

THE FOUNDER FINANCIAL INFRASTRUCTURE (FFI) STANDARD

FFI Standard Complete

Beta v0.5

April 2026

<https://ffistandard.org/>

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PREFACE

The financial infrastructure of an early-stage company determines whether it can raise capital, make sound decisions under uncertainty, and sustain its operations through periods of growth and constraint. That infrastructure has long been understood within institutional finance. It has not, until now, been defined in a form accessible to the companies that need it most.

This Standard defines financial infrastructure for companies from pre-incorporation through the scale stage. It specifies what financial systems, models, processes, and documentation a company must maintain at each stage of its development, across seven domains, at three levels of compliance. It does not prescribe how that infrastructure is built, by whom, or using what tools.

The Standard is not a course in financial management. It is not a consulting methodology. It is not a certification program, a proprietary framework, or a commercial product. It is a reference standard, a set of definitions, principles, and requirements that any company, investor, advisor, or institution may apply.

The Standard applies to founders using it to assess and build their company's financial infrastructure, to investors using it to establish portfolio requirements, to advisors using it as the framework against which client work is delivered, and to accelerator and program directors using it to evaluate the financial readiness of early-stage companies.

This volume, Beta v0.5, covers Book 0 and Book 1. Book 0 establishes the definitions, principles, taxonomies, and compliance framework that govern all seven Books. Book 1 establishes the standards for financial architecture. The remaining five Books, covering performance modeling, capital structure, valuation, investor readiness, and strategic financial planning, will be published in subsequent volumes. The complete Standard will be designated v1.0.

This volume is published in beta status for practitioner review. Feedback from founders, investors, advisors, and institutions is sought before v1.0 publication. Feedback may be submitted to standard@ffistandard.org, with reference to the specific section under consideration.

ABOUT THIS STANDARD

The Founder Financial Infrastructure Standard was developed by The Oakworth Group, a financial structuring firm in United Kingdom. The Oakworth Group (THEOAKWORTH PVT. LTD.) maintains the Standard and publishes updates in accordance with the versioning policy set out in Section 0.2.

The Oakworth Group is one implementation partner for the requirements of this Standard. The Standard does not prescribe who delivers financial infrastructure services to any company. Any qualified advisory firm, financial professional, or institutional body may deliver services aligned with this Standard.

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For information about The Oakworth Group's advisory services, visit theoakworth.com. Those services are not referenced within this Standard.

HOW TO USE THIS DOCUMENT

The FFI Standard is organised into seven Books. This is Book 0. Each Book covers one domain of financial infrastructure and is self-contained. All Books are governed by the foundational principles, definitions, and taxonomies established in this Book. A reader of any subsequent Book should read this Book first.

Each Book from Book 1 onward contains compliance criteria at Level 1, Level 2, and Level 3. A company assesses itself against all criteria within each domain. A company's compliance level in any domain is the highest level at which all criteria in that level are met. Level 2 criteria are assessed only after all Level 1 criteria are confirmed as met. Level 3 criteria are assessed only after all Level 2 criteria are confirmed as met.

A company's overall FFI compliance level is determined by the lowest compliance level achieved across all assessed domains. A company that achieves Level 3 in five domains and Level 1 in one domain has an overall FFI compliance level of Level 1. Partial compliance does not constitute an overall compliance level. The application of this rule is explained in full in Section 0.7.

This Standard may be cited in external documents using the following format:
Founder Financial Infrastructure Standard, Beta v0.5, Book [number], Section [number].
www.ffistandard.org. 2026.

This volume is Beta v0.5, published for practitioner review prior to the publication of v1.0. Feedback is invited at standard@ffistandard.org.

A self-assessment instrument for use with this Standard is available at www.ffistandard.org.

An index to the complete Standard will be published with v1.0.

BOOK 0, FOUNDATIONS AND DEFINITIONS

Book 0 establishes the foundational definitions, principles, taxonomies, and compliance framework that govern all seven Books of the FFI Standard.

SECTION 0.1: PURPOSE AND SCOPE OF THE STANDARD

The FFI Standard defines the financial infrastructure a company must maintain at each stage of its development. It specifies what must exist, what form it must take, and at what level of completeness. The Standard does not specify how that infrastructure is built, by whom, or using what tools.

The Standard applies to any company at the pre-incorporation stage or later that is building, maintaining, or evaluating its financial infrastructure. It applies regardless of legal entity type, jurisdiction, funding status, or company type. The Standard does not apply to publicly listed companies, regulated financial institutions, or companies operating under statutory financial reporting frameworks that impose equivalent or greater requirements across all domains addressed by this Standard. Where statutory requirements and this Standard address the same matter, the statutory requirement governs.

The FFI Standard operates alongside, not instead of, generally accepted accounting principles, applicable legal reporting requirements, and jurisdiction-specific financial regulations. Where this Standard references concepts addressed by IFRS or US GAAP, it does so to establish the minimum requirements for financial infrastructure within the context of those frameworks, not to modify, supersede, or interpret them.

Where requirements in this Standard align with statutory obligations in specific jurisdictions, that alignment is noted within the relevant requirement. Where statutory requirements impose obligations that exceed those of this Standard, the statutory requirement governs. Where statutory requirements are silent on a matter addressed by this Standard, this Standard's requirement applies as the minimum institutional benchmark.

The FFI Standard does not constitute financial advice, legal advice, tax advice, or investment advice. Compliance with the Standard does not guarantee investment outcomes, fundraising success, or financial solvency. The Standard defines a framework for financial infrastructure. Outcomes depend on the quality of the infrastructure built within that framework and on factors outside the Standard's scope.

This volume, Beta v0.5, covers Book 0 and Book 1. Books 2 through 6 will be published in subsequent volumes. The versioning policy governing all publications is set out in Section 0.2.

SECTION 0.2: VERSIONING POLICY

The FFI Standard is maintained under a three-tier versioning structure.

Errata versions (designated by a third numeral, e.g., v0.5.1) correct factual errors or ambiguous language. Errata versions may be published without a defined notice period. An errata version does not alter any requirement, definition, or compliance criterion.

Minor versions (e.g., v1.1, v1.2) update benchmarks, add terms to the Glossary, and clarify existing requirements where ambiguity has been identified through practitioner review. Minor versions are published annually following a structured review period. A minor version does not alter the foundational principles or compliance level structure.

Major versions (e.g., v2.0) make structural changes to the Standard, adding Books, revising foundational principles, or introducing new compliance levels. From v2.0 onward, major versions are subject to review by an independent advisory panel before publication. Major versions are published no more than once every two years. The advisory panel's composition and governance will be published with the v2.0 release.

Every version publishes a change log. The change log states what changed, which section is affected, and the effective date of the change. Prior versions remain available at www.ffistandard.org.

An assessment completed against a specific version of the Standard remains valid at that version. A company assessed at Level 2 under v1.0 retains that assessment unless the company's financial infrastructure changes materially. Version upgrades do not retroactively invalidate assessments made under prior versions.

SECTION 0.3: CORE PRINCIPLES

The following principles govern every requirement in every Book of the FFI Standard. The principles established in this section govern all requirements in Books 1 through 6. Where a requirement in a subsequent Book appears to conflict with these principles, the principle governs.

PRINCIPLE 1

Financial infrastructure is a continuous function, not a pre-raise activity.

The requirements of this Standard apply at all times. Financial infrastructure does not become active only when a fundraising process begins and lapses when one concludes. A company that builds financial infrastructure exclusively for investor consumption and allows it to lapse between funding events does not meet the requirements of this Standard. The maintenance of financial infrastructure is an operational requirement, not a periodic disclosure obligation.

PRINCIPLE 2

Clarity of assumptions governs over precision of outputs.

A financial model with clearly documented, specifically bounded assumptions and acknowledged uncertainty is more compliant with this Standard than a model producing granular outputs from undisclosed or optimistic inputs. The Standard consistently requires the former over the latter. Where a company must choose between a precise output and a transparent assumption, this Standard requires the transparent assumption.

PRINCIPLE 3

Stage appropriateness determines compliance requirements.

The Standard does not apply the same requirements to a pre-revenue company and a growth-stage company. Requirements scale with operational and financial maturity. The stage definitions in Section 0.5 determine which requirements apply at any given time. A company is not deficient for failing to meet requirements applicable to a later stage than its own.

PRINCIPLE 4

The weakest domain determines overall compliance.

Financial infrastructure is a system. The overall integrity of the system is determined by its least complete component. Strength in one domain does not compensate for the absence of requirements in another. A company's overall FFI compliance level is determined by its lowest compliance level across all assessed domains. Selective compliance does not constitute overall compliance.

PRINCIPLE 5

Financial infrastructure serves decision-making before it serves investor relations.

The requirements of this Standard are set based on what a company must have to make sound operational and strategic decisions. Where investor requirements and operational requirements align as they typically do this presents no conflict. The Standard's position on any requirement is determined by what sound financial management of the company requires, not by what any class of investor prefers.

PRINCIPLE 6

The Standard describes practice, not perfection.

Every compliance level defined in this Standard is achievable. Level 3 is not a theoretical ideal. It is the standard of financial infrastructure that institutionally mature companies maintain in practice. The Standard does not require beyond what institutional practice demands. Level 1 is not a minimal gesture it is the genuine operational minimum below which a company is managing its finances without the information necessary for sound decisions.

PRINCIPLE 7

Assessments are made against the version in effect at the time of assessment.

A company is assessed against the version of this Standard in effect at the time the assessment is conducted. Subsequent changes to the Standard do not retroactively alter a completed assessment. Where a company chooses to reassess under a later version, the reassessment is conducted in full under that version.

SECTION 0.4: THE FFI GLOSSARY

Operative Definitions for the FFI Standard

The following definitions are operative throughout the FFI Standard. Where a term defined in this Glossary appears in any Book of the Standard, it carries the meaning set out in this section. Where context requires a term to carry a specific meaning beyond this definition, the relevant section of the Standard states that meaning explicitly.

ACCRUAL ACCOUNTING: An accounting method in which revenue is recognised when earned and expenses are recognised when incurred, regardless of when cash is received or paid. Accrual accounting is the required basis for financial statements prepared for investor review at Growth Stage and above.

BALANCE SHEET: A financial statement presenting a company's assets, liabilities, and equity at a specific point in time. Assets must equal liabilities plus equity at all times. An imbalanced balance sheet indicates a structural error in the underlying financial model that invalidates the model as a whole.

BOTTOMUP FORECAST: A financial forecast constructed from granular operational assumptions, including customer count, pricing, conversion rates, sales capacity, and headcount, that aggregate to a revenue and expense total. A bottom-up forecast is distinct from a top-down forecast, which derives company-level projections from market share assumptions rather than from operational drivers.

BURN RATE – GROSS: The total cash outflows of a company in a defined period, before any revenue or other inflows are deducted. Gross burn rate represents the full cost of operating the company during that period.

BURN RATE – NET: The net cash consumed by a company in a defined period, calculated as total cash outflows minus total cash inflows from all sources during that period. Net burn rate is the operative figure for cash runway calculation. Net burn rate is not equivalent to gross burn rate. The two measures are not interchangeable.

CASH RUNWAY: The number of periods a company can continue operating at its current net burn rate before exhausting available cash reserves. Cash runway is calculated by dividing current cash and cash equivalents by the current period net burn rate. Cash runway must be recalculated at minimum monthly.

CAP TABLE - FULLY DILUTED: A complete record of all equity ownership in a company, reflecting all outstanding shares, issued and unissued options within granted pools, warrants, SAFEs, and convertible notes as if all convertible instruments had converted to equity at the terms in effect at the time of the record. A record that does not reflect all convertible instruments on a fully diluted basis does not constitute a fully diluted cap table for the purposes of this Standard.

CHURN RATE: The rate at which customers or revenue is lost over a defined period. Customer churn rate is the percentage of customers who discontinue during the period. Revenue churn rate is the percentage of recurring revenue lost during the period. Customer churn rate and revenue churn rate are distinct measures and must not be used interchangeably.

DRIVER-BASED MODEL: A financial model in which all outputs are connected to specific operational drivers, such that a change in any driver flows through to affected outputs without manual intervention. A driver-based model is distinct from a model in which outputs are stated as independent assumptions without operational derivation.

INCOME STATEMENT: A financial statement presenting a company's revenues, direct costs, gross profit, operating expenses, and net income or loss over a defined period. The income statement is prepared on an accrual basis. The income statement does not reflect the timing of cash receipts and payments and is not a substitute for a cash flow statement.

LIFETIME VALUE: The total gross profit generated by a single customer over the full duration of their relationship with the company, calculated from cohort-level retention and revenue data. Lifetime value is a gross profit figure, not a revenue figure. Life-time value calculated from average retention assumptions rather than from observed cohort data is an estimate and must be identified as such when used in financial reporting or investor materials.

LTV/CAC RATIO: The ratio of a customer's lifetime value to the fully loaded customer acquisition cost for that customer. An LTV/CAC ratio below 1.0 indicates that the company generates less gross profit from a customer over their lifetime than it costs to acquire them.

NET REVENUE RETENTION: The percentage of recurring revenue retained from an existing customer cohort over a defined period, including expansion revenue from upsells and cross-sells and excluding revenue lost to churn and contraction. Net revenue retention above 100% indicates that the existing customer base generates more recurring revenue in the current period than it did in the prior period, without the addition of new customers.

OPERATING CASH FLOW: The cash generated or consumed by a company's core operating activities in a period, as distinct from investing activities and financing activities. Operating cash flow is derived from the cash flow statement. Operating cash flow is not equivalent to net income and is not equivalent to net burn rate.

PAYBACK PERIOD: The number of periods required for the cumulative gross profit contribution of a customer to equal the fully loaded cost of acquiring that customer. Payback period is a measure of capital efficiency in customer acquisition.

POST-MONEY VALUATION: The agreed value of a company immediately after a new investment is made, equal to the pre-money valuation plus the amount of capital invested in the transaction. An investor's ownership percentage following a transaction is calculated by dividing the amount invested by the post-money valuation.

PRE-MONEY VALUATION: The agreed value of a company immediately before a new investment is made, as established between the company and the investor in the relevant transaction. Pre-money valuation and post-money valuation are distinct figures. An unqualified reference to "valuation" without specification of pre-money or post-money is ambiguous and does not satisfy the documentation requirements of this Standard.

