DATA ROOM DEEP DIVE

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What is a data room for investors?

An investor data room is a storage space, digital or physical, where companies store information relevant to due diligence. It can also hold other valuable data. For example, when an enterprise wants to buy a company, this information helps investors ensure everything is in order.

The information in this data room answers most of the questions investors might have. So, from this perspective, it makes sense to have one. In addition, a good data room can showcase the startup's knowledge for a favorable image with investors. Plus, digital data rooms can also make communication easier. This is thanks to sharing permissions between the startup and possible investors.

Should I have an investor data room?

It's important to note that the idea of a data room shouldn't be that the investor takes longer to decide. Instead, it should be efficient and to the point.

Remember that an investor data room isn't only about fundraising. It's about your business from start to finish. Moreover, the data room tells an entire story, from technical reviews to competitor analysis. So in that sense, it's better to have it instead of not having one.

When should you put a data room together?

The short answer is: now.

The slightly longer answer is that it's never too early to create an investor data room.

Regardless of your company's stage, it's always an excellent exercise to have an investor data room. At the same time, it's important to note that data rooms can evolve over time. So, if your startup is in the earliest stages, you might feel overwhelmed if some of the valuable information is missing.

Don't fret over the data room if this is the case, but keep it in mind. A startup evolves fast, and the sooner you have the information, the better.

What to include in a data room for investors?

- **Startup due diligence checklist**

Main Documents and Summary

Preparing everything takes a while; you need to prepare and collect a bunch of documents from a bunch of places- so you might want to get started sooner, but the context here is important: you've already convinced an investor.

So, it's expected that you include your pitch deck, which works much like a cover for the entire thing: but by the time you share this data room, investors will most certainly have seen this deck.

Main Documents and Summary

The financial documents that you should include in your investor data room are:

- Profit and loss statements
- Financial projections
- Asset register
- Audits (including accounts)
- Cap table
- All information about previous raises
- Pro-forma statements for next year
- Management accounts

An investor wants to see three things in a financial model:

- Where you will be spending money: your budget for hires, team members, and marketing costs.
- Your key assumptions: when do you foresee milestones like launching the platform, or when do you expect you'll need to raise money again.
- Lastly, these key assumptions will determine your revenue projections- how much you expect to grow, and what drives that growth. A big mistake founders make is just place growth numbers rather than estimating what drives them.

Company documents to include:

- Pitch deck
- Voting agreements
- Articles of incorporation (including amended and restated).
- Investor rights agreements
- Partnership agreements
- First refusal and co-sale agreements
- Customer contracts
- Meeting minutes (the most important are the Board meetings)
- Board consents and actions
- Board of directors' materials
- Shareholders' agreement
- Market research
- Competitive analysis
- Sales process
- Marketing materials
- Business plan (preferably a one-pager)
- Branding guidelines
- Office lease
- Legal disputes
- Investor updates

Intellectual property

The intellectual property documents to include in your investor data room are:

- Patents (granted and filed)
- IP strategy
- Software license details (you should also list any open-source software that you use)
- Domain name ownership

Incorporation & Legal Documents

Here's some of the stuff you need to include in the Data Room.

- Articles of incorporation.
- Voting agreements
- Founder Stock purchase agreements (which is the document that includes vesting agreements).
- And of course, your Cap Table.

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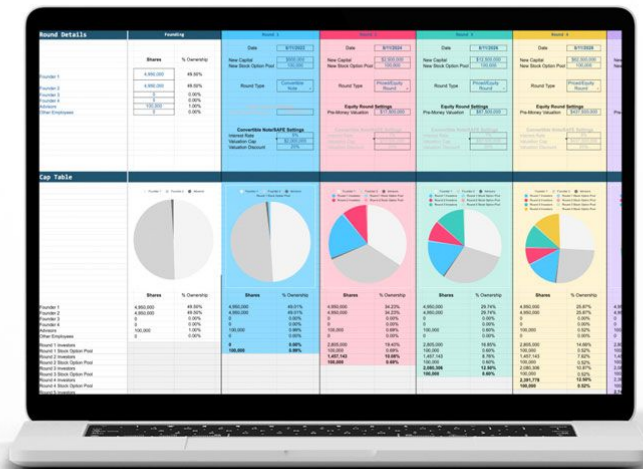
Employees

The investor data room should also include employee information such as:

- All employee contracts. These include past and present, with titles, salaries, and records.
- List of current employees, salaries, and titles
- All intern contracts, past and present
- All consultant contracts, past and present
- If your team is growing (or it's only you at the time), then you can include your vision. How many employees do you see hiring, and how soon?
- And last but not least, your employee agreements for key people.

Previous Fundings

Now, if you have raised money in the past, you also want to include that here:

- Investor rights agreements
- First refusal & co-sale agreements
- Any other document/agreement with those investors.

What shouldn't include in your investor data room?

This section stands as a warning, as there is a balance that you must achieve with the investor data room. So, there isn't a defined list of documents that you shouldn't include. Instead, consider the data inside as valuable (or not) for your investor. If certain documents aren't necessary for decision-making at that moment, then you can omit them.

Don't include people that you wouldn't want seeing your data. While this sounds logical, it's a step that some founders overlook. The best practice is to perform routine checkups on who has access to the data room.

