

# **THE FOUNDER FINANCIAL INFRASTRUCTURE (FFI) STANDARD**

## **Book 5: Investor Readiness**

**Beta v0.5**

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## **BOOK 5: INVESTOR READINESS**

Book 5 defines the standards for the financial infrastructure a company must maintain to engage institutional investors with credibility. Investor readiness is not a state that exists only during a fundraising process. It is the condition of a company whose financial infrastructure is sufficiently complete, current, and coherent that it can respond to any investor request within a defined timeframe without preparation. A company that requires weeks to assemble investor materials was not investor ready before the process began.

Book 5 inherits the three-statement model standards from Book 1, the performance modeling standards from Book 2, the capital structure standards from Book 3, and the valuation standards from Book 4. The requirements of this Book apply to the investor-facing presentation of infrastructure that must already exist under those Books. A company cannot satisfy Book 5 requirements by assembling materials for the purpose of a fundraise; it can only satisfy them by maintaining materials that are always current.

### **SECTION 5.1: THE DATA ROOM FINANCIAL STANDARD**

#### **PURPOSE**

The data room financial standard governs the content, organisation, currency, and quality of the financial materials a company makes available to investors during a fundraising process. A data room is not a folder of documents. It is a structured, navigable repository of verified financial information from which an investor can form an independent assessment of the company's financial position, performance, and projections. The quality of a data room signals the quality of the financial management that produced it. A disorganised, incomplete, or internally inconsistent data room is a financial management signal, not an administrative one.

#### **DEFINITIONS**

**DATA ROOM:** A structured, access-controlled repository of company documents made available to prospective investors during a fundraising process for the purpose of financial and commercial due diligence. A data room is not limited to digital storage; its defining characteristic is structure, navigability, and access control. An investor must be able to locate any document in the data room within a defined category without guidance from the company.

**FINANCIAL DATA ROOM:** The subset of the data room containing all financial documents and models. The financial data room is governed by this section. Non-financial sections of the data room, including legal, commercial, and technical materials, are outside the scope of this Standard.

**DATA ROOM READINESS:** The condition in which the financial data room contains all required materials as defined in the compliance criteria of this section, all materials are current within the periods stated, all materials are internally consistent with each other, and the data room can be shared with a prospective investor within forty-eight hours of a request.

**INVESTOR-GRADE FINANCIAL MODEL:** A financial model that meets all Level 2 requirements of Book 1, Section 1.1 and Book 2, Section 2.1, is fully integrated across all three statements, contains a documented assumption layer, covers a forward period of at minimum twenty-four months, is free of hard-coded numbers in calculation cells, and produces a balance sheet that balances in all periods. A financial model that is structurally complete but contains hard-coded assumptions, an unbalanced balance sheet, or undocumented inputs is not investor-grade regardless of the sophistication of its outputs.

**HARD-CODED NUMBER:** A numerical value entered directly into a calculation cell in a financial model rather than referenced from a documented assumption in the assumption layer. Hard-coded numbers make a model opaque to third-party review, prevent systematic sensitivity analysis, and constitute a Level 2 deficiency under Book 1, Section 1.1.

**MANAGEMENT ACCOUNTS:** Internal financial statements prepared by the company covering actual financial performance for a completed period, prepared on a consistent accounting basis. Management accounts are the source of the actuals against which forecast performance is measured. Management accounts are distinct from statutory accounts, which are prepared for regulatory and tax purposes. For investor readiness purposes, management accounts must be prepared within the period frequency and timeline requirements stated in this section.

**FINANCIAL SUMMARY:** A one-page or equivalent condensed presentation of the company's current financial position and recent financial performance, containing at minimum: current cash position; net burn rate; cash runway at trailing average burn; revenue for the most recent completed period; revenue for the equivalent prior period; gross margin percentage; and the variance between actual and forecast revenue for the most recent completed period.

**DOCUMENT CURRENCY:** The condition in which a document in the data room reflects information no older than the maximum age permitted for that document type as stated in the compliance criteria of this section. A document is not current if it reflects information older than the applicable maximum, regardless of when the document was prepared.

**DATA ROOM INDEX:** A structured listing of all documents in the data room, organised by category, with the document name, the period or date it covers, and the date it was last updated. The data room index is the navigation tool for any investor reviewing the data room.

**INTERNAL CONSISTENCY:** The condition in which all financial figures stated in any document in the data room are reconcilable to the same underlying financial model and accounting records. Internal consistency requires that the revenue figure in the management accounts matches the revenue figure in the financial model for the same period, that the cap table reflects the same share counts used in the valuation analysis, and that the market sizing in the investor presentation is consistent with the revenue projections in the financial model.

## **PRINCIPLES GOVERNING THIS SECTION**

The financial data room must be assembled from materials that already exist as part of the company's ongoing financial infrastructure. A data room assembled specifically for a fundraise, from materials prepared for the first time during that process, reflects financial management that did not exist before the fundraise and does not satisfy the requirements of this Standard.

All documents in the financial data room must be internally consistent with each other. An inconsistency between any two documents in the data room, including a revenue figure in the management accounts that does not match the revenue figure in the financial model for the same period, is a data room deficiency that an investor will identify during due diligence and that raises a question about the reliability of all other materials.

The company must be able to share a complete financial data room within forty-eight hours of a request. A company that requires more than forty-eight hours to assemble its financial data room was not maintaining investor-grade financial infrastructure before the request was made.