REVENUE RECOGNITION: The accounting principle that determines when revenue is recorded in the income statement. Revenue recognition requires that revenue is recorded when it is earned, when the company has delivered the promised goods or services, rather than when cash is received. A company's revenue recognition policy must be documented and applied consistently across all periods and all revenue streams.

ROLLING FORECAST: A financial forecast that extends a fixed number of periods forward from the current period, updated at each period end to maintain consistent forward visibility. A rolling twelve-month forecast always presents the next twelve months regardless of where the company is within its financial year.

SAFE: A Simple Agreement for Future Equity. A financial instrument in which an investor provides capital in exchange for the right to receive equity in a future priced funding round, subject to defined terms including a valuation cap, a discount rate, or both. A SAFE is not a debt instrument. It carries no interest obligation and no scheduled repayment requirement.

SCENARIO ANALYSIS: The construction of multiple discrete financial projections based on differing sets of input assumptions, each representing a coherent and internally consistent view of how the business may develop. Scenario analysis is distinct from sensitivity analysis, which modifies a single variable while holding all others constant.

SENSITIVITY ANALYSIS: An analytical technique that measures how a financial output changes when a single input variable is modified while all other variables are held constant. Sensitivity analysis identifies which assumptions exert the greatest influence on a defined financial outcome.

TAM, SAM, SOM: Three nested measures of market opportunity. Total Addressable Market (TAM) is the total revenue opportunity available if the company captured the entire target market with its current or planned offering. Serviceable Addressable Market (SAM) is the portion of TAM accessible given the company's current product, business model, and geographic reach. Serviceable Obtainable Market (SOM) is the portion of SAM the company can realistically capture within a defined period given its current go-to-market capacity and competitive position.

THREE-STATEMENT MODEL: An integrated financial model comprising an income statement, a cash flow statement, and a balance sheet, in which the three statements are dynamically linked such that a change in any input assumption flows through all three statements without manual recalculation. A set of three separate, unlinked financial statements does not constitute a three-statement model for the purposes of this Standard.

VALUATION CAP: A term in a SAFE or convertible note that sets the maximum valuation at which the instrument converts to equity in a future priced funding round. Where the priced round is conducted at a valuation above the cap, the instrument converts as if the round were priced at the cap, resulting in the holder receiving proportionally more equity than the round price alone would imply.

WORKING CAPITAL: The difference between a company's current assets and its current liabilities at a point in time. Current assets include cash, accounts receivable, prepaid expenses, and inventory. Current liabilities include accounts payable, accrued expenses, and short-term debt. Positive working capital does not indicate the presence of adequate cash; the cash position must be assessed separately.

CUSTOMER ACQUISITION COST: The fully loaded cost of acquiring one new customer, calculated by dividing total sales and marketing expenditure in a defined period, including personnel costs, technology, agency fees, and all directly attributable overhead, by the number of new customers acquired in that period. Customer acquisition cost calculations that exclude personnel costs or overhead understate the true cost of acquisition and do not satisfy the requirements of this Standard.

SECTION 0.5: COMPANY STAGE DEFINITIONS

The FFI Standard uses five operational stages to determine which compliance requirements apply to a company at any given time. Stages are defined by a company's operational and financial characteristics, not by its capital history.

The compliance level expectations applicable to each stage are set out in the Financial Infrastructure Maturity Model in Section 0.8.

STAGE 1: PRE-INCORPORATION

A venture that has not yet established a legal entity. Financial infrastructure at this stage consists of documented financial assumptions about the proposed business model and the projected cost of reaching the first operational milestone. No formal financial statements are required or expected at this stage.

STAGE 2: PRE-REVENUE

A company with a legal entity and operational activity that has not yet generated recurring revenue from customers. A company may have received investment at Pre-Revenue stage. The receipt of investment

does not alter the stage classification. The stage boundary is the commencement of recurring customer revenue, not the receipt of capital.

STAGE 3: EARLY REVENUE

A company generating recurring revenue from customers with annual recurring revenue, or annualised transaction revenue, below the equivalent of one hundred thousand units of the company's primary operating currency. The company states its primary operating currency and applies this threshold in that currency. The lower boundary of Early Revenue stage is the commencement of recurring customer revenue. The upper boundary is the revenue threshold stated above.

STAGE 4: GROWTH STAGE

A company with annual recurring revenue or annualised transaction revenue between the equivalent of one hundred thousand and two million units of its primary operating currency, with demonstrated repeatability of customer acquisition across at least two complete operating periods. For monthly recurring revenue models, an operating period is one complete calendar month. For quarterly or annual contract models, an operating period is one complete quarter. A company that meets the revenue threshold but has not demonstrated repeatability across two complete operating periods remains at Early Revenue stage.

STAGE 5: SCALE STAGE

A company with annual recurring revenue or annualised transaction revenue above the equivalent of two million units of its primary operating currency.

NOTE ON FUNDING ROUND LABELS

The FFI Standard does not use funding round labels such as pre-seed, seed, Series A, Series B, or equivalent designations as primary stage definitions. These labels are not standardised across geographies, they describe the source and structure of capital rather than the operational maturity of the company, and their application varies materially across markets. A company's FFI stage is determined by its operational and financial characteristics as defined in this section, not by its capital history.

SECTION 0.6: COMPANY TYPE TAXONOMY

Company type determines which benchmarks and norms apply within the requirements set out in Books 1 through 6. A company identifies its primary type at the time of assessment. Where a company operates across multiple revenue models, the primary type is determined by the revenue model that accounts for the largest proportion of current or projected revenue in the current operating period.

The compliance level expectations applicable to each company type are set out in the Financial Infrastructure Maturity Model in Section 0.8.

RECURRING REVENUE

A company whose primary revenue derives from subscription, membership, or licensing arrangements that renew periodically. The defining financial characteristic is contractually committed forward revenue that is predictable within a defined renewal cycle. Financial infrastructure requirements for this type emphasise net revenue retention, cohort analysis, and churn rate as primary operational metrics.

TRANSACTIONAL REVENUE

A company whose revenue is generated through discrete transactions without a recurring commitment. The defining financial characteristic is revenue that varies by transaction volume and frequency, is sensitive to conversion rates, and is not contractually committed in advance of each transaction.

PROJECT REVENUE

A company whose revenue is delivered through defined, time-bounded engagements with a start and end date. The defining financial characteristics are revenue concentration by client and project, dependence on a billable backlog, and timing variance between project commencement, delivery, and revenue recognition.

DEEP TECH AND HARDWARE

A company whose primary product requires extended development cycles, significant capital investment prior to any revenue, and a cost of goods structure that differs materially from software-based businesses. The defining financial characteristics are substantial pre-revenue capital consumption, milestone-dependent development stages, and a cost of goods sold structure that includes physical manufacturing or complex system integration.

AI-NATIVE

A company whose operations are fundamentally structured around artificial intelligence inference, AI agent workflows, or AI-leveraged service delivery, with a human team that is small relative to the company's revenue or output capacity. The defining financial characteristics are infrastructure costs dominated by computational resource consumption rather than headcount, nonlinear cost-to-scale relationships in which marginal cost per unit of output may decline materially at scale, and unit economics that are not adequately represented by prior company type frameworks.

The AI-Native company type is included in this Standard as a distinct category because the financial infrastructure requirements of companies operating on AI infrastructure differ materially from all prior company type frameworks. The cost structure of an AI-native company, in which computational expenditure may scale nonlinearly with usage and in which the traditional relationship between headcount and revenue does not apply, requires distinct benchmarks and modeling methodology. Applying recurring revenue or transactional revenue frameworks to AI-native companies produces metrics that misrepresent the unit economics of these businesses. The benchmarks for this type will be refined in subsequent versions of this Standard as market data accumulates. This version establishes the structural framework for AI-native financial modeling without prescribing benchmarks that are insufficiently evidenced.

CONSUMER

A company whose end customers are individuals rather than organisations, with revenue generated through direct-to-consumer sales, consumer subscriptions, in-application purchases, advertising, or other models in which the purchasing decision is made by an individual. The defining financial characteristics are high transaction volume relative to average transaction value, and unit economics that are sensitive to user acquisition efficiency, engagement rates, and individual retention behaviour.

B2B ENTERPRISE

A company whose primary revenue is generated through sales to organisations, characterised by extended procurement processes, large average contract values relative to the company's total revenue base, and multiyear contractual arrangements. The defining financial characteristics are long revenue cycles from initial engagement to contract close, high revenue concentration among a smaller number of clients, and revenue recognition timelines that may extend materially beyond the date of contract signature.

SECTION 0.7: THE THREE COMPLIANCE LEVELS

The FFI Standard defines three compliance levels. Each level represents a distinct threshold of financial infrastructure completeness and depth. The levels are cumulative: Level 2 requires that all Level 1 criteria are met in addition to Level 2 specific criteria. Level 3 requires that all Level 1 and Level 2 criteria are met.

LEVEL 1: OPERATIONAL FOUNDATION

Level 1 is the minimum financial infrastructure required for a company to maintain basic operational visibility and internal control.

A company at Level 1 can state its current cash position, calculate its net burn rate using a consistent methodology, determine its cash runway, and produce a basic account of its revenues and expenses for any completed period. It has documented all outstanding equity instruments and knows the fully diluted ownership structure of the company.

Level 1 infrastructure does not meet the requirements for institutional investor engagement. A company at Level 1 cannot produce an integrated three-statement model, does not maintain unit economics at the methodological standard required for investor diligence, and has not modeled forward equity scenarios across anticipated funding events. These are Level 2 requirements.

Below Level 1, a company is operating without the financial information necessary for sound management decisions.

LEVEL 2: INVESTOR READINESS

Level 2 is the financial infrastructure required for a company to engage institutional investors with credibility throughout a fundraising process.

A company at Level 2 maintains a fully integrated three-statement model updated with actuals on a monthly basis, documents its assumptions in a discrete layer separated from calculations, tracks unit economics at the methodological standard required by institutional investors, maintains a fully diluted cap table that reflects all convertible instruments with their conversion mechanics modeled through anticipated future rounds, and produces structured financial reporting for its governing body at defined intervals.

Level 2 infrastructure is sufficient for institutional investor engagement. It does not include the depth of financial modeling, the integration of departmental financial plans, or the probabilistic scenario architecture that characterises the financial infrastructure of institutionally mature companies. These are Level 3 requirements.

LEVEL 3: INSTITUTIONAL STANDARD

Level 3 is the financial infrastructure of a company that operates with the financial discipline characteristic of institutionally mature organisations, regardless of its current stage.

A company at Level 3 maintains a three-statement model integrated with departmental financial sub-models, updates its rolling forecast monthly with formal variance analysis against an approved annual operating plan, applies probabilistic scenario modeling to material strategic decisions, maintains a financial data room that can be produced without preparation time, and produces board-level financial reporting with written narrative commentary within defined timelines.

Level 3 at pre-revenue or early revenue stage is not a requirement of this Standard. It is the expected standard for companies at Growth Stage across core financial architecture domains, and across all domains at Scale Stage.

THE WEAKEST DOMAIN RULE

A company's overall FFI compliance level is determined by the lowest compliance level achieved across all assessed domains. A company that achieves Level 3 in five domains and Level 1 in one domain has an overall FFI compliance level of Level 1. Partial compliance does not constitute an overall compliance level. This rule applies without exception.

SECTION 0.8: THE FINANCIAL INFRASTRUCTURE MATURITY MODEL

The Financial Infrastructure Maturity Model presents the compliance level expected of a company at each stage of development in each of the seven domains of the FFI Standard. The model is presented as a matrix with company stages across the horizontal axis and financial infrastructure domains on the vertical axis. Each cell contains the compliance level expected of a company at that stage in that domain, designated as L1, L2, or L3. A dash (—) indicates that no formal requirement applies at that stage in that domain.

A company uses the matrix by locating its current stage column and reading the expected compliance level across each domain row. Where a company's actual compliance level in any domain falls below the expectation for its stage in that domain, a gap exists between current and expected compliance. The matrix does not determine whether a gap is material to any specific decision. That determination belongs to the company's own assessment and to any investor, advisor, or institution reviewing the assessment.

Financial infrastructure does not mature at a uniform rate across all domains. Capital structure, specifically cap table accuracy and the modeling of convertible instruments, requires Level 2 compliance from the moment a company issues its first convertible instrument, regardless of the company's operational stage. A pre-revenue company that issues a SAFE instrument has Level 2 capital structure requirements from the date of that issuance. Financial architecture, the three-statement model and cash management systems, escalates in line with operational complexity and typically reaches Level 2 expectation at Growth Stage. Strategic financial planning requirements are not expected until Scale Stage. The matrix reflects these differences in domain escalation rates. A company that assesses itself using the matrix will find that different domains are at different stages of expected compliance. This is the expected condition, not a deficiency.

The Financial Infrastructure Maturity Model is published under Creative Commons Attribution 4.0 International. It may be used, cited, adapted, and applied by any company, investor, advisor, or institution for any purpose with attribution. No proprietary process or tool is required to apply the model. Any competent financial professional can assess a company's compliance against the matrix using the criteria set out in Books 1 through 6.

The maturity model in Beta v0.5 reflects the current state of the Standard's development. The compliance level expectations by domain and stage, the cell values in the matrix, will be subject to practitioner review before v1.0 publication. The governing logic of the model, that compliance expectations scale with stage and vary by domain, is established in this version and will not change. Specific cell values may be updated before v1.0 publication based on practitioner feedback.

THE MATURITY MATRIX

Domain	Pre-Inc	Pre-Rev	Early Rev	Growth	Scale
Financial Architecture	—	L1	L1	L2	L3
Cash Management	—	L1	L1	L2	L3
Financial Reporting	—	L1	L1	L2	L2
Accounting Integrity	—	L1	L1	L2	L2
Capital Structure	—	L1	L2*	L2	L3
Performance Modeling	—	—	L1	L2	L2
Investor Readiness	—	—	—	L2**	L3
Strategic Planning	—	—	—	L1	L2

Feedback on Book 0 may be submitted to standard@ffistandard.org with reference to the specific section. Feedback received before the close of the beta review period will be considered in the preparation of v1.0.

FOOTNOTES TO THE MATURITY MATRIX

* Capital Structure at Early Revenue stage: The Level 2 expectation for capital structure applies from the date on which a company issues its first convertible instrument, including a SAFE or convertible note, regardless of whether the company has otherwise reached Early Revenue stage by the revenue threshold defined in Section 0.5. A company at the Pre-Revenue stage that has issued a convertible instrument has Level 2 capital structure requirements.

