How to prepare for raising an investment

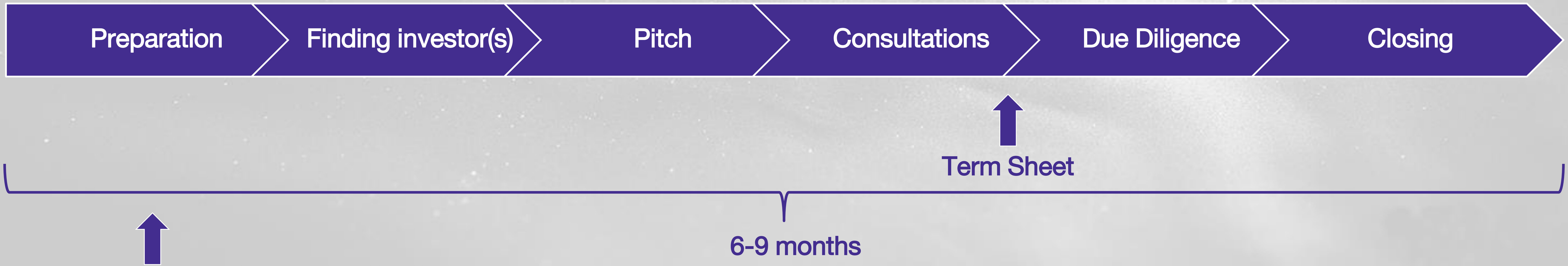
- Things to consider before finding an investor
- Checklist
- Legal Documents to consider
- Syndication

#NewNordicLeadsTraining

Starting your fundraising journey

You have a **great idea**, **a strong team**, **excellent product-market fit**, and all you need is an investment to develop your idea further and eventually scale up your startup. Before you start approaching investors, there are certain things to keep in mind. An investor will not invest in you on a hunch and will expect detailed information about your business.

The process of raising an investment is illustrated in the following figure:



This document will give you and overview of the **preparation phase** in the investment process

Things to consider before looking for an investor

Before searching for investors it is a good idea to consider the following:

Founders should realistically determine **their financing needs** and the basis for these. A common rule of thumb is that the raised investment should provide the company with 12-18 months of runway.

The **advantages and disadvantages** brought by investors to the company in its present situation should be assessed in advance.

Founders must decide whether they are prepared for **equity dilution**.

Founders should understand **the way and the principles** under which business angels, venture capital funds and other entities/organisations/programmes invest

After taking care of the above, it is helpful to determine the **ideal investor profile**: What kind of investor is desired for the company? What know-how and networks are needed? How much of the investor's time is required?

Checklist - what you should have ready before approaching investors 1/2

Establish a legal company

You cannot give away shares of your business in exchange for investment unless you have a legal entity with shares.

Founders’ Agreement

A founders’ agreement is a legally binding contract, usually in writing, that outlines the roles, rights, and responsibilities of each owner in a business. The agreement sets the terms if one founder decides to exit the business. Furthermore, it shows investor that you have a serious business.

Business plan

You will need a detailed case for your business that includes market research, traction to date, financial forecasts as well as the amount of investment being sought and for what.

One pager

Prepare a short summary of what you do.

Pitch deck

Prepare two versions of it – one that can be sent out as a reading material and other that you can present in front of an investor.

Checklist - what you should have ready before approaching investors 2/2

Share capitalisation table
This will set out the structure of shares for your company before and after the investment. You may need to seek some help from a lawyer to help prepare your share capitalisation table (CAP table).

Create a list of target investors
This is for your own, not for the investors' benefit. Research the investors you are going to approach and create a list of your ideal investors, to whose criteria you could tailor your documentation.

Network
This is not a legal part of the process but it is an essential aspect of getting an investment. Try to reach out to connections in your network who may either be able to introduce you to potential investors, or who will be able to advise you on the process along the way and review your documentation.

Proof-read all the materials and practice presenting them
Founders must be able to easily grasp the content of their materials and be able to explain by heart the main topics of the business.

Legal documents connected with an investment

Once you enter into negotiations with an investor and move closer to the deal, a number of documents are needed to close the deal. Acquaint yourself with the necessary documents for your company.

Type of Agreement	Overview
Term Sheet	A non-binding document between founder(s) and investor(s) that outlines basic terms and conditions of an investment
Investment Agreement	A contract entered into between a company and an investor. This document sets out the terms and conditions of the investment transaction.
Shareholders Agreement (SHA)	A contract entered into by the company and all of its shareholders. It governs the relationship between the company and the shareholders and sets out the framework for decision making in the company.
Employment Agreements	Locally valid employment agreements with all members of staff.
IP and Data Protection	All IP should be transferred to the company. Check the need for licences, registrations, patents and equivalent. Ensure that you follow data protection requirements.
Business agreements	• Subcontractor and R&D agreements • Client agreements • Terms and conditions • License agreements

Types of Investment Agreements

Investment agreements can can take the form of three main transactions for early-stage startups: straight to equity, SAFE or convertible loans:

Type of Agreement	Overview
Equity Investment	**A share subscription agreement** will state that the investor will subscribe for shares in the company in exchange for an agreed investment amount. Then, the company will issue those agreed shares to the investor.
SAFE	**A SAFE ('simple agreement for future equity')** will state that the investor will provide certain funds to the company. In exchange, they have the right to receive shares in the company if certain trigger events occur.
Convertible Note	**A convertible note** is a form of short-term debt that converts into equity, typically in conjunction with a future financing round; in effect, the investor would be loaning money to a startup and instead of a return in the form of principal plus interest, the investor would receive equity in the company.

Syndicated investments

- **Syndication refers to co-investment by several investors where the group is represented by one person – the Lead investor.** The majority of angel investments are syndicated investments between a number of angel investors and occasionally also early-stage VC-funds

- **The Lead Investor (or Deal Lead)** is the investor or investment organization taking primary responsibility for organizing an investment round in a company. The lead investor typically negotiates the terms of the investments and serves as the primary liaison between the company and the other investors.

- **Syndicated investments** enable better management of risks and a more diversified portfolio with same investment amount in euros for the investors.

- **Benefits to the startup include:**
  - An excellent way of acquiring larger investments
  - Larger network of investors for advice and connections
  - Cross-border syndicates can simplify access to new markets

Sources

- Nordic Guide to Finding an Angels Investment (FIBAN)
- Linkilaw
- Legalvision
- SeedInvest
- FiBAN Glossary