



The Seedrs Standard: Guide to Due Diligence





Contents

The Seedrs Guide to Due Diligence and Investor Protections	3
1. Verification	4
2. Due Diligence - General Legal	5
2. Due Diligence - Intellectual Property	6
2. Due Diligence - Share Capital Structure	7
2. Due Diligence - Financial	8
2. Due Diligence - Valuations	10
2. Due Diligence - SEIS/EIS	11
3. Access	12
4. Contractual Protections - Warranties	13
4. Contractual Protections - Shareholder Agreements	14
5. Compliance	15
6. Post Investment Oversight/Monitoring	16

The Seedrs Guide to Due Diligence and Investor Protections

Investor protections are at the core of what we do. Our mission is to provide all types of investors with the opportunity to invest in exciting early-stage and growth-focused businesses. In doing so, we believe it is right that investors not only understand the risks of investing, but that they are afforded the same types of investor protections that any angel or venture capitalist would expect.

Our approach to investor protections is based on both market practice and our own experience. The six key components are:

1. VERIFICATION:

Verifying information provided to investors by the company in the campaign;

2. DUE DILIGENCE:

Conducting legal and other due diligence on the company and its directors;

3. ACCESS:

Providing investors with direct access to the company so they can request further information;

4. CONTRACTUAL PROTECTIONS:

Negotiating and entering into subscription and/or shareholder agreements that contain contractual protections;

5. COMPLIANCE:

Protecting investors' money and shares;

6. POST-INVESTMENT OVERSIGHT:

Monitoring the shares on an ongoing basis, and enforcing investors' rights.

There is no "one size fits all" approach to investor protections. Every investment is different and each investor will have his or her own particular standards, concerns and risk appetite. This Guide is designed to explain the type of due diligence, contractual protections and other steps we take on behalf of investors, why we do it, and what else investors may wish to consider.

A challenge with any due diligence exercise on a private company is the lack of third party information. Investors are necessarily reliant on information provided by the company itself, and contractual protections are crucial to legally commit the company to that information. Both due diligence and contractual protections can differ between deals, depending on factors such as the stage of the business, other investors, and any existing contractual arrangement the company has in place. The contractual protections described in this Guide are based on our standard subscription and shareholder agreements, but in some circumstances we will join a company's existing agreements, which may have different contractual protections.

Investors should keep in mind that no level of due diligence or contractual protections can remove all risks associated with investing in early-stage and growth-focussed businesses. Please read the Risk Warning here before investing. Seedrs does not provide legal, financial or tax advice of any kind. If you have any questions with respect to legal, financial or tax matters relevant to your interactions with Seedrs, you should consult a professional adviser.

1. Verification

What we do

Each campaign you see on Seedrs has been through a vigorous review by our Investment Team. Where there are material statements of fact, we require the company to provide evidence to substantiate the claim or amend or remove statements to ensure the campaign is fair, clear and not misleading.

The campaign includes the main text of the campaign and the video (the "Campaign"); it does not include the discussion forum or additional documents that the company provides directly to investors on request.

Why we do it

The Campaign forms the basis of most investors' investment decisions. It is the company's chance to pitch their idea and their accomplishments to investors. The Campaign provides a minimum level of information, available to all investors, which has been approved by us as being fair, clear and not misleading in accordance with the FCA's financial promotion rules.

What you should consider

If the information that you need to make your investment decision is not included in the Campaign, you can request that information from the company or conduct your own research. You should assume that any further information provided by or about the company, whether through the discussion forum, additional documents section, or otherwise, has not been reviewed or approved by us and you should consider independently verifying that information.

How we back this up with contractual protections

In verifying information, we are necessarily reliant on information and evidence provided from the company's own records, such as management or statutory accounts, internal database records etc. For private companies, these records often cannot be checked against independent sources of information. Our standard contractual protections back this up with warranties around the accuracy of the information provided by the company (otherwise we would just be taking their word for it).



2. Due Diligence - General Legal

What we do

Our Investment Team performs a number of key checks and searches on every company that raises on the platform, using a combination of public registers, third party sources and information requested direct from the company:

Structure:

- ✓ We verify the incorporation details and structure of the company against Companies House records and the company's constitutional documents to ensure it is appropriately structured for the investment.
- ✓ We generally require the business to offer investors shares in the 'top' company in any group structure.
- ✓ We use third party registers to identify related companies and will review arrangements between them.