** Investor Readiness at Growth Stage: The Level 2 expectation for investor readiness applies when a company has an active fundraising process underway or expects to initiate one within six months from the date of assessment. A company at Growth Stage without an imminent fundraising process maintains Level 1 investor readiness requirements, with the expectation that compliance will reach Level 2 before investor engagement begins.

BOOK 1: FINANCIAL ARCHITECTURE

Book 1 defines the financial architecture a company must maintain: the integrated financial statements, the cash management systems, the internal reporting structure, and the accounting integrity requirements that form the foundation of all subsequent financial infrastructure.

SECTION 1.1: THE THREE-STATEMENT STANDARD

PURPOSE

The three-statement standard governs the integrated financial model a company must maintain. The three-statement model is not three financial statements. It is one integrated system that produces three financial statements from a shared set of assumptions and drivers. The requirements of this section depend on the accounting integrity of the underlying records from which the model is derived; those requirements are set out in Section 1.4.

DEFINITIONS

The following terms are defined for application within this section. Terms defined in Book 0, Section 0.4 are used here with their operative definitions and are not restated.

ASSUMPTION LAYER: A discrete section of a financial model in which all input assumptions are stated and stored separately from the calculation cells that use them. Every calculation cell references the assumption layer by formula. An assumption layer is a structural feature of model architecture. A spreadsheet with a notes column explaining assumptions does not constitute an assumption layer.

COST OF GOODS SOLD: The direct cost of delivering the company's product or service to a customer, including only costs directly attributable to the production or delivery of the product. Cost of goods sold does not include sales and marketing costs, general and administrative costs, or research and development costs. The composition of cost of goods sold varies by company type as defined in Book 0, Section 0.6; the structural definition of what belongs in the category does not vary.

GROSS MARGIN: Revenue minus cost of goods sold, expressed as a percentage of revenue. Gross margin is calculated after cost of goods sold and before any operating expense. Gross margin and contribution margin are not equivalent and must not be reported interchangeably.

VARIANCE: The difference between an actual financial result and the corresponding forecast or budgeted figure for the same period. A favourable variance occurs when revenue exceeds forecast or when costs fall below forecast. An adverse variance occurs when revenue falls below forecast or when costs exceed forecast.

PRINCIPLES GOVERNING THIS SECTION

Compliance Principle 2 from Book 0, Section 0.3 governs the assumption documentation requirements in this section: clarity of assumptions governs over precision of outputs. The compliance criteria at Level 2 and Level 3 are direct applications of this principle.

The balance sheet must balance at all times as a structural consequence of correct model integration. An unbalanced balance sheet is evidence of a structural error in the model architecture. It is not a

reconciliation item to be noted and carried forward. An unbalanced balance sheet invalidates the three-statement model for the purposes of this Standard at any compliance level.

COMPLIANCE CRITERIA

Compliance at each level is cumulative. Level 2 requires that all Level 1 criteria are met. Level 3 requires that all Level 1 and Level 2 criteria are met. This rule applies to all sections in Book 1.

Level 1

1.1.L1.1: The company maintains an income statement covering all completed periods from incorporation to the date of assessment, updated with actual figures within thirty calendar days of each period's close.

1.1.L1.2: The company maintains a record of its cash position, expressed as the confirmed balance of all cash and cash equivalent accounts, updated at minimum monthly.

1.1.L1.3: The company maintains a record of its current liabilities sufficient to allow calculation of the amount owed to each creditor at the date of assessment.

1.1.L1.4: All input assumptions used in any financial statement are known to the company and can be stated on request.

Level 2

1.1.L2.1: The company maintains a fully integrated three-statement model comprising an income statement, a cash flow statement, and a balance sheet, in which a change to any input assumption in the assumption layer updates all three statements without manual recalculation.

1.1.L2.2: The three-statement model is updated with actual financial data within fifteen working days of the close of each reporting period.

1.1.L2.3: All input assumptions are documented in a discrete assumption layer that is structurally separate from calculation cells, such that any assumption can be located, reviewed, and modified without altering any calculation cell.

1.1.L2.4: The balance sheet in the three-statement model balances at the close of every period for which actuals have been entered.

1.1.L2.5: Revenue is classified by revenue stream in the income statement, with each stream reported as a discrete line.

1.1.L2.6: Operating expenses are classified by functional category, including at minimum cost of goods sold, sales and marketing, product and engineering, and general and administrative, with each category reported as a discrete line in the income statement. For AI-Native companies as defined in Book 0, Section 0.6, cost of goods sold must separately identify computational inference costs as a distinct sub-line within the cost of goods sold category.

1.1.L2.7: The three-statement model includes a forward projection covering a minimum of twenty-four months from the date of assessment.

1.1.L2.8: The revenue recognition policy applied in the income statement is documented in writing and has been applied consistently across all periods included in the model.

Level 3

1.1.L3.1: The three-statement model is updated with actual financial data within ten working days of the close of each reporting period.

1.1.L3.2: The three-statement model is dynamically linked to departmental sub-models for each operational function, such that changes in departmental-level assumptions flow through to the company-level three-statement model without manual entry.

1.1.L3.3: Each assumption in the assumption layer includes a documented methodological basis stating whether the assumption is derived from historical data, market reference, management judgment, or a combination; and a stated sensitivity range for that assumption.

1.1.L3.4: The three-statement model is maintained under version control such that any prior version can be retrieved and compared to the current version with all changes identified.

1.1.L3.5: A rolling twenty-four-month forward model is maintained and updated each period, extending the forward period by one period as each period closes.

1.1.L3.6: The three-statement model can be provided to an investor or advisor in its current state without preparation, reformatting, or explanatory accompaniment from the model's preparer.

COMMON DEFICIENCIES

CD 1.1.1: The company maintains a revenue projection and a cost model as separate, unlinked documents and presents these as its financial model. Neither document includes a cash flow statement or a balance sheet. The company's cash position is tracked separately, outside the financial model, and is not reconciled to the model's outputs.

CD 1.1.2: Input assumptions are embedded directly in calculation cells throughout the model. To change a growth rate assumption, the figure must be located and updated in each cell where it appears. No discrete assumption layer exists. The model cannot be stress-tested by a third party without detailed knowledge of its architecture.

CD 1.1.3: The balance sheet in the three-statement model does not balance for one or more historical periods. The imbalance has not been investigated or resolved. The model is presented to investors and advisors with the imbalance present.

CD 1.1.4: The income statement classifies sales team salaries, customer success costs, and office infrastructure costs within cost of goods sold. Gross margin as reported is materially higher than the gross margin that would result from a classification consistent with this Standard. The classification has not been documented or disclosed.

SECTION 1.2: THE CASH MANAGEMENT STANDARD

PURPOSE

The cash management standard governs the minimum requirements for cash position visibility, burn rate calculation, runway monitoring, and working capital awareness. Cash position and burn rate are distinct from accounting entries and must be maintained independently of whether monthly financial statements have been prepared. The requirements of this section apply at all times, as established by Principle 1 in Book 0, Section 0.3.

DEFINITIONS

COMMITTED CASH FLOW: A cash receipt or payment that is contractually obligated and for which the amount and timing are determinable within the forecast period. Payroll, rent under a signed lease, and contracted supplier payments are committed cash flows. Revenue from anticipated but unsigned customer contracts is not a committed cash flow. Committed cash flows and projected cash flows must not be aggregated without disclosure.

CHART OF ACCOUNTS: A structured list of all financial accounts used by a company to classify its transactions, organised by category: assets, liabilities, equity, revenue, cost of goods sold, and operating expenses. Every financial transaction recorded by the company is classified to an account in the chart. A chart of accounts is not a reporting format; it is the underlying classification structure from which financial reports are produced.

PRINCIPLES GOVERNING THIS SECTION

The definition of net burn rate in Book 0, Section 0.4 governs all burn rate calculations in this section. Gross burn rate and net burn rate are defined separately in Book 0 and must be calculated and reported as separate figures at all compliance levels. The methodology used to calculate net burn rate must be consistent across all periods; any change in methodology must be disclosed and prior periods restated for comparability.

COMPLIANCE CRITERIA

Compliance at each level is cumulative as established in Section 1.1.

Level 1

1.2.L1.1: The company calculates and records its net burn rate for each completed month using a consistent methodology, stated and applied identically across all periods.

1.2.L1.2: The company calculates its cash runway at minimum monthly, using net burn rate as the denominator, as defined in Book 0, Section 0.4.

1.2.L1.3: The company's current cash position, expressed as the confirmed balance of all cash and cash equivalent accounts, is known and current within seven calendar days of the date of assessment.

1.2.L1.4: Gross burn rate and net burn rate are calculated and recorded as separate figures and are not reported interchangeably in any internal document or external communication.

Level 2

1.2.L2.1: Cash runway is calculated using a trailing three-month average net burn rate as the denominator; where the company uses a different base period, a written rationale is documented and included in the management report for the relevant period.

1.2.L2.2: The company maintains a rolling thirteen-week cash flow forecast, updated weekly, covering the thirteen weeks immediately following the date of update.

1.2.L2.3: The thirteen-week cash flow forecast identifies each line as either a committed cash flow or a projected cash flow, with each category totalled separately.

1.2.L2.4: Net burn rate is categorised by functional area, with separate figures maintained for at minimum: personnel costs; infrastructure and technology costs; sales and marketing costs; and general and administrative costs.

1.2.L2.5: Working capital is calculated quarterly and recorded as a figure distinct from the cash position.

1.2.L2.6: Any variance between the prior week's thirteen-week forecast and the actual cash position for that week is recorded, and the cause of the variance is noted.

Level 3

1.2.L3.1: The company's cash position is updated daily, either through manual reconciliation or through automated connection to company bank and payment accounts.

1.2.L3.2: Net burn rate is categorised at the departmental level, with a separate burn figure for each operational department.

1.2.L3.3: The company maintains documented cash alert thresholds, defined as minimum cash balances at which specific management actions are triggered, and those thresholds are reviewed quarterly.

1.2.L3.4: The thirteen-week rolling cash forecast includes a monthly-level extension to twelve months, updated monthly, that integrates with the forward projection in the three-statement model maintained under Section 1.1.

1.2.L3.5: Variance between the thirteen-week cash forecast and actual cash results is analysed formally on a monthly basis, with documented causes of material variances and adjustments to future forecast methodology where a variance reveals a systematic forecasting error.

COMMON DEFICIENCIES

CD 1.2.1: Cash runway is calculated by dividing current cash by the most recent single month's net burn rate. In months where expenditure was unusually high due to a non-recurring cost, the resulting runway figure is materially shorter than the operational trajectory warrants. In months where a large customer payment was received, the resulting runway figure is materially longer. No adjustment or documentation is applied.

CD 1.2.2: The company reports gross burn rate in investor materials without labelling it as gross burn. The figure presented as monthly burn does not account for revenue received in the period. The resulting runway calculation overstates the cash consumption of the business.

CD 1.2.3: The company maintains a monthly cash summary but does not distinguish between committed and projected inflows in its forward view. Revenue from verbal commitments from prospective customers is included as projected inflow in the cash forecast. The resulting cash position is more optimistic than the contractually committed position warrants.

CD 1.2.4: Working capital is not tracked as a distinct metric. The company monitors its cash balance and concludes from a positive cash balance that its near-term liquidity is sound. Accounts receivable aging has extended materially and accounts payable obligations due within thirty days exceed the cash balance net of expected receivables.

SECTION 1.3: THE FINANCIAL REPORTING STANDARD

PURPOSE

The financial reporting standard governs the content, frequency, format consistency, and distribution of internal financial reporting. Financial reporting is not the production of financial statements. Financial reporting is the structured communication of financial information to the people responsible for governing and managing the company. A company that produces financial statements but does not produce structured reporting has met the requirements of Section 1.1 but not the requirements of this section.

DEFINITIONS

No new terms are introduced in this section. All operative terms are defined in Book 0, Section 0.4, or in the preceding sections of this Book.

PRINCIPLES GOVERNING THIS SECTION

Principle 5 from Book 0, Section 0.3 governs the content requirements of this section: financial infrastructure serves decision-making before investor relations. The content requirements for the monthly management report are derived from what a governing body requires to make sound operational decisions, not from what investors require in due diligence. The investor-facing application of financial reports is governed by Book 5.

COMPLIANCE CRITERIA

Compliance at each level is cumulative as established in Section 1.1.

Level 1

1.3.L1.1: The company produces a financial summary for each completed month containing at minimum: current cash position; net burn rate for the period; and total revenue and total operating expenses for the period.

1.3.L1.2: The financial summary is available to all members of the founding team within thirty calendar days of the close of the period it covers.

1.3.L1.3: The financial summary uses consistent terminology and categorisation across all periods in which it has been produced.

Level 2

1.3.L2.1: The company produces a monthly management report within fifteen working days of the close of each reporting period.

1.3.L2.2: The monthly management report contains all of the following elements: current cash position and net burn rate for the period; revenue for the period versus the approved forecast; operating expenses by functional category for the period versus the approved forecast; variance commentary for every category where actual differs from forecast by more than ten percent of the forecast figure; current cash runway calculated on a trailing three-month average net burn basis; and an updated forecast for the remainder of the financial year where any material assumption has changed since the prior report.

1.3.L2.3: The monthly management report is distributed to the board or equivalent governing body within fifteen working days of the close of the period it covers.

1.3.L2.4: The monthly management report uses a consistent format across all periods; any change to that format is disclosed in the period in which the change is first applied.

1.3.L2.5: Prior-period comparative figures are restated in any revised format where the format change affects the comparability of figures across periods.

1.3.L2.6: Monthly management reports are retained for a minimum of thirty-six months from the date of production.

Level 3

1.3.L3.1: The monthly management report is produced within ten working days of the close of each reporting period.

1.3.L3.2: The monthly management report includes a written narrative section authored by the financial lead, interpreting the period's financial performance in the context of the company's approved annual operating plan and strategic position.

1.3.L3.3: The board financial package, comprising the monthly management report and the written narrative, is produced and distributed to the board or equivalent governing body in advance of each scheduled board meeting.

1.3.L3.4: A rolling twelve-month financial forecast, updated monthly and integrated with the three-statement model maintained under Section 1.1, is included as a standing section of the board financial package.

1.3.L3.5: The company maintains a documented financial calendar specifying the production deadline, distribution timeline, and recipient list for every recurring financial report.

