



PORCH NEWSLETTER ARTICLE

FROM: Charlie Macfarlane, Balsam Advisory
RE: The Investor Data Room – a necessity to tell your company’s story
DATE: June 2024

INTRODUCTION

Picture this...

You just nailed your pitch for your emerging business with a prospective investor. Your audience is compelled by your value proposition, commercialization to-date, and scale-up prospects. The investor’s final ask is for detailed information on your business model and financials and...all you have to share is a messy, multi-tab Excel document. Your glowing first impression now fades, and the investor begins to question your organization skills, managerial capabilities, and the manner in which your business operates. An easy fix? Creation and ongoing maintenance of a well-organized data room, which both improves your odds of a fundraise and helps to facilitate an efficient capital raise process.

The following offers insight into intricacies of an organized data room and delves into why you should consider creating, continuously maintaining, and improving your company’s management of pertinent data.

BENEFITS OF A DATA ROOM

Having a data room is essential for a multitude of reasons in the context of (i) raising capital, or (ii) execution of a transaction requiring the sharing of sensitive information. Benefits of a data room include, but are not limited to, the following:

- **Managing and storing documents:** a data room provides a centralized location for storing all critical documents related to the business – legal, financial, and otherwise. This repository ensures all necessary materials are easily accessible and organized, saving time and effort in searching for specific documents.
- **Advanced preparation:** ongoing management of a data room helps founders and stakeholders prepare necessary documents well in advance of fundraising or business transactions. Proactivity helps to ensure the company is ready to respond promptly to investor inquiries and due diligence requests, which in turn helps to enhance the business’ credibility.

- **Secure platform:** sensitive information remains protected against unauthorized access or data breaches and is shared only with the necessary parties – business partners, pertinent stakeholders, and potential investors.
- **Monitoring investor interest:** monitoring who is using the data room (and what documents they view) that companies can take advantage of – gives the company an indication of interest from the investor (e.g. if they download materials) or lack thereof (e.g. if certain, pertinent materials are never ‘viewed’/accessed).

CONTENTS OF A DATA ROOM

The information secured within your data room should convey to outsiders a comprehensive narrative of the company’s history, operations, financial standing, and future prospects.

Remember: some of the data room’s contents will be readily available in your records, and some will need lead time to produce or collect (e.g. legal or accounting documents). Make sure to plan well ahead, stay organized, and ensure data relating to the following subject matter is kept current:

- **Company documents:** constating documents and legal agreements, including articles, by-laws, and terms/agreements setting forth important investor-related matters such as liquidation preferences and anti-dilution provisions.
- **Product-market fit:** data proving you have an addressable target market (I.E. market sizing) and shows your business solves a problem (I.E. data reflecting customer acquisition, retention, engagement, and ROI).
- **Intellectual property:** the prospective investor will want to ensure a level of protection of your company’s IP, and the separation said protection grants vis-a-vis your competition. Inclusion of all owned patents/trademarks/domains and applications relating thereto is important to disclose, as well as documentation of ownership of such IP (company-owned, rather than personally-owned, is preferred).
- **Financials:** extensive disclosure of forecasted and historical key drivers including, but not limited to, financial statements, profit-and-loss history, government grants, and industry comparables and valuations.
- **Capitalization table:** producing a “clean” cap table to offer clarity regarding future and current share ownership, conversion rights, and other debt or equity financial instruments.
- **Product/service and marketing:** data exhibiting your product/service’s value, marketing and pricing strategies, and market differentiation relative to industry competition.
- **Staffing matters:** documents relating to financial payouts, legal mitigants, employment-related agreements, compensation, and confidentiality (e.g. non-disclosure agreements). Also important to include bios on C-suite, advisors, and other key persons, helping to convey (i) commitment levels, (ii) track records, and (iii) details on successful past exit(s) (if any).

OTHER MATTERS TO CONSIDER

Though the purpose of maintaining a well-organized data room is rooted in transparency for prospective investors, discretion should be used to ensure sensitive, proprietary, or non-pertinent



information is not shared in your data room. For one, consider setting aside documents that don't provide decisive information relating to the raise or transaction. Also, make sure to keep private any trade secrets or confidential information (e.g. sales prospects) from those granted access to the data room.

Another strategy, which allows for customization according to the context of investor discussions/pitches, is to release the contents of your data room in phases. For example, it's common for data to be released to investors upon request in two stages: (i) when data is required to negotiate and draft a term sheet; and (ii) after the execution of a term sheet, when detailed due diligence is conducted by the investor. Under this disclosure plan, the initial stage focuses primarily on data such as the market-fit for your product/service, financial models, and your company's capitalization table, whereas the latter stage grants prospective investors the opportunity to conduct thorough review of company and securities-related documents, material agreements, and staffing information.

TAKEAWAYS

This article provides a brief overview of the importance of data room management and offers guidance on content relevant for inclusion therein. Whether you are approaching a prospective raise or not, data room organization should be an ongoing task for early-stage businesses. If your company is considering how to best create, manage, or improve upon its data room, please contact [Charlie Macfarlane](mailto:charlie@balsam-advisory.com) at charlie@balsam-advisory.com for strategic business advice.

Note: this article is a general discussion of certain legal and business matters and should not be relied upon as legal advice. If you require legal advice, it is encouraged that you reach out to Charlie Macfarlane at charlie@balsam-advisory.com for personalized legal assistance.