

Technical due diligence: why this order

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Worked example built with this method: olhash.com/samples/technical-due-diligence/

1 CALIBRATE THE DEAL SHAPE FIRST What matters most depends on the deal, not on the code.

THE DEAL SHAPE THE DEFAULT ORDER ASSUMES

A founder-led software company acquired to run as a standalone business, in a sale with one buyer or a small process: escrow small or absent, individual sellers, and a buyer responsible for operations from day one. In that shape, **shiftable** stops meaning insurable after close and starts meaning fixable before it.

FOUR FACETS THAT MOVE THE ORDER

Size of the deal · **type** (founder sale, platform add-on, carve-out) · **seat** (buy-side or sell-side) · **thesis** (hold, scale, integrate, run off). Write these down before reading anything. A ranking that does not say which deal it is for fits every deal equally, and so tells the reader nothing.

2 SIX CATEGORIES, RANKED BY ONE FORMULA Not an engineering-severity order.

expected cost = probability of a material finding × cost when found × the share the buyer cannot shift back to the seller

CATEGORY	WHY IT SITS HERE
1 Product	The only category whose findings are multiplied . Misclassify services as product and the error in the price is the multiple spread, not the ARR. High probability, and innocent: founder-led companies blur that line without meaning to.
2 Rights & Defensibility	Findings here do not reprice, they stop . A missing IP assignment on a core module cures before close or the deal does not close. The defensibility half is the only part of the list that tests whether the multiple itself is real.
3 Operational	In this deal shape the closing-conditions list is the buyer's strongest instrument, and operational findings are the ones that convert into it. Their cost lands in the transition window : the buyer has paid, owns the pager, and knows the least it ever will.
4 Security	The scariest category and the most over-weighted one. The tail is severe, but the first exposure checks are fast; the body of the distribution is bounded remediation. Not lower, because the usual discount (indemnity, escrow, insurance) fails when the seller is a person.
5 Team	Retention and concentration are real, expensive, and already anticipated : earnout, retention funded from the price, a transition period. Diligence names who, and proves it with an exercise. The title half of team risk sits in Rights.
6 Architecture	The operator's first category is the buyer's last. Costs depend on the thesis, are paid in engineer-months on the buyer's schedule, and are bounded. Bad architecture re-phases a roadmap; it seldom reprices a deal.

WHERE THE ORDER FLIPS

- Platform combination, carve-out, or an integration due on a date: **Architecture to 2**.
- Regulated data, security-dependent enterprise ARR, or any evidence of exposure: **Security to 1**.
- Distressed or run-off: Product and Architecture deflate, **Operational rises**; the question is whether the machine runs unattended.
- A deal with W&I insurance and a solvent corporate seller: **Operational drops**; the instruments generic lists assume now exist.

OVERRIDE, NOT A RANK

Confirmed cross-tenant access, or an unscoped historical breach, overrides the entire order and becomes the deal's first question. Rankings describe the ordinary case. Stop conditions are not part of the ordering.

3 THE SHAPE OF AN ITEM Every item uses the same grammar. Nothing in the list is a code-review comment.

1 Question Answerable, not a topic. Filter one: can the artifact that answers it be named? A repo, a data-room document, a specific question to a specific person. If not, cut.	2 Evidence The repo, the data-room document, the log, or the one-hour test that answers it. A founder-run demo is the seller's evidence, not the buyer's.	3 Confidence Verified (reproduced) · Observed (seen, not exploited) · Inferred · Unverified (claimed, stated as such).	4 Buyer's move Price, escrow, rep, disclosure entry, closing condition, post-close cost, or walk. Filter two: if nothing moves, it is a code-review comment. Cut, however confident the prose.
P1 QUESTION · PRODUCT Of the top ten contracts by ARR, which contracted capabilities exist as shipped product, which as a professional-services layer, and which not at all?	EVIDENCE Contract exhibits and SOWs from the data room, diffed against release notes, feature-flag configuration and admin tooling; one hour with whoever runs support, walking one sold workflow end to end.	BUYER'S MOVE Reprice. ARR that is services glued to software carries a services multiple. Contracted-but-unbuilt goes on the disclosure schedule, because the delivery obligation transfers at close.	