COMMON DEFICIENCIES

CD 1.3.1: Financial reports are produced when an investor or board member requests them, rather than on a defined monthly schedule. The most recent report available at the time of a due diligence request covers a period that closed four months prior. Current period financial information exists only in raw accounting records and has not been compiled into a report.

CD 1.3.2: The monthly management report presents actuals and forecast in separate columns but does not include a variance column or variance commentary. Where actuals differ materially from forecast, no explanation is provided. The report does not distinguish between a variance caused by a change in business conditions and a variance caused by an error in the prior forecast.

CD 1.3.3: The format of the monthly management report changes between periods without disclosure. Expense categories present in earlier reports are merged or renamed in later reports. Revenue lines previously reported separately are consolidated. The reports across a twelve-month period cannot be compared directly without substantial reconstruction work.

CD 1.3.4: The board financial package contains the management report but no written narrative. The figures are presented without context. The board receives the data but not the financial lead's interpretation of what the data means for the company's trajectory. Material variances are visible in the numbers but not explained.

SECTION 1.4: THE ACCOUNTING INTEGRITY STANDARD

PURPOSE

The accounting integrity standard governs the minimum reliability, consistency, and accuracy requirements for the financial records from which all financial infrastructure in this Book derives. A financial model that meets the structural requirements of Section 1.1 but is built from accounting records that do not meet the requirements of this section does not constitute compliant financial infrastructure. The requirements of this section are foundational to all other requirements in Book 1.

DEFINITIONS

ACCRUAL: An accounting entry that records revenue earned or an expense incurred in a period before the corresponding cash receipt or payment occurs. Accruals are required under accrual accounting to ensure that the income statement reflects economic activity in the period it occurs rather than when cash moves. Accruals are distinct from deferrals; a deferral records a cash receipt or payment in a later period than when cash moves, because the revenue has not yet been earned or the expense not yet incurred.

DEFERRED REVENUE: Cash received from customers before the service or product has been delivered. Deferred revenue is a liability recorded on the balance sheet. It is recognised as revenue only in the period in which delivery occurs. Deferred revenue is not revenue at the point of receipt.

PRINCIPLES GOVERNING THIS SECTION

The accrual accounting definition in Book 0, Section 0.4 governs the accounting basis requirements in this section. The revenue recognition definition in Book 0, Section 0.4 governs the revenue recognition policy requirements. Both are applied here as compliance requirements, not restated as definitions.

A company that transitions from cash-basis to accrual-basis accounting upon reaching Growth Stage, as defined in Book 0, Section 0.5, must restate the financial statements for the two most recent completed financial periods on an accrual basis and retain those restated statements as part of its financial records. This is a compliance requirement, not a recommendation.

The requirement to record convertible instruments in accounting records, stated in criterion 1.4.L1.3 below, connects this section to the capital structure domain governed by Book 3. A SAFE, convertible

note, or issued option grant that appears in the cap table but not in the accounting records does not satisfy the requirements of either domain.

COMPLIANCE CRITERIA

Compliance at each level is cumulative as established in Section 1.1.

Level 1

1.4.L1.1: The company's financial records are reconciled to all bank and payment account statements at minimum monthly.

1.4.L1.2: Revenue is recorded consistently, either on a cash basis or an accrual basis, across all periods; and the basis used is known to the company and applied identically in all periods.

1.4.L1.3: All outstanding SAFEs, convertible notes, and issued option grants are recorded in the company's financial records, regardless of whether those instruments have been entered in a separate cap table document.

1.4.L1.4: The company maintains a record of all expenses paid in the period with sufficient categorisation to allow calculation of total cost of goods sold and total operating expenses as separate figures.

Level 2

1.4.L2.1: The company's financial records are prepared on an accrual basis for all periods from the date on which the company reached Growth Stage as defined in Book 0, Section 0.5.

1.4.L2.2: A company that transitions from cash-basis to accrual-basis accounting upon reaching Growth Stage restates the financial statements for the two most recent completed financial periods on an accrual basis and retains those restated statements as part of its financial records.

1.4.L2.3: The company maintains a written revenue recognition policy that states, for each revenue stream, the specific event or condition that triggers revenue recognition; and that policy has been applied consistently across all periods covered by the three-statement model.

1.4.L2.4: The company maintains a defined chart of accounts that has been applied consistently across all periods; any change in account classification is disclosed; and prior-period figures are restated where the change affects the comparability of figures across periods.

1.4.L2.5: The company maintains a written cost classification policy that documents what is included in cost of goods sold and what is classified as an operating expense; and that policy has been applied consistently across all periods.

1.4.L2.6: Deferred revenue is recorded as a liability on the balance sheet in the period in which cash is received and is recognised as revenue only in the period in which delivery occurs.

1.4.L2.7: The company's financial records are reconciled to all bank and payment accounts within ten working days of each month end; and any unreconciled items outstanding for more than thirty calendar days are disclosed in the management report for that period.

1.4.L2.8: Any change in the company's revenue recognition policy is documented, disclosed in the financial report for the period in which it takes effect, and applied to all prior periods presented for comparison.

Level 3

1.4.L3.1: The company's financial records are reviewed by an external accountant or auditor at least annually; and a written report of the review findings is retained and available for inspection.

1.4.L3.2: The company applies the relevant accounting standard, being IFRS or the applicable local equivalent, consistently across all financial statements prepared for external distribution.

1.4.L3.3: Software development costs are classified in accordance with a documented capitalisation policy that distinguishes between development-phase costs eligible for capitalisation and research-phase costs that must be expensed; and that policy has been applied consistently across all periods.

1.4.L3.4: Any change in accounting policy is documented; its financial effect is quantified; and comparative prior-period figures are restated in all financial statements prepared after the change takes effect.

1.4.L3.5: The company maintains a documented accounting policies manual covering revenue recognition, cost classification, asset capitalisation, and expense accrual methodology; and that manual is updated to reflect any policy change within thirty calendar days of the change taking effect.

COMMON DEFICIENCIES

CD 1.4.1: The company's financial records have not been reconciled to bank statements for the current quarter. The accounting balance for cash differs from the confirmed bank balance by a material amount. The difference has not been investigated. Financial reports are produced from the unreconciled accounting records.

CD 1.4.2: The company records cash received from customers as revenue at the point of receipt, regardless of whether the service has been delivered. Annual subscription payments received in advance are recorded as revenue in the month of receipt. No deferred revenue balance appears on the balance sheet. The company's reported revenue in months with large renewal cohorts is materially higher than the revenue that would be reported under a compliant revenue recognition policy.

CD 1.4.3: Issued SAFEs and convertible notes are tracked in a document maintained by the company's legal advisor. They do not appear in the company's accounting records. The balance sheet does not reflect any liability or contingent equity obligation arising from these instruments. The financial statements presented to investors do not disclose their existence.

CD 1.4.4: The company changed its cost classification methodology during the financial year, moving customer success costs from operating expenses to cost of goods sold, without disclosing the change or restating prior-period comparative figures. Gross margin for the period of the change and all subsequent periods is not comparable to gross margin for prior periods. The change has not been noted in any financial report.

STAGE AND LEVEL APPLICABILITY

The compliance level expectations for each section of Book 1 are established in the Financial Infrastructure Maturity Model in Book 0, Section 0.8. The operative mappings for this Book are as follows.

Section 1.1: Financial Architecture

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 1.2: Cash Management

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 1.3: Financial Reporting

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

Section 1.4: Accounting Integrity

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

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. Neither the stage definitions nor the maturity model expectations are restated here.

Feedback on Book 1 may be submitted to 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.

BOOK 2: PERFORMANCE MODELING AND FORECASTING

Book 2 defines the standards for the financial models a company must maintain to represent its forward performance: the forecasting methodology, the unit economics framework, the scenario and sensitivity architecture, the growth modeling standard, and the cost structure standard. These five domains together constitute the analytical layer of financial infrastructure. The integrated three-statement model governed by Book 1 is the structural layer. Book 2 governs the logic that drives it.

SECTION 2.1: THE FORECASTING METHODOLOGY STANDARD

PURPOSE

The forecasting methodology standard governs how a company constructs, documents, and maintains its financial forecasts. A forecast is not a financial statement. A financial statement records what occurred. A forecast represents what a company projects will occur, derived from documented assumptions about how its operations will develop. The reliability of a forecast is determined by the transparency and methodological soundness of its assumptions, not by the proximity of its outputs to actual results.

DEFINITIONS

FORECAST: A projection of a company's future financial performance, expressed through revenue, expense, and cash position estimates for one or more future periods, derived from documented operational assumptions.

BOTTOM-UP FORECAST: A forecast in which revenue and expense projections are derived from granular operational assumptions, including customer count, pricing, conversion rates, sales capacity, and headcount, that aggregate to company-level totals. A bottom-up forecast is the required methodology at Level 2 and above. Its defining characteristic is that every output can be traced to an operational driver.

TOP-DOWN FORECAST: A forecast in which revenue projections are derived from market size estimates and assumed capture rates, rather than from operational drivers. A top-down forecast does not meet the requirements of this Standard at Level 2 or above because it does not demonstrate a mechanistic connection between the company's operational capacity and its projected revenue.

DRIVER: A quantified operational variable whose value, when changed, produces a calculable change in one or more financial outputs. Revenue per customer, monthly customer acquisition count, and average contract value are examples of revenue drivers. Headcount by function and average fully loaded cost per employee are examples of expense drivers. A driver must be stated as a discrete, modifiable assumption in the assumption layer defined in Book 1, Section 1.1.

FORECAST PERIOD: The number of future periods covered by a forecast from the date of preparation. The minimum forecast period required at each compliance level is stated in the compliance criteria of this section.

FORECAST ACCURACY: The ratio of actual financial results to forecast results for a completed period, expressed as a percentage. Forecast accuracy is a trailing measure used to assess the reliability of the forecasting methodology, not a measure of management performance.

ROLLING FORECAST: A forecast that extends a fixed number of periods forward from the current period, updated at each period end to maintain consistent forward visibility. The rolling forecast extends the forecast period by one period each time one period closes.

PRINCIPLES GOVERNING THIS SECTION

Principle 2 from Book 0, Section 0.3 governs this section in its entirety: clarity of assumptions governs over precision of outputs. A bottom-up forecast built on documented, bounded, operationally grounded assumptions satisfies this Standard at a higher compliance level than a forecast built on undisclosed or optimistic inputs that produces granular outputs.

The methodological basis for every driver must be documented. Where a driver is derived from historical company data, that derivation must be traceable. Where a driver is derived from external market reference, the source must be identified. Where a driver is derived from management judgment, it must be labelled as such. These three categories of derivation are not ranked by reliability; they are distinguished to allow a third party to assess each assumption independently.

COMPLIANCE CRITERIA

Level 1

2.1.L1.1: The company maintains a financial forecast covering a minimum of twelve months from the date of preparation.

2.1.L1.2: The forecast includes projected revenue by period and projected total operating expenses by period.

2.1.L1.3: The key assumptions underlying the revenue projection are documented and can be stated on request.

2.1.L1.4: The forecast is updated at minimum quarterly to reflect changes in actual performance and changes in forward assumptions.

Level 2

2.1.L2.1: The company maintains a bottom-up financial forecast covering a minimum of twenty-four months from the date of preparation.

2.1.L2.2: Every revenue line in the forecast is derived from at least one documented driver that is stored in the assumption layer defined in Book 1, Section 1.1.

2.1.L2.3: Every expense line in the forecast is derived from at least one documented driver; personnel expenses are derived from a headcount plan that lists roles, hire dates, and fully loaded costs per role.

2.1.L2.4: The forecast is updated monthly; and each update documents any assumption that has changed from the prior version and the reason for the change.

2.1.L2.5: The methodological basis for each driver is documented as one of the following: historical company data; external market reference with source identified; or management judgment labelled explicitly as such.

2.1.L2.6: The company maintains a forecast accuracy record for each completed period showing actual results against the forecast prepared for that period at least one month in advance.

2.1.L2.7: The company maintains a rolling forecast that extends the forecast period by one month each time a month closes.

Level 3

2.1.L3.1: The company maintains a bottom-up financial forecast covering a minimum of thirty-six months from the date of preparation.

2.1.L3.2: Each driver in the forecast includes a documented sensitivity range stating the high and low values considered plausible by management, with the basis for each bound stated.

2.1.L3.3: The forecast is reviewed formally each month against actual results; material variances are documented with identified causes; and the forecast methodology is adjusted where a variance reveals a systematic error in driver assumptions.

2.1.L3.4: The company maintains a version-controlled forecast history such that any prior version of the forecast can be retrieved and compared to the current version with all changes identified.

2.1.L3.5: The forecast integrates with the three-statement model maintained under Book 1, Section 1.1, such that a change to any forecast driver updates the income statement, cash flow statement, and balance sheet without manual recalculation.

BENCHMARKS

The following benchmarks represent observed norms as of Beta v0.5. Benchmarks marked with an asterisk are directional indicators where market data is insufficient for precise quantification in this version. They will be refined in v1.0.

Forecast period by stage:

Pre-Revenue: minimum twelve months

Early Revenue: minimum twelve months

Growth Stage: minimum twenty-four months

Scale Stage: minimum thirty-six months

Forecast update frequency by stage:

Pre-Revenue: quarterly minimum

Early Revenue: monthly minimum

Growth Stage: monthly minimum

Scale Stage: monthly minimum

Forecast accuracy tolerance:

- Growth Stage, revenue: plus or minus twenty percent of forecast for the relevant period is the outer bound of acceptable variance before a methodology review is required. Variance beyond this range for two consecutive periods requires documented investigation of driver assumptions.
- Scale Stage, revenue: plus or minus fifteen percent is the outer bound.
- All stages, operating expenses: plus or minus ten percent of forecast for the relevant period. Expense forecasts are generally more controllable than revenue forecasts; persistent variance indicates a structural error in the headcount plan or the cost driver assumptions.

These accuracy benchmarks apply to the period forecast prepared at least one month in advance. A forecast revised in the final week of a period is not the operative benchmark for that period.

COMMON DEFICIENCIES

CD 2.1.1: The company maintains a revenue forecast based on a market size capture assumption. The forecast states that the company will capture a defined percentage of a defined market in each year of the projection. No operational mechanism is described. The forecast does not model the number of customers, the price per customer, the sales capacity required to acquire them, or the conversion rate from pipeline to close. The forecast cannot be interrogated at a driver level.