Version control must be applied to the financial data room. Each document in the data room must be the current version, and prior versions must be retained but not accessible to investors in the active data room. Where a document is updated during an active fundraising process, the update must be communicated to all investors who have been granted access to the prior version.

## **COMPLIANCE CRITERIA**

### **Level 1**

5.1.L1.1: The company maintains a financial summary as defined in this section, updated within thirty calendar days of the most recent month end.

5.1.L1.2: The company maintains a financial model covering actual and projected performance, updated with actuals for all completed periods.

5.1.L1.3: The company maintains a current cap table as defined in Book 3, Section 3.1, dated within ninety calendar days of the date of assessment.

5.1.L1.4: The company can produce a financial summary, a financial model, and a cap table within five business days of a request from a prospective investor.

### **Level 2**

5.1.L2.1: The company maintains a financial data room containing all of the following categories of document, each meeting the currency requirements stated:

#### **Category 1: Financial Model**

An investor-grade financial model as defined in this section, updated with actuals within fifteen working days of each month end, covering actual performance for all completed periods and forward projections for a minimum of twenty-four months from the date of the fundraising process.

#### **Category 2: Management Accounts**

Monthly management accounts for all completed months in the current financial year and the immediately preceding full financial year, each prepared within fifteen working days of the relevant month end and covering at minimum: income statement; cash position; and revenue versus forecast.

#### **Category 3: Cap Table**

A fully diluted cap table as defined in Book 3, Section 3.1, dated within fifteen working days of the date of the fundraising process, including all SAFEs, convertible notes, options, and warrants, with conversion mechanics modeled at the anticipated round terms.

#### **Category 4: Valuation Analysis**

A written valuation analysis as defined in Book 4, Section 4.1, applying at minimum two methodologies appropriate to the company's stage, with all assumptions documented, current within ninety calendar days of the fundraising process.

#### **Category 5: Use of Proceeds**

A written use of proceeds document as defined in Book 3, Section 3.4, stating the planned capital allocation by functional category, the intended deployment period, and the milestone the company expects to reach by the end of the deployment period.

**Category 6: Financial Summary**

A financial summary as defined in this section, updated within fifteen calendar days of the most recent month end.

**Category 7: Historical Financial Performance**

Audited or reviewed statutory accounts for the most recent completed financial year where available, or management accounts for the most recent completed financial year where statutory accounts are not yet available.

5.1.L2.2: All documents in the financial data room are internally consistent with each other: revenue figures in management accounts reconcile to revenue figures in the financial model for the same period; share counts in the cap table reconcile to share counts in the valuation analysis; and revenue projections in the financial model are consistent with the market sizing presented in any investor presentation.

5.1.L2.3: The financial data room is accompanied by a data room index listing all documents by category, the period or date each document covers, and the date each document was last updated.

5.1.L2.4: The complete financial data room can be shared with a prospective investor within forty-eight hours of a request.

5.1.L2.5: Version control is applied to the financial data room: each document is the current version; prior versions are retained but not accessible in the active data room; and any update made to a document during an active fundraising process is communicated to all investors who have been granted access to the prior version.

5.1.L2.6: The financial model in the data room does not contain any hard-coded numbers in calculation cells; all numerical inputs are referenced from the documented assumption layer defined in Book 1, Section 1.1.

**Level 3**

5.1.L3.1: The financial data room is maintained continuously in a state of data room readiness as defined in this section, such that it can be shared without preparation at any time, not only during an active fundraising process.

5.1.L3.2: The financial data room includes a written financial data room guide of no more than two pages that explains the structure of the data room, the relationship between each document and the others, and the key financial figures an investor should form a view on before requesting a meeting.

5.1.L3.3: The company conducts an internal data room readiness review, assessed against the compliance criteria of this section, at minimum every six months and within thirty calendar days of initiating any fundraising process.

5.1.L3.4: The financial data room includes a written assumptions document that lists every material assumption in the financial model, the basis for each assumption, and the sensitivity of the primary outputs to changes in each assumption, prepared separately from the financial model itself for ease of investor review.

5.1.L3.5: For companies that have received investment in a prior round, the financial data room includes a written update on the deployment of capital from that round, comparing actual deployment against the use of proceeds committed at the time of that round.

## **BENCHMARKS**

Data room preparation timelines by stage:

Pre-Revenue: five business days to assemble and share a basic financial data room

Early Revenue: forty-eight hours to share a complete financial data room

Growth Stage: twenty-four hours to share a complete financial data room

Scale Stage: same-day availability of all financial data room materials

Document currency requirements by type:

Financial model: actuals current within fifteen working days of most recent month end

Management accounts: current within fifteen working days of each month end

Cap table: current within fifteen working days of any instrument issuance or change

Valuation analysis: current within ninety calendar days

Financial summary: current within fifteen calendar days of most recent month end

Use of proceeds: current to the active fundraising round; reviewed and updated at minimum semi-annually

## **COMMON DEFICIENCIES**

CD 5.1.1: The company assembles its financial data room over three weeks after an investor requests access. The data room contains a financial model that has not been updated with actuals for the preceding four months, management accounts from two quarters prior, and a cap table that does not reflect two SAFEs issued in the last eight months. The investor identifies all three gaps within two hours of receiving access. The gaps signal that the company's financial management does not meet Level 2 standards under Book 1 and Book 3. The fundraising process slows materially while the company attempts to rebuild materials it should have been maintaining continuously.