Directors:

- ✓ We verify the identity of all directors and key shareholders of the company.
- ✓ We perform checks on whether any of the directors have been disqualified from acting as company officers or had authorisations revoked by the FCA;
- ✓ We require confirmation whether any of the directors or key employees of the company have ever been declared bankrupt or are currently going through bankruptcy proceedings;
- ✓ Third party registers can also reveal useful information about previous companies the directors have been involved in. We will not necessarily investigate connections to previous companies unless we have reason to believe this is necessary.

Why we do it

When making an investment into a private company, there are a certain fundamentals that need to be confirmed regarding the structure of the company, its ownership, its directors and the current standing of the directors and the company.

What you should consider

While we verify any claims made in the Campaign, we do not otherwise review the company's contracts, loan terms, employment terms or ownership of assets. Investors should also be aware that these arrangements are often left undocumented by early-stage companies.

We generally seek warranties from a company that it is not in breach of any regulations or legislation in running its business, but we do not otherwise verify the regulatory status of the company.

How we back this up with contractual protections

The warranties we generally seek from companies provide a legal basis for underpinning the veracity of information provided by the company or otherwise obtained during the due diligence process.

In addition, our standard agreements contain warranties around various legal matters, such as the company's material contracts, litigation/disputes and compliance with regulations and legislation.



2. Due Diligence - Intellectual Property

What we do

- ✓ To the extent any claims are made in the Campaign about the company's intellectual property ownership rights, we require substantiating evidence. For example, if a company claims it has a patent over a certain invention or design, we would require the patent documentation.
- ✓ We confirm that the intellectual property relied on by the business is owned by the company being invested in. To the extent that crucial IP it is held by a third party, we ensure arrangements are in place to secure the ongoing use.

Why we do it

For early-stage businesses, the intellectual property is often the only asset of the company and can be fundamental to its future value. Our focus is on ensuring the existing intellectual property is owned within the correct entity, to mitigate the risk of a future claim.

What you should consider

Commonly, early-stage businesses do not take full steps to protect their intellectual property and investors should be aware of this risk. Getting legal advice on ownership and protection can be costly and is not always a priority for early-stage businesses with limited funding.

Even the best protected intellectual property in the world will have limited value in stopping a competitor from setting up a similar business to yours – the best defence is really the ability to execute the idea faster or better.

As an investor, if you believe the key asset of a business is a particular piece of its intellectual property, you should ask further queries as to how this is protected and verify the protection against external registers if you feel necessary. For example, if you believe the bulk of the value of a business lies in its brand, you may wish to look into which elements of the brand have been trademarked, where, and for what uses.

How we back this up with contractual protections

- ✓ Our standard agreements include warranties around the ownership of the intellectual property used by the business and that its use does not infringe the rights of any third party.
- ✓ We will often also require early-stage companies to put in place an IP assignment agreement to ensure that any intellectual property generated by the founders is owned by the company, rather than personally. For later-stage companies, this will generally be covered by existing arrangements or via warranties.
- ✓ We generally also look for shareholder consent rights over the transfer out of key assets of the company, including intellectual property.



2. Due Diligence - Share Capital Structure

What we do

The number of shares a company has issued sets the share price for an investment round. We require investments to be made on a fully diluted basis, meaning we take into account any issued shares, options or other outstanding equity interests.

We review the company's issued shares, granted options or approved options pools, convertible loan agreements, warrants and other outstanding equity interests.

We also require details of all share classes, and review the company's articles of association to verify the rights attaching to any different classes of shares.

Why we do it

A full understanding of the company's share capital structure ensures investors are receiving shares at the valuation presented to them.

If there are share classes that would rank ahead of those belonging to our investors on a distribution of proceeds, this could directly affect investment returns. Note that companies on Seedrs commonly offer ordinary shares to investors, to ensure they are EIS or SEIS eligible, as preferential rights to proceeds attaching to a share can affect the SEIS/EIS eligibility.

What you should consider

Investors should consider whether there are preference shares that rank ahead of the shares being offered in the campaign, or material outstanding equity interests (such as convertible loans) not factored into the valuation, as they can affect the interest in the company the investor is acquiring:

Despite the absence of preference shares or outstanding equity interests at the time of investing, they may well become a feature of the company's share capital structure in the future if the company goes on to secure venture capital funding.

How we back this up with contractual protections

- ✓ Our standard form subscription agreement sets out the share capital table immediately before the investment round, and also how it will look immediately after the investment round. We generally require the company to warrant against this.
- ✓ We will generally ensure that the company's shareholder agreement contains pre-emption rights on the issue of new shares and investor consent rights over the creation of new classes of shares.