CD 2.1.2: The forecast is prepared once, at the beginning of the financial year, and is not updated. Actual performance diverges from the forecast over the year. No record is maintained of when assumptions changed or why. At the end of the year, the company cannot explain the variance between forecast and actual because no contemporaneous documentation of assumption changes exists.

CD 2.1.3: The company updates its forecast monthly but does not document changes to assumptions between versions. The current forecast reflects significantly different assumptions from the forecast prepared six months earlier. The basis for those changes cannot be established from the available records. Investors reviewing the forecast alongside earlier versions identify unexplained discontinuities.

CD 2.1.4: Personnel expenses in the forecast are modeled as a single aggregate figure rather than as a headcount plan. When actual payroll differs from forecast, the company cannot identify which roles drove the variance. The forecast does not distinguish between current headcount cost and the cost of planned future hires.

SECTION 2.2: THE UNIT ECONOMICS STANDARD

PURPOSE

The unit economics standard governs how a company calculates, documents, and tracks the financial performance of its fundamental unit of commercial activity: the customer relationship. Unit economics are the analytical foundation on which the viability of a business model is assessed. A company that cannot state its unit economics with methodological precision cannot demonstrate that its business model is viable at scale, regardless of its aggregate revenue trajectory.

Unit economics must be calculated from cohort-level data wherever retention and revenue data by customer vintage is available. Unit economics calculated from aggregate averages without cohort segmentation are acceptable only at Level 1 and must be labelled as average-based when reported in any investor document.

DEFINITIONS

UNIT: The fundamental element of commercial activity from which the company's revenue model derives. For Recurring Revenue companies, the unit is the customer relationship. For Transactional Revenue companies, the unit is the transaction or the active user depending on the revenue model. For Project Revenue companies, the unit is the engagement. For B2B Enterprise companies, the unit is the account. For Consumer companies, the unit is the active user. For AI-Native companies, the unit is

defined by the company's pricing model, which may be the inference call, the active seat, or the output delivered; the definition must be documented and applied consistently.

COHORT: A group of customers or users acquired within the same defined period, typically one month or one quarter, tracked as a group over subsequent periods to measure retention, revenue development, and lifetime value.

COHORT ANALYSIS: The measurement of retention, revenue, and gross profit contribution for each cohort across the periods following acquisition. Cohort analysis is the required basis for lifetime value calculation at Level 2 and above.

CUSTOMER ACQUISITION COST: Defined in Book 0, Section 0.4. The fully loaded cost of acquiring one new customer or user, including all sales and marketing personnel costs, technology costs, agency fees, and directly attributable overhead, divided by the number of new customers or users acquired in the period. Customer acquisition cost must be calculated separately by acquisition channel at Level 2 and above.

LIFETIME VALUE: Defined in Book 0, Section 0.4. The total gross profit generated by a single customer or unit over the full duration of their relationship with the company, calculated from cohort-level retention and revenue data. Lifetime value is a gross profit figure. Lifetime value calculated from average retention assumptions rather than observed cohort data must be labelled as estimated lifetime value.

LTV TO CAC RATIO: Defined in Book 0, Section 0.4. The ratio of lifetime value to the fully loaded customer acquisition cost for the relevant acquisition channel or period. This ratio is the primary indicator of unit economics viability for Recurring Revenue and Consumer companies.

PAYBACK PERIOD: Defined in Book 0, Section 0.4. The number of months required for the cumulative gross profit contribution of a customer to equal the fully loaded cost of acquiring that customer. Payback period is measured in months and calculated at the cohort level at Level 2 and above.

NET REVENUE RETENTION: Defined in Book 0, Section 0.4. The percentage of recurring revenue retained from an existing customer cohort over a defined period, including expansion revenue and excluding revenue lost to churn and contraction.

GROSS REVENUE RETENTION: The percentage of recurring revenue retained from an existing customer cohort over a defined period, excluding expansion revenue and including only the revenue from customers who remained active. Gross revenue retention and net revenue retention are distinct measures and must not be reported interchangeably.

CHURN RATE: Defined in Book 0, Section 0.4. Customer churn rate and revenue churn rate must be calculated and reported as separate figures. They are not interchangeable. Revenue churn rate is the more operationally significant measure for Recurring Revenue companies; customer churn rate is the more operationally significant measure for Consumer companies.

CONTRIBUTION MARGIN: Revenue minus all variable costs directly attributable to the unit, including cost of goods sold and any variable sales costs directly attributable to serving that unit. Contribution margin is not equivalent to gross margin. A company that reports contribution margin must label it distinctly and must not present it as a substitute for gross margin in financial statements.

PRINCIPLES GOVERNING THIS SECTION

Unit economics calculations must use the cost of goods sold definition established in Section 2.5 of this Book and governed by Book 1, Section 1.4. Lifetime value is a gross profit measure, not a revenue measure. Any unit economics calculation that uses revenue rather than gross profit as the numerator for lifetime value overstates the economic value of the customer relationship and does not satisfy this Standard.

The unit definition for AI-Native companies must be established at the point of first unit economics calculation and applied consistently across all subsequent periods. A change in unit definition constitutes a change in methodology and must be disclosed, with prior periods restated under the new definition or clearly labelled as calculated under a different definition.

COMPLIANCE CRITERIA

Level 1

2.2.L1.1: The company has identified and documented its unit as defined in the definitions of this section.

2.2.L1.2: The company calculates and records its average customer acquisition cost for each completed quarter using a consistent methodology.

2.2.L1.3: The company calculates and records an estimated lifetime value figure for its unit, with the methodology used to derive it documented.

2.2.L1.4: The company calculates its LTV to CAC ratio for each completed quarter.

2.2.L1.5: The company calculates its churn rate, distinguishing customer churn rate from revenue churn rate, for each completed month.

Level 2

2.2.L2.1: The company calculates customer acquisition cost separately for each acquisition channel through which it has acquired more than ten percent of customers in any quarter in the preceding twelve months.

2.2.L2.2: The company maintains cohort analysis for all customer cohorts acquired in the preceding twenty-four months, tracking revenue and gross profit contribution for each cohort by period.

2.2.L2.3: Lifetime value is calculated from cohort-level retention and gross profit data, not from average assumptions; where cohort data is insufficient to calculate a full lifetime value, the company states the observation period used and labels the figure as a partial cohort lifetime value.

2.2.L2.4: The company calculates payback period at the cohort level for each acquisition channel, using fully loaded customer acquisition cost and cohort gross profit contribution.

2.2.L2.5: Net revenue retention and gross revenue retention are calculated separately for each completed quarter and are documented as distinct figures.

2.2.L2.6: Unit economics figures used in investor materials are calculated under the same methodology as the figures maintained in the company's internal records; any difference between internally tracked figures and investor-presented figures is documented and explained.

2.2.L2.7: The company maintains a unit economics model that projects forward unit economics under the current cost structure and the current cohort retention profile, covering a minimum of twelve months.

Level 3

2.2.L3.1: The company maintains cohort analysis for all customer cohorts from inception, segmented by acquisition channel and customer segment where the company serves more than one identifiable segment.

2.2.L3.2: The unit economics model projects forward figures under at minimum three sets of assumptions: current retention and cost structure; a scenario in which retention improves by a defined increment; and a scenario in which customer acquisition cost increases by a defined increment.

2.2.L3.3: The company tracks the evolution of unit economics over time, maintaining a record of LTV to CAC ratio, payback period, and net revenue retention by quarter for the preceding twelve quarters or since inception if shorter.

2.2.L3.4: The company can demonstrate, from its cohort data, whether unit economics are improving or deteriorating as the company scales, with documented analysis of the drivers of any identified trend.

BENCHMARKS

The following benchmarks are segmented by company type. Benchmarks marked with an asterisk are directional indicators where market data is insufficient for precise quantification in this version.

RECURRING REVENUE COMPANIES

LTV to CAC ratio:

- Below 1.0: the unit economics of the business model are not viable at the current cost structure and retention rate. The company is generating less gross profit from each customer over their lifetime than it costs to acquire them.
- to 2.0: marginal. Sustainable only with rapid improvement in retention or reduction in acquisition cost.
- 3.0 and above: the threshold widely observed among institutional investors as the minimum for a viable recurring revenue business at Growth Stage. Companies below 3.0 at Growth Stage face investor scrutiny of the business model.
- 5.0 and above: indicates strong unit economics. Observed in recurring revenue businesses with high net revenue retention and low churn.

Payback period:

- Under twelve months: strong. Indicates that acquisition cost is recovered quickly, reducing the capital intensity of growth.
- Twelve to eighteen months: acceptable at Growth Stage with strong net revenue retention.
- Over twenty-four months: requires examination of whether the business model is capital efficient at scale.

Net revenue retention:

- Below 90 percent: the customer base is contracting in revenue value. Growth in revenue requires new customer acquisition to offset the contraction from existing customers.
- 90 to 100 percent: stable. Existing customers are retained but not expanding materially.

- 100 to 120 percent: the existing customer base grows in revenue value without new customer additions. Frequently observed in B2B SaaS businesses with strong expansion revenue.
- Above 120 percent: high. Observed in companies with strong product-led growth and high expansion revenue from existing accounts.

TRANSACTIONAL REVENUE COMPANIES

LTV to CAC calculation note: for transactional companies, lifetime value must account for purchase frequency and average transaction gross profit over the expected customer lifespan, not a single transaction gross profit. Applying a single-transaction gross profit as lifetime value and calculating LTV to CAC on that basis understates the true unit economics and does not satisfy this Standard.

Payback period norms: transactional companies typically exhibit shorter payback periods than recurring revenue companies because there is no annual contract to be renewed. A payback period of under six months is common in high-frequency transactional businesses.

CONSUMER COMPANIES

LTV to CAC benchmarks for consumer companies vary materially by monetisation model and engagement frequency. Benchmarks for advertising-monetised consumer companies, in-app purchase companies, and subscription consumer companies are distinct and cannot be applied interchangeably. The company must document which monetisation model its LTV calculation reflects.

B2B ENTERPRISE COMPANIES

Payback period: B2B Enterprise companies typically exhibit longer payback periods than other company types due to extended sales cycles and high customer acquisition costs. Payback periods of eighteen to thirty-six months are observed among Growth Stage B2B Enterprise companies. The viability of these payback periods depends on net revenue retention and contract duration; a company with a thirty-month payback period and a three-year minimum contract term may have more defensible unit economics than a company with a twelve-month payback period and monthly contracts.

LTV to CAC: the high contract values characteristic of B2B Enterprise businesses typically produce high lifetime values. LTV to CAC ratios above 5.0 are common. The relevant scrutiny in this company type is of the payback period and of customer concentration rather than of the LTV to CAC ratio itself.

DEEP TECH AND HARDWARE COMPANIES

Unit economics for Deep Tech and Hardware companies must account for the cost of goods sold structure, which includes manufacturing costs, component costs, and direct fulfilment costs that are absent from software-based businesses. Gross margin benchmarks for hardware-inclusive products are materially lower than for pure software products. The specific benchmarks for this company type will be stated in v1.0 following practitioner review.

AI-NATIVE COMPANIES

Unit economics for AI-Native companies require distinct treatment because the cost of goods sold structure is dominated by computational inference costs rather than headcount, and because the relationship between usage, cost, and revenue is non-linear in ways that are not adequately represented by traditional unit economics frameworks.

The unit definition for AI-Native companies must specify whether the unit is a discrete inference call, an output delivered, an active seat, or a usage volume metric. The definition must be chosen to reflect the pricing model of the business and applied consistently.

Cost of goods sold for AI-Native companies includes computational infrastructure costs attributable to delivering the product, including API costs, model hosting costs, and inference compute costs. These costs may scale non-linearly with usage; the unit economics model must capture the relationship between usage volume and marginal inference cost, which may decline at scale as model efficiency improves or increase at scale as complex use cases consume more compute.

LTV to CAC norms for AI-Native companies are not yet established with sufficient market data to state as benchmarks in Beta v0.5. The company must calculate and track LTV to CAC using the methodology stated in this section and document the assumptions underlying its inference cost projections. These benchmarks will be stated in v1.0.

Payback period norms for AI-Native companies: where customer acquisition costs are low due to product-led growth and self-service distribution, payback periods may be significantly shorter than in sales-led businesses. Where enterprise sales motions are required, payback periods may extend. The company must calculate payback period using actual fully loaded acquisition costs and must not exclude sales costs from the calculation on the basis that they are viewed as a fixed cost.

COMMON DEFICIENCIES

CD 2.2.1: The company calculates lifetime value using average monthly revenue per customer multiplied by an assumed average customer lifespan, without reference to cohort data. The assumed lifespan is based on management judgment rather than observed retention. The resulting lifetime value is higher than the value that would be produced by a cohort-based calculation using actual retention data. The figure is used in investor materials without disclosure of the methodology or its limitations.

CD 2.2.2: The company calculates its LTV to CAC ratio using a lifetime value figure based on revenue rather than gross profit. The ratio appears favourable. Applying gross profit rather than revenue as the numerator, using the actual gross margin of the business, produces a ratio that is materially lower and reflects the actual economic return of the customer relationship.

CD 2.2.3: The company calculates a single blended customer acquisition cost across all channels. Channel-level acquisition costs differ materially; one channel acquires customers at three times the cost of another. The blended figure obscures the variation. Investment decisions about channel allocation are made without visibility into channel-level unit economics.

CD 2.2.4: The company reports net revenue retention as customer retention. The two figures are different. The company retains eighty-five percent of customers by count but generates one hundred and five percent of prior year revenue from retained customers due to expansion. Reporting the eighty-five percent figure as net revenue retention misrepresents the revenue dynamics of the existing customer base.

CD 2.2.5: For an AI-Native company: the cost of goods sold used in the unit economics calculation excludes inference compute costs on the basis that infrastructure is treated as a fixed overhead. The resulting gross margin and unit economics figures do not reflect the actual cost of serving each customer or processing each unit of output. Inference costs that scale with usage are variable costs and must be included in cost of goods sold.

SECTION 2.3: THE SCENARIO AND SENSITIVITY STANDARD**PURPOSE**

The scenario and sensitivity standard governs the construction, documentation, and maintenance of multiple-outcome financial projections. A single-case financial forecast does not meet the requirements of this Standard at Level 2 or above because it does not represent the range of plausible outcomes available to any early-stage company operating under material uncertainty. The scenario architecture required by this Standard is not a presentational device for investor meetings. It is an operational tool for decision-making under uncertainty.