CD 5.1.2: The data room contains a financial model showing a revenue figure for the most recent quarter of four hundred thousand pounds. The management accounts in the same data room show revenue for the same quarter of three hundred and forty thousand pounds. The discrepancy is sixty thousand pounds, representing fifteen percent of the modelled figure. The investor cannot determine which figure is correct and asks the company to reconcile them. The company takes four days to respond because the discrepancy was caused by a revenue recognition adjustment that had not been reflected in the financial model. Internal inconsistency of this kind signals a disconnection between the financial model and the accounting records that undermines the reliability of both.

CD 5.1.3: The financial model in the data room contains hard-coded revenue growth rates entered directly into the forecast cells. Seventeen different growth rate assumptions are scattered across different tabs, entered as numbers rather than referenced from an assumption layer. A reviewer attempting to run a sensitivity analysis must locate and change each number individually. The reviewer identifies three cases where the same assumption period has different hard-coded rates in different tabs, producing internal inconsistency in the model. The model does not satisfy the investor-grade standard.

CD 5.1.4: The company's data room is a shared folder containing thirty-seven documents with names including "model v3 final," "model v3 final REVISED," "cap table march UPDATED," and "cap table

march UPDATED2." No data room index exists. The investor cannot determine which version of any document is current. The naming convention signals an absence of version control and document management discipline. The investor requests clarification on which documents are current before proceeding with review.

## **SECTION 5.2: THE FINANCIAL NARRATIVE STANDARD**

### **PURPOSE**

The financial narrative standard governs the coherence, accuracy, and evidential basis of the financial story a company presents to investors. The financial narrative is the verbal and written account that connects the company's financial model to its business strategy, its market opportunity, and its investment thesis. A financial narrative that is inconsistent with the financial model, that makes claims not supported by the company's data, or that presents a different financial story in different investor contexts does not meet this Standard. The financial narrative is not a sales document. It is the company's own description of what the numbers mean and why the trajectory is what it is.

### **DEFINITIONS**

**FINANCIAL NARRATIVE:** The verbal and written account a company provides to investors that explains the company's financial performance, financial position, and financial projections, and connects those elements to the company's business strategy and investment thesis. The financial narrative appears in investor presentations, investor updates, data room explanatory documents, and verbal responses to investor questions.

**NARRATIVE CONSISTENCY:** The condition in which the financial story told in the investor presentation, the financial model, the management accounts, the investor update, and any verbal communication is the same story, with figures that reconcile to each other and conclusions that are supported by the underlying data.

**INVESTOR PRESENTATION FINANCIAL SECTION:** The portion of the company's investor presentation that covers financial performance, financial projections, unit economics, and funding requirements. The investor presentation financial section must be consistent with the financial data room materials in all figures and must accurately represent the financial model's outputs rather than presenting selectively chosen figures.

**FINANCIAL CLAIM:** Any assertion in an investor communication about the company's financial performance, position, or prospects, including statements about revenue, growth rate, gross margin, unit economics, market size, and runway. Every financial claim must be supported by a specific figure in the company's financial records or financial model, and that figure must be accessible in the financial data room.

**UNSUPPORTED FINANCIAL CLAIM:** A financial claim that cannot be traced to a specific, documented figure in the company's financial records, financial model, or documented methodology. Unsupported financial claims include projected figures derived from undocumented assumptions, historical figures that do not appear in the management accounts or statutory accounts, and unit economics figures calculated using a methodology not documented in the company's records.

**SELECTIVE PRESENTATION:** The practice of choosing which financial figures to present to investors in a way that creates a more favourable impression of the company's financial position than a complete

presentation of the same data would produce. Selective presentation includes presenting gross revenue rather than net revenue where the difference is material, presenting customer count growth without presenting revenue churn, or presenting a quarter with unusually strong performance as representative without disclosing the seasonal or one-time factors that drove it.

**INVESTOR UPDATE:** A periodic written communication from the company to its existing investors reporting on the company's financial performance, progress against plan, and material developments. The investor update is distinct from the board financial package required under Book 1, Section 1.3. It is a communication to financial stakeholders who are not on the board.

**FINANCIAL PREPAREDNESS:** The condition in which the founders and financial leads of a company can answer any question about the company's financial position, performance, and projections in a live investor conversation without consulting documents, with the exception of precise figures that require verification. Financial preparedness requires that the founders understand the financial model at a sufficient depth that they can discuss its assumptions, their basis, and their sensitivity without notes.

## **PRINCIPLES GOVERNING THIS SECTION**

Every financial claim in an investor presentation or investor communication must be traceable to a documented figure in the financial data room. A claim that cannot be traced is either unsupported or inconsistent with the company's records. Both conditions are deficiencies.

The financial narrative must be the same in all investor contexts. A company that presents different revenue figures, different unit economics, or different market sizing to different investors in the same fundraising process, without documenting the basis for any differences, has created an inconsistency that constitutes a material deficiency.

The founders and financial leads must be able to discuss every figure in the investor presentation financial section without consulting documents during a meeting. The standard is not that they can access the answer; it is that they know the answer. A founder who does not know their gross margin without checking a file has not met the financial preparedness requirement of this section.

The financial narrative must not present a different growth story in verbal communication than the one the financial model supports. A founder who describes a revenue trajectory verbally that implies a higher growth rate than the financial model projects, without disclosing that the verbal description is aspirational rather than modeled, has created a narrative inconsistency.

