal process for handle customer complaints and feedback, and what is the overall customer satisfaction level with its products and services? | X |  |  |
| 6. Does the venture have in place a clear pricing strategy? Has the venture implemented the strategy and are there  corresponding guidelines for price change? | X |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| 7. Does the venture have in place a  documented go to market strategy with clear business development KPIs? | X |  |  |
| 8. Is the market easily affected by political, economic, social, technological, and legal changes? Has the venture adequately mitigated against this? | X |  |  |
| 9. Are there significant entry to market barriers that the venture will have to overcome at the growth stage. Has the venture put in place adequate measures to prepare overcome these barriers? |  | X |  |
| 10. Does the venture have a product development and research and  development process? Are the research and development efforts significant to address the market needs? | X |  |  |
| **Summary and general opinion.** | **Expectations** | | |
| The venture has met most of the standards of its section. We observed that there is a clear market for the product with a potential to scale. We however noted some areas of non conformity  detailed here under:   1. Adoption of a documented customer   centric feedback management process.   1. Documentation of the pricing strategy with a pricing forecast based on future   changes in market forces and regulation.   1. Development of a pivot strategy such as alternative business models and exit plans to address any PESTEL effects. 2. Development and adoption of a R&D framework with supporting budgets. 3. Undertake product validation workshops, focus groups and freemium offerings for key product development and iteration. 4. Negotiate and contract with key customers.   This non conformities may not affect the  investment discussions but must be addressed prior to any investment draw down since some factors may affect valuation significantly. | **Below expectations.** | | |

# Section 4- Technology, Assets, and Intellectual property.

This section covers the assessment of the technology on which the product is based on. Here, our evaluation covers important components such as

infrastructure security, third party support and technology redundancy. We also assess the assets of the venture and the intellectual property in such assets.

|  |  |  |  |
| --- | --- | --- | --- |
| **Expectations** | **Below** | **Meets** | **Above** |
| 1. Does the company have key technological assets that can be leveraged to meet its business and market objectives? |  | X |  |
| 2. Does the venture have any legal protections for its technology, literary works, scientific innovations, brand, and trade secrets? | X |  |  |
| 3. Does the venture have in place a reliable IT infrastructure with documented evidence of  continuous upgrade and maintenance. |  | X |  |
| 4. Does the venture have internal capacity to write, modify or otherwise manage the code relevant to the product or components of the IT infrastructure? |  |  | X |
| 5. Does the venture significantly rely on third party open source plugins and code? Has the venture put in place adequate protections to mitigate against withdrawal, enhancements and other detrimental changes on usage of such third party assets? |  | X |  |
| 6. Are there components of the IT infrastructure that will in the near future become  redundant? Has the venture demonstrated ability to set up alternatives? |  | X |  |
| 7. Does the company have in place clear data protection policies? Is the venture registered as a data processor or data controller? | X |  |  |
| 8. How does the venture manage data  collected from its customers and other users of the product? Does the venture have clear agreements with third party hosting  providers? Are such providers registered as  data controllers? | X |  |  |
| 9. Are there other non technological assets that the venture requires to meet its day to day obligations to its customers. Does the |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| venture own these assets and where they are outsourced, does the venture have in place binding agreements with such providers? |  | X |  |
| 10. Does the venture require a special license to operate the technology in place? Has the venture demonstrated compliance with any such regulation? | X |  |  |
| **Summary and general opinion.** | **Expectations** | | |
| Technology is the key strength of the venture. The founder Mr. Erick Oyugi has a track record of  developing similar technology stacks as evidenced by his company malipo circles. On this front, the  company has met most of the standards expected of the company at this stage of funding.  We however observed the following key areas of non- conformity:   1. Legal protection for its literal works, scientific innovations, brand and trademark is needed as these assets form an important part of the venture’s valuation. 2. Registration as a data controller and   processor is needed. Whereas malipo circles is so registered, this registration cannot be extended to the venture.   1. While the venture has executed a contract with amazon web services for its hosting services, there is need to verify that the data storage complies with the Data protection Act. 2. Registration or no objection from the insurance regulatory Authority (IRA) to allow the provision of the services within the industry.   We form the opinion that this is the key component of what the venture offers to the market. The high score returned should enable the commencement of investment discussions subject to any areas of  non conformity that may prevent draw down | **Meets expectations.** | | |

# Section 5: Financial & Tax

Financial management and tax compliance are cornerstones for any investment. We assessed the business model and the representation of financial information. Our evaluation was based on the expected industry standards but also laying special emphasis to any regulatory requirements that may impact the nature of reporting.

|  |  |  |  |
| --- | --- | --- | --- |
| **Expectations** | **Below** | **Meets** | **Above** |
| 1. Has the venture proven consistent positive turnover in the past two years? Are there  measurable strategies in place to guarantee continuous growth? | X |  |  |
| 2. Does the venture show control over its direct costs? Is the contribution margin on its respective products and services match the  expected industry benchmark? | X |  |  |
| 3. How has the venture managed its cash flows? Does he venture demonstrate significant dependence on financing  activities? | X |  |  |
| 4. What are the company’s current debt and outstanding liabilities, including loan agreements, supply agreements, bonds, and other bank financing arrangements? Does the venture demonstrate a healthy balance of debt against equity? | X |  |  |
| 5. How does the venture handle its accounts receivable, and what are the key metrics for assessing the effectiveness of its collections process? Does the venture demonstrate ability to collect outstanding payments? | X |  |  |
| 6. Does the venture’s cashflow statement show a consistent increase of income from operating activities? Do the venture’s cashflows show a healthy balance between financing activities and operating activities income? | X |  |  |
| 7. Does the venture have a healthy balance sheet? Do the assets, liabilities and shareholder’s equity demonstrate a  favorable leverage? | X |  |  |
| 8. Are there any contingent liabilities or potential legal risks that could impact the company’s financial position? | X |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| 9. Is the venture complaint with all statutory taxes such as PAYE, withholding tax, Income  tax, advance tax and value added tax? Are there policies in place to ensure consistent  compliance? |  | X |  |
| 10. Is the venture good at separating shareholder’s and director’s expenses from  its finances? Has the venture put in place an updated director's loan account and  corresponding policies for compliance? | X |  |  |
| **Summary and general opinion.** | **Expectations** | | |
| The venture at the point of audit is into year zero. Whereas it has identified a great market and an aligned product, we did not see financial statements that demonstrate tangible revenues.  On the other hand, we were able to evaluate the shareholding structure and intangible assets held by the venture through which an opinion on the balance sheet was formed. We further interviewed the founders who conformed the position. We  identified he following areas of non-conformity which must be addressed:   1. The venture must adopt and present books consistent with the IFRS for SMEs within the first year. 2. The venture must demonstrate growth of its operating income in the course of the year at a rate consistent with the market. 3. All shareholders must pay up all issued share capital I the course of the first year of investment. 4. The venture must demonstrate a contribution margin of between 60-80% as expected in   SAAS models.   1. The venture must strive to maintain a debt to equity ratio of between 0.15-0.25% in its first years post investment. 2. The venture must be able to implement a debt aging policy in its account receivables to guard against unpaid invoices. | **Below expectations.** | | |

# Conclusion

The venture being an early stage business has an overall opinion that its is below expected standards. In this regard, investment into the venture must be based on the understanding that the areas of non-conformity should be

addressed prior to any investment draw downs. We further suggest that the areas of non-conformity by tracked as draw down milestones to ensure that BetaLab is not exposed to investment structuring risks.

Yours faithfully

**E.G Thiong’o**

Managing Partner

LLB(Hons) dip KSL, MBA IBFD-tax