DEFINITIONS

SCENARIO ANALYSIS: The construction of multiple discrete financial projections, each based on a coherent and internally consistent set of assumptions, representing distinct views of how the company may develop. Each scenario must be internally consistent: if a scenario assumes lower customer acquisition than the base case, it must also assume lower acquisition costs, lower headcount in sales, and lower marketing spend. A scenario that changes revenue assumptions without changing the corresponding cost assumptions is not internally consistent and does not satisfy this Standard.

BASE CASE: The scenario that represents the most likely outcome given current operational data and forward assumptions. The base case is not an optimistic projection. It is the probability-weighted central estimate of the company's forward performance.

UPSIDE CASE: A scenario representing a coherent set of conditions under which performance exceeds the base case. The upside case must be plausible, not aspirational. It must be based on identifiable operational conditions, such as an improvement in conversion rate from a specific initiative, a reduction in churn from a specific product change, or an acceleration in market adoption. An upside case that cannot be connected to an operational mechanism is not a scenario; it is a wish.

DOWNSIDE CASE: A scenario representing a coherent set of conditions under which performance falls below the base case. The downside case must be plausible and must reflect risks that management has identified as material. A downside case that reduces all revenue assumptions by a uniform percentage without identifying the operational mechanism producing the reduction is not internally consistent.

SENSITIVITY ANALYSIS: An analytical technique that measures how a defined financial output changes when a single input variable is modified while all other variables are held constant. Sensitivity analysis identifies which driver assumptions exert the greatest influence on defined outcomes, including cash runway, gross margin, and LTV to CAC ratio.

SCENARIO ARCHITECTURE: The full set of scenarios maintained by a company, including the base case, the upside case, and the downside case at minimum, together with the documentation of the assumptions differentiating each scenario from the others.

MONTE CARLO SIMULATION: A probabilistic modeling technique in which key driver assumptions are treated as probability distributions rather than point estimates, and multiple simulations are run drawing values randomly from those distributions to produce a probability distribution of outcomes. Monte Carlo simulation is a Level 3 requirement for companies at Growth Stage and above.

PROBABILITY DISTRIBUTION: The range of values assigned to a driver assumption in a Monte Carlo simulation, defined by a central estimate and a standard deviation or by stated minimum and maximum

bounds with an assumed distribution shape. Every probability distribution used in a Monte Carlo simulation must be documented with the basis for its parameters.

PRINCIPLES GOVERNING THIS SECTION

The scenario architecture must be constructed before any fundraising process begins. A scenario architecture created under the time pressure of an investor conversation and not previously maintained as an operational tool does not reflect the ongoing financial management requirement of this Standard.

Each scenario in the architecture must be internally consistent. A competent financial professional reviewing the scenario must be able to confirm that each assumption in the scenario is logically connected to the others within the same scenario.

COMPLIANCE CRITERIA

Level 1

2.3.L1.1: The company maintains a base case financial forecast and a downside case financial forecast covering the same forecast period.

2.3.L1.2: The key assumptions that differentiate the downside case from the base case are documented for each scenario.

2.3.L1.3: Each scenario is internally consistent: a change in revenue assumptions in a scenario is accompanied by corresponding changes in the cost and headcount assumptions that are operationally dependent on that revenue assumption.

Level 2

2.3.L2.1: The company maintains a scenario architecture comprising at minimum a base case, an upside case, and a downside case, each covering the full forecast period required under Section 2.1.

2.3.L2.2: For each scenario, every assumption that differs from the base case is documented with the operational mechanism that produces the difference.

2.3.L2.3: The company maintains a sensitivity table for at minimum the following drivers: revenue growth rate; gross margin; customer acquisition cost; churn rate or equivalent retention metric; and the resulting impact on cash runway and LTV to CAC ratio.

2.3.L2.4: The scenario architecture is updated when a material change in operating conditions or management assumptions occurs, and each update is documented with the date and the reason for the change.

2.3.L2.5: The downside case includes a scenario in which the primary revenue growth assumption is reduced by at least thirty percent from the base case, with all operationally dependent cost assumptions adjusted accordingly.

Level 3

2.3.L3.1: The company maintains a Monte Carlo simulation model covering the forecast period, treating at minimum five key driver assumptions as probability distributions rather than point estimates.

2.3.L3.2: Each probability distribution in the Monte Carlo model is documented with the central estimate, the stated bounds, and the basis for both, derived from historical company data, external market reference, or documented management judgment.

2.3.L3.3: The Monte Carlo model produces a probability distribution of cash runway outcomes, allowing the company to state the probability that runway exceeds defined thresholds under current assumptions.

2.3.L3.4: The company reviews the output of the Monte Carlo model quarterly and updates the driver distributions where actual results provide new information about the plausible range of future outcomes.

2.3.L3.5: The results of the Monte Carlo model are presented to the board or equivalent governing body at minimum twice per year as part of the financial reporting package governed by Book 1, Section 1.3.

BENCHMARKS

Scenario analysis benchmarks by stage:

Pre-Revenue: base case and downside case minimum

Early Revenue: base case, upside case, and downside case minimum

Growth Stage: full scenario architecture plus sensitivity table minimum; Monte Carlo at Level 3

Scale Stage: full scenario architecture plus sensitivity table plus Monte Carlo minimum

Sensitivity table driver coverage:

The following drivers must be included in the sensitivity table at Level 2 and above, with their impact on cash runway and on the primary unit economics ratio calculated for each:

- For Recurring Revenue companies: monthly recurring revenue growth rate; monthly churn rate; customer acquisition cost; gross margin percentage.
- For Transactional Revenue companies: transaction volume; average transaction gross profit; customer acquisition cost; repeat purchase rate.
- For B2B Enterprise companies: average contract value; sales cycle duration; win rate from qualified pipeline; annual churn rate.
- For Consumer companies: daily or monthly active user count; average revenue per active user; user acquisition cost; retention rate at ninety days.
- For AI-Native companies: usage volume per active unit; inference cost per unit of output; customer acquisition cost; gross margin at current and projected scale. The sensitivity of gross margin to inference cost at different usage volumes must be explicitly modeled because the non-linear relationship between compute cost and usage is the primary financial risk unique to this company type.
- For Deep Tech and Hardware companies: unit production cost; average selling price; production volume; gross margin at different volume levels.

COMMON DEFICIENCIES

CD 2.3.1: The company maintains a single financial forecast and labels it the base case. No upside or downside scenario exists. When investors ask to see the downside case, a new version is produced under time pressure by reducing revenue assumptions by a uniform percentage. The downside case does not adjust cost assumptions to reflect the lower revenue. The resulting downside scenario overstates the downside cash burn because it assumes the company continues spending at base case levels while revenue declines.

CD 2.3.2: The company maintains three scenarios but the assumptions differentiating them are not documented. Reviewing the three models, the only visible difference is in the top-line revenue figure. The underlying driver assumptions are identical across all three scenarios. The upside and downside cases are not scenarios; they are the base case revenue projection with a percentage applied to the top line.

CD 2.3.3: The sensitivity table exists but is constructed by changing one variable across a range while holding all others constant, including cost variables that are operationally dependent on the revenue variable being changed. A sensitivity analysis that reduces revenue by fifty percent while holding sales headcount constant does not produce a plausible operational scenario and does not satisfy this Standard.

CD 2.3.4: For Growth Stage companies that have not yet implemented Monte Carlo simulation: the company has not assessed the probability distribution of its cash runway under current driver assumptions. Management holds a point estimate of runway derived from the base case forecast. The actual distribution of runway outcomes, given the variance observed in historical driver performance, is materially wider than the point estimate implies.

SECTION 2.4: THE GROWTH MODELING STANDARD

PURPOSE

The growth modeling standard governs how a company models its revenue growth mechanism, its sales capacity, and the operational assumptions that connect commercial activity to financial outcomes. A growth model is not a revenue forecast. A revenue forecast states projected revenue figures. A growth model describes the operational mechanism by which those figures will be reached and demonstrates that the company has the capacity to execute the mechanism.

DEFINITIONS

GROWTH MODEL: A financial model that derives revenue projections from explicit modeling of the commercial activities required to generate that revenue, including sales capacity, marketing investment, pipeline conversion, and customer retention.

SALES CAPACITY MODEL: A component of the growth model that quantifies the revenue-generating output of the sales organisation, derived from the number of quota-carrying sales personnel, their individual revenue quota, their average quota attainment rate, and the ramp time required for new sales personnel to reach full productivity.

QUOTA ATTAINMENT RATE: The percentage of their assigned revenue quota achieved on average by quota-carrying sales personnel over a defined period. Quota attainment rate must be calculated from actual historical performance data at Level 2 and above.

PIPELINE MODEL: A model of the company's revenue pipeline that tracks the volume and value of opportunities at each stage of the sales process, the conversion rate between stages, and the average time required to progress from one stage to the next.

RAMP PERIOD: The number of months required for a newly hired quota-carrying sales employee to reach full productivity, defined as the period from hire date to the first month in which the employee achieves their full assigned quota on a sustained basis.

PRODUCT-LED GROWTH: A growth mechanism in which the product itself drives user acquisition, expansion, and retention without primary reliance on a sales organisation. Companies whose growth mechanism is primarily product-led must model growth through user acquisition rates, activation rates, and expansion from existing users rather than through a sales capacity model.

MAGIC NUMBER: A metric calculated as net new annualised recurring revenue divided by the sales and marketing expenditure in the prior quarter, used to assess the efficiency of the growth investment. A Magic Number above 0.75 is commonly observed among efficient Growth Stage recurring revenue companies. A Magic Number below 0.5 indicates that the growth investment is producing returns below the threshold commonly observed in institutionally funded businesses.

RULE-OF-40: A heuristic applied to Growth Stage and Scale Stage recurring revenue companies, calculated as the sum of the annual revenue growth rate percentage and the operating profit margin percentage. A combined figure of forty or above indicates that the company is balancing growth and profitability at a level commonly expected by growth equity investors. This heuristic is not a requirement of this Standard; it is a benchmark for contextualising the trade-off between growth investment and margin.

PRINCIPLES GOVERNING THIS SECTION

The growth model must demonstrate that the company has the operational capacity to execute its revenue projections. A revenue projection that assumes growth rates that the company's current sales capacity, marketing investment, and conversion performance cannot support does not meet this Standard at Level 2 or above, regardless of whether the projection is produced using a bottom-up methodology.

For companies whose primary growth mechanism is product-led rather than sales-led, the sales capacity model is replaced by a user acquisition model that derives active user counts from acquisition channel performance, activation rates, and retention rates.

COMPLIANCE CRITERIA

Level 1

2.4.L1.1: The company has documented its primary growth mechanism, identifying whether revenue growth is driven primarily by a sales organisation, by marketing investment, by product-led acquisition, or by a combination.

2.4.L1.2: The company's revenue forecast is connected to at least one documented operational assumption about the commercial activity that will produce the projected revenue.

2.4.L1.3: The company has documented the conversion rate it observes between its primary lead or pipeline stage and closed revenue, based on historical data from the preceding six months or since inception if shorter.

Level 2

2.4.L2.1: For companies with a sales-led growth mechanism: the company maintains a sales capacity model that derives projected revenue from the number of quota-carrying sales personnel, their assigned quota, their observed quota attainment rate, and their ramp period.

2.4.L2.2: For companies with a product-led growth mechanism: the company maintains a user acquisition model that derives projected active user counts from documented acquisition channel performance metrics, observed activation rates, and observed thirty-day and ninety-day retention rates.

2.4.L2.3: The company maintains a pipeline model that tracks opportunity volume and value at each stage of the sales or acquisition process, with documented conversion rates between stages based on historical performance.

2.4.L2.4: The company's revenue forecast does not project revenue growth rates that exceed what the documented sales capacity model or user acquisition model can support under the stated assumptions.

2.4.L2.5: The company calculates its Magic Number for each completed quarter and maintains a record of this metric for the preceding four quarters.

2.4.L2.6: The headcount plan underlying the growth model documents the hire date, role, quota or equivalent productivity measure, and ramp period for each planned sales or growth hire in the forecast period.

Level 3

2.4.L3.1: The sales capacity model or user acquisition model is integrated with the three-statement model such that a change in a growth capacity assumption updates revenue projections, headcount costs, and marketing spend assumptions without manual recalculation.

2.4.L3.2: The company maintains a documented analysis of the leading indicators of its growth mechanism, identifying the metrics that, when observed two to three months in advance, are predictive of revenue outcomes, and tracking those metrics monthly.

2.4.L3.3: The company calculates its Rule of 40 figure for each completed quarter and maintains a record for the preceding four quarters, where the company has reached Growth Stage as defined in Book 0, Section 0.5.

2.4.L3.4: The growth model is stress-tested under a scenario in which the planned sales hires for the next two quarters are delayed by one quarter, with the revenue impact documented.

BENCHMARKS

Sales capacity benchmarks by company type and stage:

RECURRING REVENUE, Growth Stage: quota attainment rates below sixty percent across the sales team indicate either that quotas are set above achievable levels or that the sales team is underperforming. Quota attainment rates above one hundred percent across the team indicate that quotas may be set below achievable levels. Both conditions warrant examination of quota-setting methodology.

RECURRING REVENUE, Growth Stage: ramp periods of three to six months are typical for inside sales roles. Six to nine months are typical for mid-market account executives. Nine to twelve months are typical for enterprise sales roles. A growth model that assumes full productivity from new sales hires from the month of hire does not satisfy this Standard.

Magic Number benchmarks:

Above 0.75: efficient growth investment. The company is generating new recurring revenue efficiently relative to its sales and marketing spend.

0.5 to 0.75: moderate efficiency. Acceptable with improving trend.

Below 0.5: the efficiency of growth investment requires examination.

AI-Native companies with product-led growth: the growth model for AI-Native companies whose distribution is primarily self-service or product-led must model the relationship between marketing investment, inbound discovery, free-to-paid conversion rates, and expansion from initial usage. The traditional sales capacity model does not apply. Usage-based revenue models require a growth model that projects usage volumes, conversion from free to paid tiers, and revenue per unit of usage at different volume levels.