## **COMPLIANCE CRITERIA**

### **Level 1**

5.2.L1.1: The company maintains an investor presentation that includes a financial section covering at minimum: revenue for the most recent completed period; gross margin percentage; current cash position and runway; and revenue projections for the next twelve months.

5.2.L1.2: All figures in the investor presentation financial section are traceable to the company's financial model or management accounts.

5.2.L1.3: The founders can state the following figures without consulting documents: current cash position; net burn rate; cash runway; most recent monthly or quarterly revenue; gross margin percentage; and the primary driver of the company's revenue growth rate.

## **Level 2**

5.2.L2.1: All financial claims in the investor presentation are supported by figures in the financial data room, and the connection between each presented figure and its source document is traceable without additional explanation from the company.

5.2.L2.2: The investor presentation does not engage in selective presentation: where a financial metric is presented, the context necessary to interpret that metric accurately is also presented, including the prior period figure for comparison, any seasonal or one-time factors that affected the metric, and the distinction between recurring and non-recurring revenue where the company has both.

5.2.L2.3: The revenue figures, unit economics figures, and market sizing figures in the investor presentation are consistent with those in the financial model and management accounts; any figure in the presentation that differs from the equivalent figure in the financial model is accompanied by a documented explanation of the difference.

5.2.L2.4: The company produces a written investor update at minimum quarterly, covering: actual financial performance against forecast for the quarter; current cash position and runway; progress against the milestone committed at the most recent funding round; and any material changes to forward assumptions. Each investor update is produced within fifteen calendar days of the quarter close.

5.2.L2.5: The founders and financial leads can answer the following questions in a live investor meeting without consulting documents: the company's gross margin percentage and its primary drivers; the LTV to CAC ratio and the methodology used to calculate it; the primary assumptions underlying the revenue projection for the next twelve months; the conversion terms of all outstanding SAFEs and convertible notes; and the current cash runway at trailing average burn.

5.2.L2.6: The financial narrative presented to investors is documented in writing as a financial narrative summary that states the key financial claims, the source of each claim in the financial data room, and the key assumptions on which forward-looking claims depend.

## **Level 3**

5.2.L3.1: The company conducts an internal financial narrative review before each investor meeting, assessing whether the figures to be presented are current, consistent with the data room, and supported by documented methodology.

5.2.L3.2: The company maintains a written question and answer document covering the twenty most commonly asked investor questions about the company's financials, with documented answers that are consistent with the financial data room, updated at minimum quarterly.

5.2.L3.3: The company's investor update includes a written assessment of the accuracy of the prior quarter's forecast, identifying any material variances, their causes, and any resulting changes to the forward assumptions.

5.2.L3.4: The financial narrative summary is reviewed by a financial professional who was not involved in its preparation before it is used in any investor communication.

## **BENCHMARKS**

Investor update frequency by stage:

- Pre-Revenue: semi-annual investor updates minimum
- Early Revenue: quarterly investor updates minimum, within fifteen calendar days of quarter close
- Growth Stage: quarterly investor updates minimum, within fifteen calendar days of quarter close; monthly updates to lead investors where required by investment agreement
- Scale Stage: monthly investor updates minimum, within ten calendar days of month close

Financial preparedness benchmarks:

- The founders and financial leads must be able to answer the following categories of question in a live meeting without document consultation:
- Core financial metrics: current revenue run rate; most recent period gross margin; net burn rate; cash runway; key unit economics metrics relevant to the company type.
- Model assumptions: the three primary assumptions driving the revenue forecast; the basis for each; and the sensitivity of the forecast to each assumption.
- Capital structure: the number of shares outstanding on a fully diluted basis; the terms of all outstanding convertible instruments; and the post-conversion ownership of the founders at the anticipated round terms.
- Historical performance: revenue for the preceding four quarters; the quarter-on-quarter growth rate; and the primary drivers of any material variance from forecast.

## **COMMON DEFICIENCIES**

CD 5.2.1: The investor presentation states a gross margin of seventy-two percent. The management accounts for the same period show a gross margin of fifty-eight percent. The difference is caused by the exclusion of customer success team costs from cost of goods sold in the presentation, which is inconsistent with the cost classification policy documented in the company's accounting records. The investor asks for the gross margin from the management accounts. The founder does not know the figure without checking the accounts.

CD 5.2.2: The company presents a revenue figure of two point four million pounds for the most recent quarter in its investor presentation. The figure is the gross transaction value processed through the company's platform. The net revenue, after deducting the portion passed to third parties under revenue sharing agreements, is one point one million pounds. The investor presentation does not distinguish between gross transaction value and net revenue. The investor asks which figure represents the company's recognised revenue. The founder is uncertain of the precise distinction.

CD 5.2.3: The company states in an investor meeting that it is growing at "north of one hundred percent year on year." The financial model shows a year on year growth rate of forty-three percent. The verbal

figure reflects the growth rate in the most recent quarter, annualised, during an unusually strong quarter. The model growth rate reflects the twelve-month trailing average. The company has not disclosed that the verbal figure and the modeled figure reflect different periods and different calculation methodologies. The investor asks the founder to reconcile the two figures during a follow-up diligence call.

CD 5.2.4: The company's investor update for the most recent quarter is produced six weeks after the quarter close. It contains no comparison of actual performance against forecast. It contains no assessment of variance. It contains no update to forward assumptions. The update reports a positive headline revenue figure without providing the context required to assess whether performance was ahead of or behind plan. Existing investors cannot assess whether the company is on track without requesting additional information.