Finally, another good practice is to withhold information according to stages. For example, let's say you've found that an investor is interested in your company but hasn't committed. You might consider excluding certain documents until the next stage.

What are some benefits to having a data room for investors?

Due diligence

It's a time-consuming process that's vital for investors. In summary, due diligence is when investors thoroughly investigate your company, usually at an early stage. With this investigation, they can value whether your company is suitable for investing or not.

As you can imagine, it's a long process that can consume a founder's time. So, an investor data room helps speed up this process. First of all, all the information is in one place. Then, an organized data room can help investors find what they need faster. Third, if your data room is secure, you are confident that you won't lose valuable information.

Faster fundraising

The investor data room allows for more organization and easier access. Plus, it can make for faster fundraising processes. Now, we know that some people out there believe that it's the opposite. They feel that an investor data room could actually slow down the process.

Is that so? It depends on how organized your investor data room is. The clearer the information, the more it will help speed up the fundraising process. Plus, it can help you with one essential aspect.

Organization

To have an organized investor data room, you need to manage your data. It's logical, right? As you go along in this process, you will also learn a lot about your own company. Plus, going through all these documents further readies you for more fundraising processes.

Having that information fresh in your mind is vital. In fact, this might be one of the most underrated yet essential parts of an investor data room.

How do Investor Data Rooms Benefit Startups?

1. Increased efficiency and efficacy
2. User friendly
3. Accurate information
4. Enhanced security

How to choose data room software?

The reality is that you should opt for a digital investor data room. There are many software options out there, and for most budgets as well. You can find mainstream options such as Google Workspace and Dropbox. There is also more specialized software, such as CapLinked and Contract Zen. Before choosing one, you should check reviews. Also, be sure to inquire about safety features and backups.

Another vital aspect that you should research is the support team. Don't be afraid to ask, as the team should explain how it handles issues such as access and permissions.

Privacy and security are vital in an investor data room. After all, you're holding the information crucial to your company and your competition. The more you understand your software, the better, because something unpleasant can happen.

A checklist for producing a great fundraising data room

Section 1 – Fund

- Private Placement Memorandum (PPM)
- Pitch Book
- Due Diligence Questionnaire (DDQ)
- Structure Chart
- List of key contacts and contact details

Section 2 – Organization

- PPMs for previous funds
- Schedule of previous LPs by fund
- Organization chart
- Details of any cornerstone relationship
- Investment/ exit LP notification*
- Disaster recovery plan
- Compliance manual
- Management company budget
- Compensation Agreements

Section 3 – Team

3.a   Team CVs

3.b   Investment/ Operational/ Scientific/ Expert Advisers' CVs

3.c   Team Analysis

3.d   Deal attribution analysis

3.e   Reference list

Section 4 – Market

4.a   Third-party market reports

4.b   In-house market reports

4.c   Competition analysis

Section 5 – Investment Strategy & Process

5.a   Breakdown of investments and/or deal flow by key investment criteria
5.b   Dealflow log/ analysis
5.c   Pipeline
5.d   PIRs and FIRs – Preliminary and Final Investment Recommendations
5.e   Exit recommendations
5.f   DD reports / DD packs
5.g   Schedule of non-completed investments
5.h   100 day plans
5.i   Internal reporting/ dashboards on portfolio companies
5.j   Investment manual

Section 6 – Track Record and Warehoused Investments

6.a   Investment Case Studies
6.b   Deal data sheet
6.c   Track record cash-flows
6.d   Track record analysis and benchmarking
6.e   Value add analysis
6.f   Value creation analysis
6.g   Schedule of unrealised investments
6.h   Unrealised companies' audited accounts (where available)
6.i   Basis for valuations

Section 7 – Legals

7.a   Draft LPA

7.b   Side letters

7.c   Finalised LPAs

What happens if someone leaks information from my Investor Data Room?

Your company should have established processes in case of a security breach. For example, the software should trace those who have had access to sensitive documents. Still, leaks can happen. If your company goes through the unfortunate event of having a data leak, there's not much that you can do to recover it. Instead, your actions include filing a complaint to authorities and pursuing legal actions.

How to Leverage Data Rooms for Startups

1. Ensure the data room is where relevant information is stored
2. Provide links to executive and non-executive directors and advisors
3. Tell the company's story

Investor Data Rooms Best Practices

1. Ensure structure from the outset
2. Continuously update
3. First time walkthroughs

FREQUENTLY ASKED QUESTIONS

What if my company is pre-launch?

In this case, a data room typically includes a deck, information on your team, and a roadmap for what you'd like to accomplish before the next round. If you have a beta or have done a pilot of the product, including data on that can be helpful as well.

I never worked at an investment bank — how do I build a financial model?

That's okay! We don't expect founders to be Excel whizzes. Start with identifying the key drivers of value for your business. For example, that might be new users, monthly retention, and average revenue per user. Then try to project what these metrics might look like moving forward, using your historical data as a guide.

When should I have my startup's data room ready?

If possible, try to have your data room prepared before officially kicking off your fundraise. Putting together a data room may help you get ready to pitch investors. You'll likely use the data in your deck, and you'll come out of it with a better understanding of your numbers.

What are some red flags I should be aware of?

1. Numbers that aren't consistent with what's in the deck.
2. Numbers that aren't consistent across tabs or spreadsheets.
3. Limited historical financials.
4. Selectively presented metrics.