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How to prepare for the financing of your company

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Why?

- Any investor will want to have a clear and complete picture of your company.
- To such end, the investor will conduct both business and legal due diligence.
- Your role in this process begins well before the discussions to obtain a financing begin, with a preliminary preparatory step.
- The following is a list of aspects to consider for the purposes of such preparatory step.

Business Strategy

- Have a well-defined **corporate structure.**
- Have a short-term and long-term **business plan**, including revenue, growth and product and market development projections;
  - include a market research survey and a commercialization plan for the target market.
- Have a **product or service**; a simple idea will not suffice.
  - Is there a need for your product/service?
  - Are there potential customers already interested in your product/service?
- Target a **market:**
  - important or with a recognized growth potential,
  - diversified or market niche, and
  - in all cases, well identified.
- **Prepare a budget** for the next 18–24 months.
- Have well-prepared **financial statements**.
- **Take actions to protect your intellectual property (IP)**, whether it is a trademark, a patent, a technology, a trade secret, an industrial design, or the domain name for your website or your ownership rights in your website, etc.
  - There is always an IP protection strategy, depending on the nature of your product, your budget, and your prospects and potential.
  - For more information, I would propose two well-targeted Osler webinars that provide a number of practical examples:
    - IP 101: Protecting your ideas your way
    - Protecting your IP 101: Developing robust strategies

Team

- Have a **team of internal experts**, with a well-defined role for each of them: leadership, management, product development, market development, business development,

financing and accounting;
    - it is important to have an explanatory **internal organizational chart**.
- Build a good **network of external advisors and experts** (*e.g.*, scientific advisor, legal advisor, tax advisor, leading expert in the industry of your product/service).

Prepare your books and agreements

- Be sure to properly **document your contractual relationships**, whether with your employees, consultants, product developers, customers or suppliers.
- Make sure that all your agreements include **clauses to protect your confidential information,** especially information concerning and surrounding your trade secrets and **IP** in general.
    - Employment contracts and contracts with consultants, especially those related to product research and development, will need to include clauses assigning any rights in the IP in favour of the company.
- Update your accounting and corporate books.
    - Your **corporate books** must reflect:
        - the composition of your board of directors
        - the position of each of the officers entitled to represent your company
        - the shareholding
        - past transfers of shares
        - all issued and outstanding shares
        - any shareholder agreement
        - annual resolutions (directors and shareholders) as well as any directors' resolution approving any transaction out of the ordinary course of business and any shareholders' resolution or written approval of the shareholders (required under shareholder agreements)
- Prepare and update the capitalization table (cap table).
    - The business plan and the cap table, two documents that investors will want to look at first.
    - Make sure you have a **cap table** that*:*
        - is simple, clear and precise;
        - tracks your shareholder and securities registers, and
        - identifies any warrants, options and convertible debentures.

Choose the financing type

- **Government subsidy programs**:
    - no repayment if the funds are used according to the terms of the subsidy.
- **Government deferred loan programs:**
    - for more information on financial support measures for Québec companies in the context of the COVID-19 pandemic, I invite you to read this illustrative summary.
- **Proximity capital** (family and friends) specific for the pre-seed phase (*i.e.*, proof that your product meets a market need):
    - generally, an equity investment (voting or non-voting common/preferred shares, participating to profits and/or remaining property on liquidation and dissolution), SAFE

or KISS (sometimes, convertible debentures).

- **Simple Agreement for Future Equity (SAFE)**
  - a prepaid warrant without maturity date
  - a financing tool favourable to founders
  - provides only an automatic conversion right upon a specific event (upon a first round of equity financing or upon a liquidation event or initial public offering; upon the sale of the business, the investor has the option to convert or to get repayment)
- **Keep It Simple Security (KISS)**
  - more than a SAFE, less than a convertible debenture
  - includes a maturity date (on which conversion into preferred shares is automatic) and accrues interest
  - includes the right to benefit from more favourable rights granted following its issuance and the right to participate in future financing rounds

- **Angels (angel investors)**
  - are seasoned entrepreneurs, high-level experts in their industry
  - target the pre-seed and seed phases (*i.e.*, proof that your product has met its market)
  - make small investments
  - offer guidance in terms of experience, network and knowledge of the financial community or industry
  - seek to invest directly in preferred shares (voting, participating to profits and remaining property in the event of a liquidation and dissolution) or in debentures convertible into preferred shares (rarely SAFE or KISS)
- **Venture Capital (VCs)**
  - sophisticated and strategic investors (the VCs)
  - focus on seed-stage or high-growth companies
  - look for debentures convertible into preferred shares
  - higher investments than angels, specific to the Series A, B, C rounds

How to stand out?

- Prepare your **pitch deck**, which is the presentation of your company and your product/service:
  - Begin by introducing your team, highlighting their professional accomplishments related to the industry and their role within your company (what is their contribution to the growth of your company).
  - Present your product/service in relation to the target market and the practical steps to bring your product/service to market and/or market development.
  - Indicate how you will be using your investors' money to get there.
  - Keep the presentation simple and illustrative (use diagrams, photos and charts instead of plain text only).