## **SECTION 5.3: THE INVESTOR EXPECTATIONS MATRIX**

### **PURPOSE**

The investor expectations matrix defines what each category of investor typically expects to see in financial materials, at what level of detail, and against what standards, at each stage of company development. The matrix is not a set of requirements imposed by this Standard. It is a structured description of the expectations that investors in each category apply in practice. A company that understands these expectations can assess its own financial readiness before entering a fundraising process and can prioritise the preparation required to meet the expectations of its target investor category.

### **DEFINITIONS**

**INVESTOR CATEGORY:** A defined group of investors characterised by their typical investment stage, investment size, due diligence depth, and financial documentation expectations. The investor categories recognised by this Standard are: angel investor; pre-seed institutional investor; seed institutional investor; Series A venture capital investor; Series B growth equity investor; strategic investor; and revenue-based finance provider.

**DUE DILIGENCE DEPTH:** The level of detail and scrutiny applied by an investor in reviewing a company's financial materials. Due diligence depth increases with investment size and with the stage of the company. A Series A investor applies materially deeper financial due diligence than an angel investor because the investment amount is larger, the investor has greater legal and reputational accountability, and the company's financial history is longer.

**FINANCIAL SCREEN:** The initial assessment of a company's financial materials by an investor, conducted before a detailed due diligence process is initiated, to determine whether the company meets minimum financial thresholds for further consideration. A company that does not pass the financial screen does not progress to detailed due diligence regardless of its product or market merits.

**RED FLAG:** A financial characteristic or disclosure in a company's materials that, in the investor's assessment, constitutes a material risk to the investment or a signal that the company's financial management does not meet the investor's minimum standards. Red flags identified during a financial screen or due diligence process typically result in the investor declining to proceed or requiring remediation before proceeding.

**QUANTITATIVE DUE DILIGENCE:** The process by which an investor's analytical team independently models the company's financial projections, tests the assumptions underlying the financial model, and

verifies the consistency of financial figures across all materials provided. Quantitative due diligence is standard practice for Series A investors and above.

**FINANCIAL REPRESENTATION:** A statement made by the company to an investor, in any form, about the company's financial position, performance, or prospects that the investor is entitled to rely upon. Financial representations made in investment documents are typically warranted by the company and, if materially inaccurate, may give rise to legal claims.

## **PRINCIPLES GOVERNING THIS SECTION**

The investor expectations set out in this section reflect observed market practice as of the preparation of Beta v0.5. They are descriptive of what investors in each category have consistently expected, not prescriptive of what they are obligated to accept. Companies should use this matrix to calibrate their preparation, not to limit it.

The minimum expectation for any investor category is the Level 1 compliance standard of this Standard. A company that does not meet Level 1 compliance in financial architecture, cash management, and capital structure is not ready for any institutional investor conversation at any stage.

The expectations in this matrix increase with both the investment amount and the stage of the company. A company at Growth Stage raising from a Series A investor faces the highest combined expectation in this matrix: the company has a financial history that will be examined, projections that will be independently modeled, and a financial infrastructure that will be assessed for institutional maturity.

## **INVESTOR EXPECTATIONS BY CATEGORY**

### **ANGEL INVESTOR**

Investment size: typically below five hundred thousand pounds or equivalent.

Financial screen expectations: current cash position and runway; a financial model covering at minimum twelve months forward; evidence that the founding team understands the primary financial metrics of the business; a cap table showing founder ownership and any prior instruments.

Due diligence depth: light. Most angel investors conduct limited formal financial due diligence and rely primarily on the founding team's financial understanding and the plausibility of the business model.

Minimum FFI compliance expected: Level 1 across financial architecture, cash management, and capital structure as defined in Books 1 and 3.

Red flags at this category:

- The founding team cannot state the company's current cash position or monthly burn without consulting documents.
- The cap table has not been prepared or does not reflect outstanding instruments.
- The financial model does not exist or is a spreadsheet with no documented assumptions.

### **PRE-SEED INSTITUTIONAL INVESTOR**

Investment size: typically two hundred and fifty thousand to one point five million pounds or equivalent.

Financial screen expectations: a financial model with documented assumptions covering at minimum eighteen months; a clear articulation of the primary unit economics drivers even if empirical data is limited; a cap table including all instruments; a use of proceeds document; and evidence that the founding team can discuss the financial model's primary assumptions.

Due diligence depth: moderate. Pre-seed institutional investors typically review the financial model in detail, assess the plausibility of the primary assumptions, and verify cap table completeness.

Minimum FFI compliance expected: Level 2 across capital structure; Level 1 across financial architecture and performance modeling.

Red flags at this category:

- The financial model contains no assumption layer; assumptions are embedded in calculation cells.
- The use of proceeds is not documented or is stated at a level of granularity insufficient to assess capital efficiency.
- The conversion terms of any outstanding SAFEs have not been modeled at the anticipated round terms.

## **SEED INSTITUTIONAL INVESTOR**

Investment size: typically one to five million pounds or equivalent.

Financial screen expectations: an investor-grade financial model as defined in this section; management accounts for all completed periods; a fully diluted cap table with SAFE conversion modeled; a valuation analysis using at minimum two methodologies; a use of proceeds document; and an investor presentation with a financial section consistent with the financial model.

Due diligence depth: structured. Seed institutional investors conduct systematic financial due diligence covering the financial model, unit economics, cap table, and historical financial performance.