2. Due Diligence - Financial

What we do

Historical financial performance

We encourage companies raising on Seedrs to provide key information around past historical performance, to give investors a sense of what the company has achieved so far. All financial information included by the company in its Campaign is checked by our Investment Team against the company's statutory accounts or management accounts (or other evidence provided by the company). However, we do not audit the company's accounts or other financial records.

Why we do it:

The Campaign provides a minimum level of information, available to all investors, which has been approved by us as being fair, clear and not misleading.

Outstanding debts

We require each company to provide details of any outstanding debts and disclose the details in the Campaign. Our standard agreements also contain a contractual commitment from the company not to use the investment proceeds of their fundraise for the purpose of paying off existing debts, unless this has clearly been stated in the 'Use of Proceeds' section of their Campaign.

Why we do it:

Understanding the debt position of a company is important for a few reasons:

- ✓ If the company is servicing debts, this will increase the burn rate of the company and needs to be taken into account in any assessment you are making about the runway of the company;
- ✓ The debt may impact the cash the company has available to invest in growth;

- ✓ In the event of a winding up, the creditors of the company rank ahead of its shareholders, so debts would need to be repaid before shareholders see any return of proceeds.

Credit check

We run a credit report on each company using a third party data provider. This reports on adverse information about the company's finances, such as outstanding court judgements. Due to the limited public information available on private companies, this should not be considered a full 'health check' on the company's finances.

Why we do it:

These searches can flag certain events that suggest the company may be in financial difficulty, such as claims made by creditors against the company.

Additional financial information

Companies will regularly have additional financial information available for prospective investors on request. Investors should assume that this additional information (which does not form part of the Campaign) has not been reviewed or verified by us.

Why we do it:

While we cannot review and verify all additional information a company may have available, we do make it easy for companies to provide investors with additional financial (or other) information on request in order to facilitate an open dialogue between company and investors.



2. Due Diligence - Financial

What you should consider

We do not generally allow companies to include financial projections in their Campaigns. Financial projections are necessarily hypothetical, based on the aspirations of the company and we are unable to verify them against evidential materials. We do allow entrepreneurs to include statements about their aspirations for the business, provided the statements are clearly framed in this way.

Most companies that raise funds on our platform will have additional financial information available on request by investors. This information is generally prepared by management and is unaudited. We do not review information that does not form part of the Campaign. Investors should perform their own analysis of any additional financial information provided and the likelihood of forecasts/projections being achieved.

How we back this up with contractual protections

Our standard approach is to seek:

- ✓ contractual protections around the accuracy of information provided by the company;
- ✓ warranties around the financial standing of the company, including around any outstanding debts of the company and its solvency;
- ✓ a contractual commitment from companies that they will use the invested funds as set out in the 'Use of Proceeds section' of the Campaign, and not for the purpose of repaying existing debts.



2. Due Diligence - Valuations

What we do

Companies set their own valuations, in consultation with our Investment Team. While we will challenge valuations that we think are unreasonable, based on our experience, we do not require companies to use a particular method for reaching their valuation.

We ask that companies justify their valuation in their Campaign and we require them to provide evidence to back up any statements made – for example, about their financial performance to date, the size of the market they are operating in, the experience/background of their team. It is then up to investors to decide whether the justifications are sufficient to support the valuation.

Once the pre-money valuation is set, we perform the calculations to get to the correct share price, based on the current issued shares of the company and other outstanding equity interests. We perform all calculations to ensure you are investing on a fully diluted basis (as far as possible) and that the company issues you the number of shares that reflects the valuation presented.

We check that the company isn't offering a better valuation to particular set of investors in an investment round. A crowdfunding round can be made up of a number of sources of capital – and some of that may come from investors directly to the company, rather than through our platform. Where that direct investment is part of the same investment round, we verify check that all investments are being made at the same valuation and the same share class, unless otherwise expressly disclosed.

Why we do it

There are no fixed formulas for ascertaining the valuation of a private company. Particularly when it comes to early-stage companies, there is little agreement amongst investors or entrepreneurs as to the method for ascertaining the “correct” valuation for a company. Companies on Seedrs must hit their minimum target, at the stated valuation, in order to successfully fund. In this way, the Seedrs market place determines whether or not a particular valuation is appropriate.

What you should consider

Investors should request additional information from the company if they feel they need it to justify the valuation. We also encourage open and respectful discussion in the discussion forums about the valuation set by the company.