COMMON DEFICIENCIES

CD 2.4.1: The revenue forecast projects growth rates that imply a doubling of the customer base within twelve months. The sales capacity model shows a team of two quota-carrying sales personnel. At their current quota attainment rate, the two-person team can acquire approximately forty percent of the customers implied by the revenue forecast. The remaining sixty percent of the projected customer acquisition has no identified source in the growth model. The forecast and the growth model are not internally consistent.

CD 2.4.2: The company models new sales hires as contributing full quota revenue from their first month of employment. No ramp period is assumed. The headcount plan adds four sales hires in the first quarter of the forecast. The revenue model reflects full revenue contribution from all four from month one. Actual ramp periods in the company's historical data are seven months. The forecast overstates revenue for the first seven months following each hire.

CD 2.4.3: The pipeline model tracks the number of opportunities at each stage but not the value of those opportunities. Conversion rates are calculated by count rather than by value. The conversion rate from first meeting to proposal is sixty percent by count but the opportunities that convert are systematically smaller in average contract value than those that do not. The revenue implied by the pipeline model overstates actual expected revenue.

CD 2.4.4: The company does not calculate its Magic Number. Marketing and sales expenditure increases each quarter as the company invests in growth. Revenue growth is also increasing. The company has not assessed whether the incremental revenue generated is proportional to the incremental investment. Without the Magic Number calculation, the efficiency of the growth investment is not visible.

SECTION 2.5: THE COST STRUCTURE STANDARD

PURPOSE

The cost structure standard governs how a company models, categorises, and monitors its cost base. A cost model is not a list of expected expenses. It is a structured representation of the relationship between

the company's operational activities and the costs those activities generate, built from documented drivers and organised to support gross margin analysis, departmental performance assessment, and capital efficiency measurement.

DEFINITIONS

FIXED COST: A cost that does not change in response to changes in the volume of output or revenue within a defined range of operational scale. Office rent, base salaries, and software licence fees with flat pricing are examples of fixed costs. Fixed costs create operating leverage: as revenue grows, fixed costs remain constant and an increasing proportion of revenue is available for operating profit.

VARIABLE COST: A cost that changes proportionally with changes in the volume of output or revenue. Inference compute costs in AI-Native businesses, transaction processing fees in payment businesses, and raw material costs in hardware businesses are examples of variable costs. Variable costs must be modeled as a rate per unit of output or revenue, not as a fixed absolute amount.

STEPPED COST: A cost that remains fixed within a defined range of operational scale but increases in discrete steps when the company's scale crosses a defined threshold. Customer support headcount that must increase at defined customer count thresholds is an example of a stepped cost. Stepped costs must be modeled explicitly in the cost structure rather than treated as either purely fixed or purely variable.

OPERATING LEVERAGE: The relationship between the rate of revenue growth and the rate of operating cost growth. A company with high operating leverage generates a disproportionate increase in operating profit as revenue grows, because a significant portion of its cost base is fixed. Operating leverage must be demonstrated in the cost model by showing how gross margin and operating margin evolve at different revenue levels.

BURN MULTIPLE: Net cash consumed in a period divided by net new annualised recurring revenue generated in that period. Burn multiple measures the cash cost of generating each incremental dollar of new recurring revenue. A burn multiple below one indicates that the company is generating more new recurring revenue than cash it is consuming. A burn multiple above two at Growth Stage indicates that the growth investment is capital-intensive relative to the new revenue being generated.

HEADCOUNT MODEL: A component of the cost structure model that lists every current and planned role, the department it belongs to, the hire date or planned hire date, the fully loaded cost including salary, employer taxes, benefits, and equipment, and the functional category to which the cost is allocated.

FULLY LOADED COST: The total cost of employing one person for one period, including salary, employer-side taxes and social contributions, healthcare and other benefits, equipment, software licenses required for the role, and an allocated share of facilities costs. Salary alone does not constitute fully loaded cost. A cost model that uses salary as a proxy for headcount cost understates total personnel expense.

PRINCIPLES GOVERNING THIS SECTION

The cost classification policy established in Book 1, Section 1.4 governs the categorisation of costs in this section. Cost of goods sold is defined in Section 2.1 of this Book. Operating expenses are the costs that are not cost of goods sold. These definitions apply consistently across the cost structure model.

Variable costs must be modeled as rates, not as fixed amounts, because their purpose in the model is to show how total cost changes as the business scales. A variable cost that is modeled as a fixed absolute amount does not allow the model to project cost behavior accurately at different revenue levels.

COMPLIANCE CRITERIA

Level 1

2.5.L1.1: The company maintains a cost model that distinguishes cost of goods sold from operating expenses for each completed period.

2.5.L1.2: The company calculates gross margin for each completed period.

2.5.L1.3: The company identifies its primary cost categories and maintains actual expenditure data by category for each completed period.

Level 2

2.5.L2.1: The company maintains a cost structure model that categorises all costs as fixed, variable, or stepped, with the classification of each material cost item documented.

2.5.L2.2: Variable costs are modeled as rates per unit of output or per unit of revenue, not as fixed absolute amounts; the rate for each variable cost is documented and sourced from historical data or documented market reference.

2.5.L2.3: The company maintains a headcount model listing every current and planned role, the department allocation, the hire date, and the fully loaded cost per role.

2.5.L2.4: The cost structure model projects how gross margin, operating expenses, and operating margin evolve at the revenue levels projected in the base case forecast, the upside case, and the downside case.

2.5.L2.5: The company calculates its burn multiple for each completed quarter and maintains a record for the preceding four quarters.

2.5.L2.6: The cost structure model is updated monthly to reflect actual cost performance; any cost that has exceeded its modeled level by more than fifteen percent for two consecutive months is reviewed and the model is updated with a revised rate or fixed amount and the basis for the revision is documented.

Level 3

2.5.L3.1: The cost structure model is integrated with the three-statement model such that a change in any cost driver updates the income statement, cash flow statement, and balance sheet without manual recalculation.

2.5.L3.2: The company models operating leverage explicitly, producing a schedule that shows gross margin percentage, operating expense as a percentage of revenue, and operating margin at revenue levels representing fifty percent, one hundred percent, and two hundred percent of current annualised revenue.

2.5.L3.3: The headcount model projects the planned headcount for each department twelve months forward, with the financial impact of each planned hire on gross margin, departmental operating expense, and total burn modeled at the time the hire is planned.

2.5.L3.4: The cost structure model includes a scenario in which variable costs per unit of output increase by twenty percent from current levels, with the impact on gross margin and cash runway documented.

BENCHMARKS

Gross margin benchmarks by company type:

RECURRING REVENUE (pure software SaaS): gross margins of sixty-five to eighty-five percent are typical at Growth Stage and above. Gross margins below fifty percent indicate that cost of goods sold is elevated relative to peers, which may reflect inefficiency in infrastructure provisioning, high customer success costs included in cost of goods sold, or a service-heavy delivery model.

TRANSACTIONAL REVENUE: gross margins vary materially by transaction cost structure. Payment processing companies with high interchange costs typically operate at gross margins of forty to sixty percent. Marketplace businesses collecting a net commission typically operate at higher gross margins because the cost of goods sold is lower. The company must define its cost of goods sold clearly before gross margin benchmarks are applicable.

PROJECT REVENUE: gross margins of thirty to sixty percent are typical, reflecting the direct labour cost of delivering professional services. Gross margins above sixty percent in a project revenue business typically indicate that delivery is increasingly systematised and scalable. Gross margins below thirty percent indicate that delivery costs are high relative to the fees charged.

DEEP TECH AND HARDWARE: gross margins of twenty to fifty percent are typical for hardware-inclusive products at scale. Early-stage hardware companies often operate at negative gross margins during initial production runs as unit costs are high before manufacturing scale is achieved. The cost model must distinguish pre-scale unit costs from projected scale unit costs.

AI-NATIVE: gross margin benchmarks for AI-Native companies are not yet established with sufficient market data to state as benchmarks in Beta v0.5. The defining characteristic of AI-Native gross margin dynamics is the relationship between inference compute cost and usage volume. As model efficiency improves and as usage volume increases, inference cost per output unit may decline; this improvement must be modeled explicitly rather than assumed. Gross margin for an AI-Native company at Growth Stage using high-cost frontier model inference may be materially lower than for the same company at scale if it has developed more efficient inference. The cost model must make this trajectory explicit. Benchmarks will be stated in v1.0.

B2B ENTERPRISE: gross margins of sixty to eighty percent are typical for software-led B2B Enterprise companies. Where professional services revenue is included in total revenue, the blended gross margin will be lower; the company must present gross margin separately for the software and services components.

CONSUMER: gross margin benchmarks vary by monetisation model. Advertising-monetised consumer businesses typically operate at high gross margins because the cost of serving an additional impression is low. Subscription consumer businesses operate similarly to Recurring Revenue software businesses. In-app purchase businesses must account for app store fees in cost of goods sold.

Burn multiple benchmarks by stage:

- Growth Stage: a burn multiple below two is the commonly observed threshold among efficiently growing venture-backed companies. A burn multiple above three at Growth Stage indicates that the company is consuming significantly more cash than it is generating in new recurring revenue.
- Scale Stage: a burn multiple below one is typical at Scale Stage for companies approaching profitability. A burn multiple consistently above two at Scale Stage indicates that the growth investment is not producing proportionate new revenue.

COMMON DEFICIENCIES

CD 2.5.1: The company's cost model lists expected monthly expenses as fixed amounts for every line item, including costs that are operationally variable. Inference compute costs for an AI-Native company are modeled as a fixed monthly amount based on current usage. As usage grows with customer acquisition, actual compute costs grow proportionally but the model does not reflect this. The cost model systematically understates future cost of goods sold and overstates future gross margin.

CD 2.5.2: The headcount model uses salary figures rather than fully loaded cost. The cost model understates total personnel expense by the employer tax, benefits, equipment, and facilities costs attributable to each employee. For a company with thirty employees, the difference between salary cost and fully loaded cost commonly represents fifteen to twenty-five percent of total personnel expense. The model produces a gross margin and operating expense figure that is materially more favourable than the actual cost structure.

CD 2.5.3: The company has not calculated its burn multiple. It tracks total cash burn and total revenue growth separately but has not related them to assess the capital efficiency of growth. The company has invested materially in sales headcount over the preceding four quarters. Revenue has grown. The burn multiple calculation would reveal that new recurring revenue generated per pound of cash consumed has declined over the period, indicating declining growth efficiency. This trend is not visible from cash burn and revenue growth figures observed independently.

CD 2.5.4: The cost structure model does not include stepped costs. Customer support headcount is modeled as a fixed amount regardless of customer count. In practice, the company adds a support employee for each increment of fifty customers. At three hundred customers, actual support costs are sixty percent higher than modeled. The model consistently understates operating expenses in periods of strong customer acquisition.

STAGE AND LEVEL APPLICABILITY

The compliance level expectations for each section of Book 2 are established in the Financial Infrastructure Maturity Model in Book 0, Section 0.8. The operative mappings for this Book are as follows.

Section 2.1: Forecasting Methodology

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

Section 2.2: Unit Economics

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 2.3: Scenario and Sensitivity

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 2.4: Growth Modeling

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

Section 2.5: Cost Structure

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 2 may be submitted to 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.

BOOK 3: CAPITAL STRUCTURE AND EQUITY

Book 3 defines the standards for the equity and capital structure a company must maintain: the cap table, the modeling of convertible instruments, the administration of equity compensation plans, the documentation of capital allocation, and the mechanics of liquidation and exit distribution. These five domains together constitute the ownership layer of financial infrastructure. Every other domain in the Standard affects financial performance. This domain determines who owns the value that performance creates.

SECTION 3.1: THE CAP TABLE STANDARD**PURPOSE**

The cap table standard governs the completeness, accuracy, and currency of the record a company maintains of all equity ownership and equity-linked obligations. A cap table that does not reflect every instrument that can become equity is not a cap table for the purposes of this Standard. It is a partial record. Partial records produce material misrepresentations of ownership whenever any unreflected instrument converts, exercises, or is disclosed in a transaction.

DEFINITIONS

CAP TABLE: A complete record of all equity ownership and equity-linked obligations in a company, maintained on a fully diluted basis as defined in Book 0, Section 0.4. The cap table includes all issued shares by class, all granted and ungranted options within authorised pools, all warrants, all outstanding SAFEs, all outstanding convertible notes, and all other instruments that can become equity, as if all such instruments had converted or exercised at the terms in effect at the record date.

ISSUED SHARE COUNT: The number of shares that have been formally issued and are currently outstanding. Issued share count is not equivalent to fully diluted share count. A cap table that presents only the issued share count without disclosing all instruments that can become equity misrepresents the ownership structure.

FULLY DILUTED SHARE COUNT: The total number of shares that would be outstanding if all equity-linked instruments currently in existence were converted or exercised at the terms in effect at the record date. Fully diluted share count includes issued shares, all options granted but not yet exercised whether vested or unvested, all ungranted options within an authorised and reserved pool, all warrants, and all shares issuable upon conversion of outstanding SAFEs and convertible notes. Fully diluted share count is the correct denominator for calculating any ownership percentage in a company that has issued any convertible instrument or equity compensation.

SHARE CLASS: A category of shares carrying a defined set of rights, preferences, and restrictions. Common shares and preference shares are distinct share classes. Within preference shares, different series issued at different rounds typically constitute distinct classes with distinct rights. The cap table must list each share class separately and must document the rights, preferences, and restrictions applicable to each class.

PREFERENCE SHARES: Shares issued to investors that carry rights not available to common shareholders, typically including a liquidation preference, anti-dilution protection, and participation rights. The specific terms of preference shares vary by investment agreement and must be reflected precisely in the cap table and in the liquidation mechanics model governed by Section 3.5.

COMMON SHARES: Shares typically held by founders, employees, and early participants that carry voting rights and economic participation but rank below preference shares in any liquidation or distribution event.

SHARE REGISTER: The formal legal record of share ownership maintained in accordance with the applicable corporate law of the company's jurisdiction of incorporation. The share register is a legal document. The cap table governed by this Standard is a financial model. They must be consistent with each other. Discrepancies between the cap table and the share register are deficiencies in both documents.

AUTHORISED SHARE CAPITAL: The maximum number of shares a company is authorised to issue under its constitutional documents. The cap table must reflect the total authorised share capital and must show that the fully diluted share count does not exceed it.

RECORD DATE: The date as of which the cap table reflects the ownership and instrument positions of all holders. The cap table must be dated to its record date. An undated cap table does not satisfy the requirements of this Standard.