Minimum FFI compliance expected: Level 2 across financial architecture, cash management, capital structure, and investor readiness; Level 1 across performance modeling and valuation.

Red flags at this category:

- The financial model balance sheet does not balance.
- Historical revenue in the management accounts is inconsistent with historical revenue in the financial model.
- The company has not modeled the post-conversion cap table at the anticipated seed round terms.
- The founding team cannot explain the methodology used to calculate the company's LTV to CAC ratio.

## **SERIES A VENTURE CAPITAL INVESTOR**

Investment size: typically four to fifteen million pounds or equivalent.

Financial screen expectations: all materials required at seed level, plus: cohort analysis for all customer cohorts acquired in the preceding twenty-four months; a scenario architecture as defined in Book 2, Section 2.3; monthly management accounts for the preceding twenty-four months; statutory accounts for all completed financial years; and a reconciliation of the financial model's historical actuals against the statutory accounts.

Due diligence depth: quantitative. Series A investors and their analytical teams independently model the company's financial projections, test the primary assumptions, verify figures across all documents, assess the quality of unit economics calculations, and examine the evolution of financial performance over the company's history.

Minimum FFI compliance expected: Level 2 across all domains; Level 3 across capital structure and investor readiness.

Red flags at this category:

- The company's unit economics are calculated using average-based LTV rather than cohort-based LTV as required by Book 2, Section 2.2.
- The financial model does not integrate with the three-statement model; cash flow projections are maintained separately from the income statement.
- The company cannot provide management accounts within forty-eight hours of request.
- The scenario architecture does not include an internally consistent downside case; the downside case reduces revenue without adjusting the corresponding cost assumptions.
- The financial performance of prior periods differs materially from what was forecast at the prior funding round, with no documented explanation of the variance.

## **SERIES B GROWTH EQUITY INVESTOR**

Investment size: typically ten to fifty million pounds or equivalent.

Financial screen expectations: all Series A materials, plus: an annual operating plan as defined in Book 6, Section 6.1; departmental financial models as defined in Book 2, Section 2.4; a capital deployment model for the Series B proceeds showing projected outcomes by deployment category; and a financial history that demonstrates consistent management against plan over at minimum four consecutive quarters.

Due diligence depth: institutional. Series B investors conduct the most extensive financial due diligence of any category addressed in this Standard. Their analytical process typically includes an independent rebuild of the financial model, a detailed unit economics audit, a review of all contracts with material revenue implications, and a formal assessment of the quality of financial controls.

Minimum FFI compliance expected: Level 3 across financial architecture, performance modeling, capital structure, and investor readiness; Level 2 across strategic financial planning as defined in Book 6.

Red flags at this category:

- The company has not maintained an annual operating plan or cannot demonstrate that it has managed its business against a formal financial plan.
- Departmental financial models do not exist or are not integrated with the company-level three-statement model.

- The company's historical forecast accuracy, as measured by the deviation of actual results from forecasts prepared at least one month in advance, falls outside the benchmarks defined in Book 2, Section 2.1.
- The cap table model does not cover the anticipated post-Series B ownership structure including the option pool refresh and all outstanding convertible instruments.

## **STRATEGIC INVESTOR**

A strategic investor is an investor whose primary motivation for investment includes a strategic relationship with the company in addition to financial return. Strategic investors may include corporate venture arms, strategic partners, and potential acquirers.

Financial screen expectations: similar to the equivalent institutional stage, with additional emphasis on revenue concentration, customer contract terms, and the company's financial dependency on any relationship with the strategic investor.

Due diligence depth: variable, reflecting both financial return expectations and strategic considerations.

Red flags specific to this category:

- Revenue derived from the strategic investor or its affiliates represents more than twenty percent of total revenue without disclosure.
- The company has not modeled the financial impact of the termination of the strategic relationship.

## **REVENUE-BASED FINANCE PROVIDER**

Revenue-based finance providers advance capital against a percentage of future revenue and assess repayment capacity rather than equity value.

Financial screen expectations: management accounts covering at minimum twelve months; monthly recurring revenue or equivalent revenue run rate with demonstrated stability; gross margin sufficient to service the repayment percentage; and cash flow projections covering the anticipated repayment period.

Due diligence depth: focused on revenue stability and cash flow sufficiency for repayment.

Minimum FFI compliance expected: Level 2 across financial architecture and cash management; Level 1 across performance modeling.

Red flags at this category:

- Monthly recurring revenue shows high month to month variance without a documented explanation.
- Gross margin is below the threshold required to service the proposed repayment percentage while maintaining adequate operating cash flow.

## **AI-NATIVE AND DEEP TECH INVESTOR SPECIFIC EXPECTATIONS**

Investors who specialise in AI-Native and Deep Tech companies apply additional financial scrutiny in two areas that are specific to these company types.

For AI-Native companies: investors expect the financial model to include inference cost modeling showing the relationship between usage volume, compute cost, and gross margin at different scales. Where the company's gross margin is dependent on inference cost reductions that have not yet been achieved, the investor expects a documented assessment of the basis for expecting those reductions and the financial model to include a scenario in which those reductions are not achieved. The unit definition used in the unit economics calculation must be clearly documented, as described in Book 2, Section 2.2.

For Deep Tech and Hardware companies: investors expect the financial model to include a manufacturing cost model showing the relationship between production volume and unit cost, with the basis for any assumed cost reductions at scale documented. Where the company has not yet reached manufacturing scale, the investor expects a staged deployment model showing the capital requirements and timeline to reach each cost reduction milestone.