How we back this up with contractual protections

We enter into a subscription agreement with each company that specifies the share price, the number of shares to be issued in exchange for the investment funds and commits the company to issue that number of shares upon receipt of funds. We generally also require the company to set out its share capital table and warrant against this, to ensure that the number of shares being issued reflects the valuation.

2. Due Diligence - SEIS/EIS

What we do

Many businesses that raise on Seedrs are eligible for SEIS or EIS relief. We clearly badge campaigns as being EIS or SEIS eligible. If a campaign is listed as being eligible for SEIS or EIS relief, we will require the company to produce a copy of their advanced assurance from HMRC, confirming the eligibility of the company, prior to the transfer of investor funds to the company.

Once funds are transferred and shares are issued, we generally administer the application for the relief on behalf of the company, to ensure investors receive their SEIS/EIS paperwork as promptly and efficiently as possible.

Why we do it

While tax relief is never guaranteed, advanced assurance from HMRC provides some comfort that the company has been through the various SEIS/EIS screening questions and HMRC is satisfied with the responses.

Managing the application for relief for a large group of investors is time consuming and prone to mistakes. We find the best way to mitigate delays and errors is to take on this role on behalf of the company, for the benefit of investors.

What you should consider

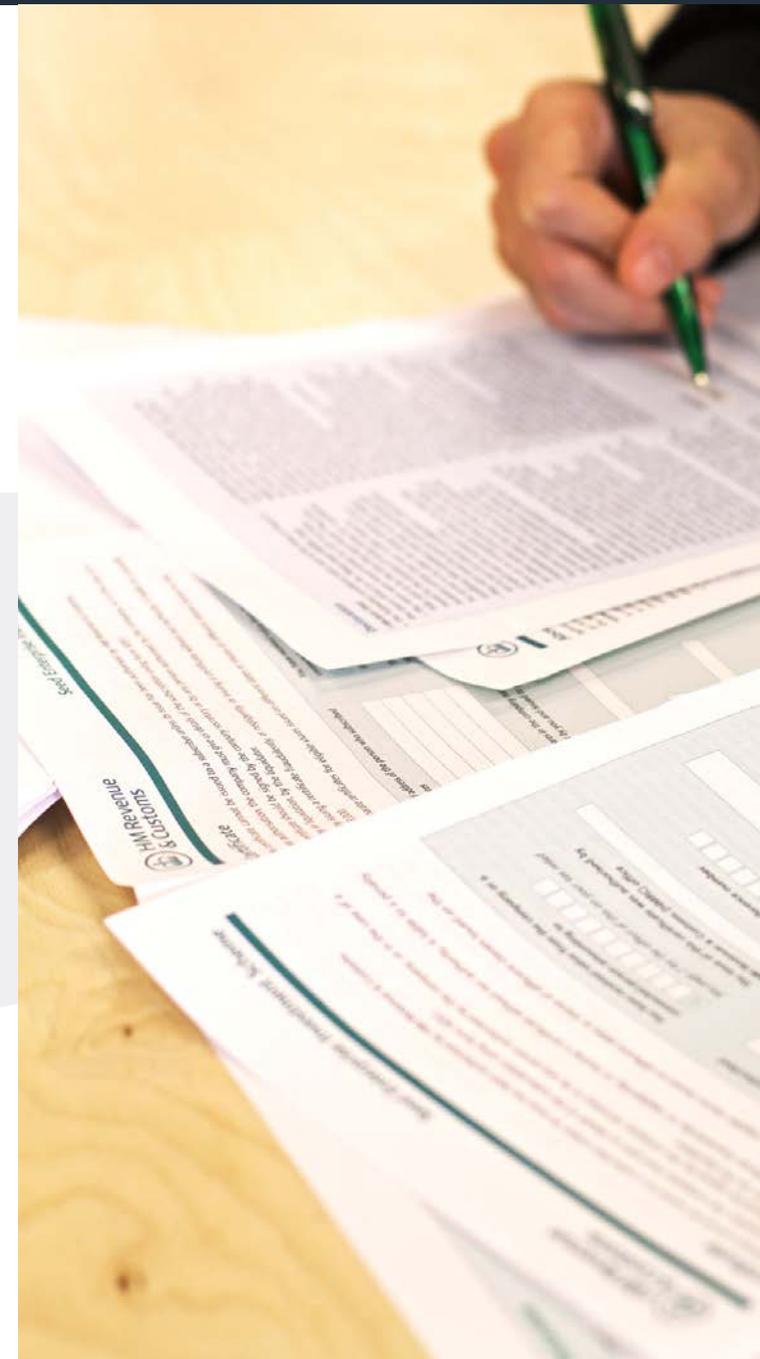
Tax relief is always dependent on individual circumstances of the investor and is also subject to changes in law, regulation and application by authorities.