## **COMMON DEFICIENCIES**

CD 5.3.1: A company at Growth Stage enters a Series A fundraising process with a financial model that has not been updated with actuals for three months, management accounts that exist for only eight of the preceding twenty-four months, and no cohort analysis. The Series A investor's analytical team identifies all three gaps in the first review of the data room. The investor requests the missing materials. The company spends six weeks producing materials that should have been maintained continuously. The fundraising process timeline extends by two months. The delay increases the risk that the company's financial position deteriorates before the round closes.

CD 5.3.2: A company presents to a Series A investor and is asked about its LTV to CAC ratio. The company states a ratio of four point two. The investor asks how the lifetime value figure was calculated. The founder states that lifetime value is calculated as average monthly revenue per customer multiplied by the assumed average customer lifespan of forty-eight months. The investor asks whether the forty-eight month lifespan is based on observed cohort data or an assumption. The founder confirms it is an assumption. The investor asks what the observed cohort retention rate is for cohorts acquired twelve months ago. The founder does not know. The LTV to CAC ratio cannot be verified and the investor notes a material unit economics deficiency.

CD 5.3.3: An AI-Native company at Early Revenue stage presents to a pre-seed investor. The investor asks how gross margin evolves as usage scales. The founder states that gross margin will improve as "model efficiency improves and compute costs decline." The investor asks whether this is modeled in the financial model. The founder confirms that the model assumes a fixed gross margin of forty percent throughout the projection period and that the efficiency improvement is qualitative only. The investor notes that the primary financial risk of the business model, the relationship between usage volume and compute cost, has not been modeled. The gross margin assumption of forty percent cannot be verified against any documented cost model.

## **SECTION 5.4: THE FINANCIAL DUE DILIGENCE STANDARD**

### **PURPOSE**

The financial due diligence standard governs how a company prepares for, responds to, and maintains its financial infrastructure through a formal investor due diligence process. Financial due diligence is not an

event that a company prepares for after a term sheet is signed. It is the formal verification process by which an investor confirms that the financial claims the company has made are accurate, the financial model is reliable, and the financial management of the company meets the investor's minimum standards. A company that has maintained investor-grade financial infrastructure throughout its development passes financial due diligence without preparation. A company that assembles its infrastructure specifically for due diligence exposes the gaps in its ongoing financial management to the investor's scrutiny.

## **DEFINITIONS**

**FINANCIAL DUE DILIGENCE:** The formal process by which an investor, directly or through advisors, verifies the accuracy of a company's financial claims, assesses the quality of the company's financial model, and evaluates the financial management practices of the company, prior to completing an investment. Financial due diligence is typically initiated after a term sheet is signed but the investor's initial financial assessment begins at first contact.

**DILIGENCE REQUEST LIST:** A structured list of documents and information requested by an investor or their advisors as part of a financial due diligence process. A diligence request list typically covers financial statements, financial model access, cap table, legal agreements, customer contracts with financial implications, and management accounts.

**DILIGENCE RESPONSE:** The company's reply to a diligence request list, comprising the provision of all requested documents and the written answers to any questions included in the request. Diligence responses must be complete, timely, and consistent with all other materials provided to the investor.

**FINANCIAL MODEL AUDIT:** An independent review of the company's financial model by the investor's team or advisors, assessing the structural integrity of the model, the documentation of assumptions, the internal consistency of projections, and the sensitivity of outputs to key assumptions. A financial model audit is standard practice in Series A and above due diligence.

**MATERIAL ADVERSE CHANGE:** A change in the company's financial position, performance, or prospects that is significant enough that it would have affected the investor's decision to invest or the terms on which they would invest, had they known of it at the time of the investment agreement. A material adverse change discovered after a term sheet is signed but before a round closes may give the investor the right to renegotiate terms or withdraw.

**CLOSING CONDITIONS:** The requirements that must be satisfied before an investment round can close. Financial closing conditions typically include confirmation that the company's financial position as represented remains accurate, that no material adverse change has occurred, that the cap table as represented is accurate, and that all financial representations made by the company are warranted.

**REPRESENTATION AND WARRANTY:** A statement of fact made by the company in an investment agreement that the investor is entitled to rely upon as accurate. Financial representations and warranties typically cover the accuracy of financial statements, the completeness of the cap table, the absence of undisclosed liabilities, and the accuracy of material financial projections.

## **PRINCIPLES GOVERNING THIS SECTION**

A company that has maintained its financial infrastructure to Level 2 compliance throughout its development does not require preparation for financial due diligence. The due diligence process verifies what the company has already built. A company that requires significant preparation for financial due

diligence signals to the investor that its financial infrastructure was not at the standard it represented before due diligence began.

All responses to diligence requests must be consistent with all other materials provided to the investor, including materials provided before the formal due diligence process began. An inconsistency between a diligence response and an earlier investor communication must be disclosed and explained immediately upon identification.

A company must disclose any material adverse change to the investor as soon as it is identified, including during an active due diligence process. Failure to disclose a material adverse change that was known to the company constitutes a misrepresentation.

## **COMPLIANCE CRITERIA**

### **Level 1**

5.4.L1.1: The company can respond to a basic financial diligence request list, covering the financial model, cap table, and management accounts, within five business days.

5.4.L1.2: The company has identified and documented all financial liabilities, including deferred revenue, outstanding debt, and contingent liabilities, in a format that can be shared with an investor on request.