SEIS/EIS relief requires the shares to be held for a period of three years and requires the company to continue to meet the eligibility criteria during that three year period. If SEIS/EIS eligibility is lost, HMRC can claw back any relief already claimed by the investors. There is no guarantee that the company will continue to meet the eligibility criteria for the entire holding period.

How we back this up with contractual protections

We generally require that a company:

- ✓ provides warranties around their SEIS/EIS status;
- ✓ commits to take the steps required to ensure investors can seek relief;
- ✓ commits not to do anything to prejudice the relief (though it should be noted that if it was in the best interests of the majority of shareholders to take a certain action, even if this meant losing tax relief for a group of investors, a company may decide to take that action despite a contractual commitment to the contrary).



3. Access

What we do

We facilitate access to the companies and entrepreneurs raising on the platform, to ensure investors are able to request the information that is important to them:

Discussion forum

Each campaign on Seedrs has a dedicated discussion forum, where investors can ask queries and entrepreneurs can respond.

Request additional documents

We make it simple for companies to provide additional information to investors in response to individual requests for information.

Post-investment pages

Once a campaign closes, all investors in the campaign are provided access to the post-investment page of the company. The company can provide investors with updates about the company via the post-investment pages and investors can raise queries directly with the company (and other investors) via the post-investment discussion forum.

Why we do it

Each investor has his or her own information requirements, investment criteria, concerns and questions. We aim to facilitate access to the entrepreneurs behind the business, so investors can ask the questions that are important to them.

Part of the power of crowdfunding is that it brings a lot of investors together, all looking at a particular business and raising pertinent questions. All investors can benefit from the questions raised in the discussion forum.

What you should consider

To the extent that the Campaign does not include the information an investor needs to make their investment decision, they can make use of the access provided through the platform to request additional information.

Investors should keep in mind that information which is not provided as part of the Campaign has not been reviewed or approved by us. Investors will need to perform their own due diligence to validate any additional information provided outside of the Campaign. We also do not review or approve communications made through the post-investment page.

How we back this up with contractual protections

Once a company has successfully funded on the platform, its investors will have access to a post-investment page, where they can communicate directly with the entrepreneurs. Our standard agreements require businesses to provide regular updates and we work with the businesses to keep investors informed.



4. Contractual Protections - Warranties

What we do

As nominee for the investors, we enter into a suite of professional contractual protections with the company. When it comes to private companies, limited public/third party information is available. Any due diligence on a private company is necessarily dependent on information provided by the company itself.

This is where warranties play a part, and are a key feature of any professional investment documentation. A warranty is a legally binding 'promise' from the company that certain statements are 'true'.

You can see our standard warranties [here](#). Warranties may change depending on the context of the deal.

Important warranties might include:

- IP** - that the intellectual property used by the business is owned by the company;
- Disputes** - the absence of legal disputes involving the company;
- Solvency** - that the company is able to pay its debts as and when they fall due;
- Share capital table** - that there are no other outstanding equity interests except as disclosed.

Why we do it

Warranties provide a level of legal protection against the company providing incorrect information.

On a more practical level, warranties lead to a useful 'disclosure' exercise. A set of statements is put in front of the company, and the company must then go through those statements and disclose any information that would make those statements 'untrue'. This can flush out a variety of issues that the company might not otherwise have thought to disclose to investors.

What you should consider

Warranties can form the basis of a legal claim against a company (and sometimes against founders) for losses suffered. However, if the company has no assets when the claim is made, there may be nothing to recover. Warranties may also be subject to claim limits.



4. Contractual Protections - Shareholder Agreements

What we do

As nominee of the investors, we enter into a shareholder agreement with the company.

Our standard shareholder agreement is based on the British Private Equity and Venture Capital Association (BVCA) template, adapted to be appropriate in the context of each particular fundraising. Where a company already has a shareholder agreement in place, we will look to join the existing documentation subject to any amendments we deem necessary.

Shareholder agreements are where you might find information rights, pre-emption rights and certain investor consent matters.