### **Level 2**

5.4.L2.1: The company can respond to a comprehensive financial diligence request list covering all categories in the financial data room defined in Section 5.1, within forty-eight hours.

5.4.L2.2: The company has conducted an internal financial due diligence review before initiating any fundraising process, assessing its financial materials against the compliance criteria of this Standard and documenting any gaps identified.

5.4.L2.3: The company has prepared a written summary of the primary financial risks of the business, including the assumptions that, if materially wrong, would most significantly affect the company's financial trajectory, and this summary is available to investors on request as part of the financial data room.

5.4.L2.4: The company has a documented process for identifying and disclosing material adverse changes to investors during an active fundraising process, including a defined timeline for disclosure from the date of identification.

5.4.L2.5: All financial representations made to investors, including figures stated in the investor presentation, financial claims made verbally in investor meetings, and statements in term sheet negotiations, are documented by the company and are consistent with the financial data room materials.

5.4.L2.6: The company maintains a diligence response log during any active due diligence process, recording each request received, the response provided, the date of the response, and the document in the financial data room to which the response refers.

### **Level 3**

5.4.L3.1: The company conducts a formal financial due diligence readiness assessment at minimum annually and within thirty calendar days of initiating any fundraising process, using the compliance criteria of this Standard as the assessment framework, with the results documented and gaps remediated before the fundraising process is initiated.

5.4.L3.2: The company engages a qualified independent financial professional to review the financial data room before initiating a Series A or above fundraising process, to identify any gaps or inconsistencies that a sophisticated investor's due diligence team would identify.

5.4.L3.3: The company maintains a financial representations register during any active fundraising process, recording every material financial statement made to investors, the source of the figure in the financial data room, and the date the statement was made.

5.4.L3.4: The company has prepared a written disclosure schedule identifying all matters that would constitute exceptions to the standard financial representations and warranties in an investment agreement, available for review at the commencement of formal due diligence.

## **BENCHMARKS**

Due diligence response timelines by stage and investor category:

- Angel investor: five business days for all available materials
- Pre-seed institutional: three business days for all materials
- Seed institutional: forty-eight hours for all materials
- Series A: twenty-four to forty-eight hours for all materials
- Series B: twenty-four hours for all materials; same day for standard categories

Financial due diligence duration benchmarks by investor category:

- Angel investor: typically two to four weeks from first financial review to investment decision
- Pre-seed institutional: typically four to eight weeks
- Seed institutional: typically six to ten weeks
- Series A: typically eight to fourteen weeks from term sheet to close; financial due diligence typically four to six weeks within that process
- Series B: typically ten to sixteen weeks from term sheet to close

Internal due diligence readiness review frequency:

- Growth Stage companies: at minimum every six months and within thirty calendar days of initiating any fundraising process
- Scale Stage companies: at minimum every three months

## **COMMON DEFICIENCIES**

CD 5.4.1: A company at Growth Stage signs a Series A term sheet and begins formal due diligence. The investor's team requests access to management accounts for the preceding twenty-four months. The

company has management accounts for fourteen of the twenty-four months requested; the remaining ten months were never formally prepared. The company spends four weeks preparing the missing months from raw accounting data. The due diligence timeline extends and the investor reduces the proposed valuation to reflect the financial management gap identified.

CD 5.4.2: During Series A due diligence, the investor's team independently models the financial projections using the company's stated assumptions. Their model produces a revenue projection for year three that is thirty-eight percent below the company's model for the same period. The investor requests a reconciliation. The company identifies that three revenue assumptions in its model reference revenue from a customer category that does not appear in the sales capacity model and cannot be traced to a pipeline source. The assumptions were added to the model to close a gap between the model's output and the target valuation. The financial model audit reveals an unsupported assumption.

CD 5.4.3: A company at Growth Stage provides an investor with an investor presentation in month one of a fundraising process stating revenue of two point eight million pounds for the most recent financial year. The statutory accounts, provided in month three as part of formal due diligence, show revenue of two point three million pounds for the same period. The difference of five hundred thousand pounds is caused by the recognition of deferred revenue in the investor presentation that had not yet been recognised under the company's accounting policy. The inconsistency between the investor presentation figure and the statutory accounts figure was not disclosed when the presentation was shared. The investor's legal team identifies the inconsistency as a potential misrepresentation.

CD 5.4.4: During due diligence, the company experiences a material decline in revenue in the month following the signing of the term sheet. The monthly net revenue retention falls from ninety-four percent to seventy-one percent due to the loss of the company's two largest customers. The company does not disclose this event to the investor for six weeks, until the monthly management accounts for the period are prepared. The investor considers whether the failure to disclose constitutes a breach of the duty to notify material adverse changes and re-examines the terms of the investment.

## **STAGE AND LEVEL APPLICABILITY**

The compliance level expectations for each section of Book 5 are as follows.

### Section 5.1: Data Room Financial Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

### Section 5.2: Financial Narrative Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

### Section 5.3: Investor Expectations Matrix

No compliance criteria. This section is descriptive. A company uses it to calibrate its preparation against the expectations of its target investor category.

Section 5.4: Financial Due Diligence Standard

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Stage definitions are as established in Book 0, Section 0.5. Compliance level expectations reflect the Maturity Model established in Book 0, Section 0.8.

Feedback on Book 5 may be submitted to [standard@ffistandard.org](mailto:standard@ffistandard.org) with reference to the specific section and criterion number. Feedback received before the close of the beta review period will be considered in the preparation of v1.0.