Why we do it

Shareholder agreements are the key way that investors in private companies look to protect their rights. We negotiate and enter into a shareholder agreement with the business to ensure your rights as a minority shareholder are adequately protected – not just at the time of making your investment, but on an ongoing basis.

What you should consider

If there is no shareholder agreement in place, shareholders are reliant on the company's articles of association (which can be amended by a special majority of shareholders) and general company law.



5. Compliance

What we do

We are regulated by the Financial Conduct Authority (FCA) to hold client money and assets. Our FCA permissions require us to protect investors in various ways, including:

- ✓ We verify the identity of all investors on the platform, in accordance with applicable financial crime legislation before they deposit money, to reduce the risk of fraud and money laundering.
- ✓ We comply with the FCA's client money regulations, which includes ensuring that investors' funds are deposited and held in a segregated account, which is separate from our own business bank accounts. We reconcile this on a daily basis to ensure we always know exactly where every penny of client money is, and investors can check their balance at any time. In the event we ceased business operations, all funds in this account would be returned to the relevant investors.
- ✓ We monitor investment activity. During a fundraising campaign, we oversee investors using both algorithms and manual oversight to detect potential suspicious activity.
- ✓ We don't transfer any investor funds to the fundraising business until we have completed our pre-completion due diligence. We always verify the business' bank accounts before transferring any funds to gain assurance the money is going to the correct account.
- ✓ Once funds are transferred to a business, shares are issued and held on behalf of investors as nominee. These are recorded on the platform and investors can check their portfolio at any time. We comply with the FCA's client asset regulations, which includes ensuring that investors' shares are held in a separate nominee

company, to segregate them from our own business assets. In the event we ceased business operations, all assets held with this nominee would be transferred to the relevant investors.

- ✓ Our auditors, KPMG, perform a client money and assets audit once a year and report to the FCA on our systems and controls.

Why we do it

We want our investors to know that their money and shares are properly safeguarded at all times.

Our client money structure means if a business reaches its fundraising target (and passes due diligence) we transfer the cash directly to the business. This gives our investors the comfort of knowing the business receives all the funds they require in order to achieve their next goal, as specified in their Campaign.

We want the businesses to succeed just as much as its shareholders. As part of our role as nominee, we safeguard investors' shares and monitor and enforce shareholder rights.

What you should consider

You can check the FCA register [here](#) to see our regulatory permissions.



6. Post-Investment Oversight/Monitoring



What we do

For investors who invest through our nominee, we administer your shares on an on-going basis - you can learn more about the nominee [here](#).

- ✔ Once an investment is completed, we hold the legal title to the shares so we can deal with the administrative hassle involved with holding shares in a company. We record all investors' shares on the platform, and we reconcile this information on a regular basis. You can view your shareholdings [here](#) via your Seedrs Portfolio at any time.
- ✔ We require companies to update investors on a regular basis;

We monitor key events for the company via check-ins with the portfolio companies, monitoring of third party registers and automated alerts;

- ✔ In the event of a return of proceeds to shareholders, we would collect the proceeds from the company and distribute them amongst investors through the platform.
- ✔ For shareholder vote, shareholder resolutions and shareholder consent matters, we have established a consent committee, made up of senior members of our Investment Team and Legal Team. A member of the consent committee reviews each submitted request and decides on the appropriate action to take on behalf of investors.

Why we do it

A key benefit of our nominee model is that we can perform this oversight role for investors. This means investors can easily create a diversified portfolio, without needing to actively monitor each investment or deal with the administration of holding shares. The company can seek shareholder votes or consents from us, as nominee representative of the investors.

This is a long term and largely illiquid asset class. Even if the company does well, it may be many years before any proceeds are returned to investors or there is a chance to sell your shareholding. The Portfolio section of the platform allows you to keep track of your investments for the life of the investment.

What you should consider

The nominee is not involved in the day-to-day management of the companies that raise funds via the platform, and we don't take a board seat. As nominee, we will cast shareholder votes or make consent decisions based on the interests of the company and its investors.

We do not verify or approve post-investment updates to investors. These should not be relied on by investors to make further investment decisions.

While we require companies to update investors on a regular basis, we do not prescribe a particular format for investor updates. Companies are often sensitive to distributing confidential information to their large investor base, so updates may exclude detailed or confidential information. Investors can request additional information if they wish, but any additional information provided will be at the company's discretion.



www.seedrs.com

This document has been approved as a financial promotion by Seedrs Limited ("Seedrs"), which is authorised and regulated by the Financial Conduct Authority.

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