PRINCIPLES GOVERNING THIS SECTION

A cap table that is accurate as of a past date but not updated to reflect subsequent instrument issuances, share transfers, or option grants is not a current cap table. Currency is a compliance requirement, not a best effort. The record date must be within the update frequency stated in the compliance criteria for the applicable level.

The fully diluted share count is the only ownership denominator that is accurate in a company that has issued any convertible instrument, option grant, or warrant. All ownership percentages stated in any document governed by this Standard must be calculated on a fully diluted basis unless the document explicitly states that the figure is calculated on an issued-only basis and the reason for that presentation is documented.

The cap table and the share register must be reconciled at every update. A discrepancy between the two is a deficiency in accounting integrity under Book 1, Section 1.4, as well as a deficiency in this section.

COMPLIANCE CRITERIA

Level 1

3.1.L1.1: The company maintains a cap table dated to a record date within ninety calendar days of the date of assessment.

3.1.L1.2: The cap table lists all issued shares by class with the name of each holder, the number of shares held, and the price per share at which those shares were issued.

3.1.L1.3: The cap table lists all outstanding SAFEs and convertible notes with the principal amount, the valuation cap if applicable, the discount rate if applicable, and the date of issuance for each instrument.

3.1.L1.4: The cap table lists all option grants made under any equity compensation plan with the number of options granted, the exercise price, and the vesting schedule for each grant.

3.1.L1.5: The cap table is consistent with the company's share register; any discrepancy between the two documents is identified and the cause is documented.

Level 2

3.1.L2.1: The company maintains a cap table dated to a record date within thirty calendar days of the date of assessment.

3.1.L2.2: The cap table presents ownership on a fully diluted basis, including all issued shares, all granted options whether vested or unvested, all ungranted options within any authorised and reserved pool, all warrants, and all shares issuable upon conversion of all outstanding SAFEs and convertible notes at the terms in effect at the record date.

3.1.L2.3: The cap table calculates the fully diluted share count and states the fully diluted ownership percentage of each holder and each instrument class.

3.1.L2.4: The cap table is maintained in a format that can be provided to an investor or legal advisor without preparation, reformatting, or explanatory accompaniment.

3.1.L2.5: The cap table documents the rights, preferences, and restrictions applicable to each share class, including liquidation preference terms, participation rights, anti-dilution provisions, and voting rights.

3.1.L2.6: The cap table is updated within fifteen working days of any share issuance, option grant, instrument conversion, warrant exercise, or share transfer.

3.1.L2.7: The company maintains a cap table model that projects the fully diluted ownership structure following the next anticipated funding round, under the assumptions documented for that round.

Level 3

3.1.L3.1: The company maintains a cap table dated to a record date within seven calendar days of the date of assessment.

3.1.L3.2: The cap table model projects the fully diluted ownership structure through at minimum two anticipated future funding events, with the assumptions for each event documented including pre-money valuation, investment amount, and option pool refresh terms.

3.1.L3.3: The cap table is maintained in a version-controlled format such that any prior version can be retrieved and compared to the current version with all changes identified and dated.

3.1.L3.4: The cap table is reconciled to the share register monthly; any discrepancy is resolved within ten working days of identification.

3.1.L3.5: The cap table model integrates with the liquidation mechanics model governed by Section 3.5, such that a change in the cap table structure updates the waterfall analysis without manual recalculation.

BENCHMARKS

Cap table update frequency benchmarks by stage:

- Pre-Revenue: within ninety days of any instrument issuance or change

- Early Revenue: within thirty days of any instrument issuance or change
- Growth Stage: within fifteen working days of any instrument issuance or change
- Scale Stage: within seven calendar days of any instrument issuance or change

These benchmarks reflect the increasing frequency of capital events and the increasing number of stakeholders whose decisions depend on accurate cap table information as a company grows.

Token warrants and AI-Native company structures: AI-Native companies may issue token warrants, future token agreements, or equity instruments tied to usage milestones or model performance thresholds alongside conventional equity. Where such instruments exist, each must be reflected in the cap table with the terms documented precisely, including the conversion mechanism, the trigger conditions, and the dilutive effect if converted. Where conversion mechanics depend on future events or values that are not yet determinable, the cap table must document the range of possible outcomes under stated assumptions. The cap table for AI-Native companies that have issued any non-standard instrument must include a written instrument summary section that describes each non-standard instrument in plain terms sufficient for a third party to model its dilutive effect.

COMMON DEFICIENCIES

CD 3.1.1: The cap table reflects issued shares and granted options but does not reflect outstanding SAFEs. Three SAFEs were issued at different valuation caps in the preceding eighteen months. Their dilutive effect at the next priced round has not been modeled. The cap table presents founder ownership percentages that are materially higher than the percentages that will exist after SAFE conversion at the next round.

CD 3.1.2: The cap table reflects the fully diluted share count based on granted options but excludes the ungranted portion of the authorized option pool. The option pool was authorized at ten percent of fully diluted shares at the last financing. Forty percent of the pool has been granted. The remaining sixty percent is authorized but ungranted. Ownership percentages in the cap table are calculated over a denominator that excludes this ungranted portion. All ownership percentages are overstated relative to their true fully diluted value.

CD 3.1.3: The cap table has not been updated since the prior funding round, which closed fourteen months ago. Three option grants have been made since then. One SAFE has been issued. One employee exercised vested options. The cap table does not reflect any of these events. The cap table presented in a current data room does not represent the current ownership structure of the company.

CD 3.1.4: The cap table and the share register are inconsistent. A share transfer executed six months ago appears in the share register but not in the cap table. The cap table overstates the ownership of the transferor and does not reflect the transferee. The discrepancy has not been identified because the two documents have not been reconciled.

SECTION 3.2: THE SAFE AND CONVERTIBLE INSTRUMENT STANDARD

PURPOSE

The SAFE and convertible instrument standard governs the documentation, modeling, and disclosure of instruments that will become equity at a future event. These instruments are not equity at the time of issuance. They are contractual rights to receive equity under defined conditions. The failure to model them before they convert is the most common cause of surprise dilution in early-stage companies. This

section requires that the conversion mechanics of every outstanding instrument are modeled before any priced funding round is initiated.

DEFINITIONS

SAFE: Defined in Book 0, Section 0.4. A Simple Agreement for Future Equity in which an investor provides capital in exchange for the right to receive equity in a future priced funding round, subject to terms that determine the price at which the SAFE converts.

VALUATION CAP: Defined in Book 0, Section 0.4. The maximum valuation at which a SAFE or convertible note converts to equity, regardless of the actual price per share in the triggering round. Where the priced round is conducted at a pre-money valuation above the cap, the SAFE converts as if the round were priced at the cap valuation, producing more shares for the SAFE holder than the round price alone would imply.

DISCOUNT RATE: The percentage reduction applied to the price per share in a triggering funding round to calculate the conversion price for a SAFE or convertible note that carries a discount provision. A SAFE with a twenty percent discount converts at eighty percent of the price per share paid by new investors in the triggering round. Where a SAFE carries both a valuation cap and a discount rate, the conversion price is the lower of the price implied by the cap and the price implied by the discount. The instrument converts at whichever price produces more shares for the holder.

CONVERSION PRICE: The price per share at which a SAFE or convertible note converts to equity at the triggering event. The conversion price is determined by the valuation cap, the discount rate, or both, as specified in the instrument terms. Where both apply, the conversion price is the lower of the two calculated prices.

CONVERSION EVENT: The event that triggers the conversion of a SAFE or convertible note into equity. For most SAFEs, the conversion event is a priced equity financing round that meets defined threshold conditions. The specific conditions vary by instrument and must be documented for each outstanding instrument.

PRE-MONEY VALUATION: Defined in Book 0, Section 0.4. The agreed value of the company immediately before a new investment is received. Pre-money valuation is the denominator used to calculate the conversion price under a valuation cap: conversion price equals cap valuation divided by the fully diluted share count immediately before the round.

POST-MONEY VALUATION: Defined in Book 0, Section 0.4. The value of the company immediately after a new investment, equal to pre-money valuation plus the investment amount. An investor's ownership percentage is calculated by dividing the investment amount by the post-money valuation. Pre-money and post-money valuations are not interchangeable. A round described as a five million pound valuation is ambiguous and does not satisfy the documentation requirements of this Standard without specifying which valuation is meant.

MOST FAVOURED NATION CLAUSE: A provision in a SAFE that entitles the SAFE holder to the benefit of any more favourable terms issued to a subsequent SAFE investor before a priced round. A company that issues a subsequent SAFE at more favourable terms must notify existing SAFE holders who hold MFN rights and must reflect any resulting adjustments in the cap table.

PRO-RATA RIGHT: A contractual right held by an existing investor to participate in a future funding round at their pro-rata ownership percentage, maintaining their percentage ownership after the new

investment. Pro-rata rights do not convert to equity automatically; they are exercised by the holder at the time of the triggering round. The existence of unexercised pro-rata rights does not affect the cap table until they are exercised.

CONVERTIBLE NOTE: A debt instrument that converts to equity at a future event, typically a priced funding round. A convertible note carries an interest rate and a maturity date. At maturity, if conversion has not occurred, the note may be repayable as debt or may convert at a predetermined price depending on the instrument terms. The interest accrued on a convertible note increases the principal amount that converts, which increases dilution relative to the original principal. The cap table must reflect the accrued interest balance on all outstanding convertible notes.

PRINCIPALS GOVERNING THIS SECTION

Every outstanding SAFE and convertible note must be modeled to its conversion outcome before any priced funding round is initiated. A company that enters a priced round without having modeled the post-conversion cap table has not met the requirements of this Standard.

The conversion mechanics of each instrument must be modeled at the actual pre-money valuation of the triggering round, not at an assumed or aspirational valuation. Where the pre-money valuation is below the valuation cap of one or more outstanding instruments, each such instrument converts at the round price, not at the cap price. Where the pre-money valuation is above the cap, the instrument converts at the cap price. Both scenarios must be modeled before the round is closed.

Where multiple instruments with different caps and discount rates are outstanding simultaneously, the conversion of each instrument is calculated independently. The combined dilutive effect of all instruments converting simultaneously must be reflected in the post-conversion cap table before the round terms are agreed.

COMPLIANCE CRITERIA

Level 1

3.2.L1.1: The company maintains a schedule of all outstanding SAFEs and convertible notes listing for each instrument: the investor name; the principal amount; the valuation cap if applicable; the discount rate if applicable; the issuance date; and the conversion event conditions.

3.2.L1.2: The company has calculated the number of shares each outstanding SAFE and convertible note would produce if converted at the current most recent round price or at the most recent external valuation available.

3.2.L1.3: The principal balance of each outstanding convertible note, including accrued interest to the record date, is documented and reflected in the conversion calculation.

Level 2

3.2.L2.1: The company maintains a conversion model for all outstanding SAFEs and convertible notes that calculates the conversion price and resulting share count for each instrument at a range of pre-money valuations spanning the company's current assessed valuation and the valuation cap of each instrument.

3.2.L2.2: The conversion model reflects whether each instrument converts at the cap price or the discount price, calculating both and applying the lower price to determine the conversion outcome.

3.2.L2.3: The conversion model produces a post-conversion cap table for each modeled pre-money valuation scenario, showing the fully diluted ownership of all existing holders and all converting instruments after conversion and after the new investment.

3.2.L2.4: Where any outstanding SAFE carries a Most Favoured Nation clause, the company has assessed whether any subsequent SAFE issued after that instrument triggers the MFN provision and has documented the assessment.

3.2.L2.5: The conversion model is updated within fifteen working days of any new SAFE or convertible note issuance.

3.2.L2.6: The post-conversion cap table model is presented to the board or equivalent governing body before any priced funding round term sheet is executed.

Level 3

3.2.L3.1: The conversion model produces post-conversion cap tables across a range of at minimum five pre-money valuation scenarios, covering the range from fifty percent below to one hundred percent above the company's current internally assessed valuation.

3.2.L3.2: The conversion model integrates with the cap table maintained under Section 3.1 and the liquidation mechanics model maintained under Section 3.5, such that a change in any instrument term updates all three models without manual recalculation.

3.2.L3.3: The company maintains version-controlled records of the conversion model such that the model as it existed at the time of any priced funding round can be retrieved and compared to the actual post-conversion cap table to verify that conversion was executed in accordance with the instrument terms.

3.2.L3.4: The company reviews the conversion implications of all outstanding instruments quarterly and documents whether any material change in the company's valuation trajectory has altered the expected dilutive effect of any outstanding instrument relative to the prior quarter's assessment.

BENCHMARKS

SAFE instrument terms benchmarks by stage:

Pre-Revenue SAFEs: valuation caps at pre-revenue stage are determined by negotiation and reflect the assessed potential of the company rather than a financial metric. No quantitative benchmark is applicable. The company must document the basis on which the valuation cap was agreed for each instrument.

Early Revenue SAFEs: where revenue data exists, valuation caps are increasingly referenced to revenue multiples. The applicable multiple varies by company type and market conditions. Benchmarks will be stated in v1.0 as market data for 2025 and 2026 accumulates.

Discount rates: discount rates of ten to twenty-five percent are commonly observed in SAFE instruments. A discount rate above twenty-five percent is unusual and warrants review of whether the instrument terms reflect market norms for the company's stage and geography.

Convertible note terms: interest rates on convertible notes in early-stage markets range from two to eight percent per annum in most geographies. Maturity periods of twelve to twenty-four months are common.

The company must model the interest accrual effect on conversion shares for all outstanding convertible notes.

AI-Native company instruments: AI-Native companies have in certain cases issued instruments that combine equity SAFEs with rights to future token allocations or protocol governance rights. The equity conversion mechanics of any such instrument must be modeled under the same standards as a conventional SAFE. Token or protocol rights must be documented separately and are outside the scope of the equity cap table but must be disclosed in the instrument summary section required under Section 3.1.

COMMON DEFICIENCIES

CD 3.2.1: The company has issued three SAFEs over twenty months at valuation caps of three million, five million, and eight million pounds respectively. A priced seed round is agreed at a pre-money valuation of six million pounds. The first two SAFEs convert at their respective caps because the round price implies a per-share value above the cap. The third SAFE converts at the round price because the round is priced below its cap. The founder modeled only the scenario in which all SAFEs convert at their caps. The actual post-conversion dilution is materially different from the modeled dilution because the third SAFE converts at a lower price per share, producing more shares than the cap-based model assumed.

CD 3.2.2: The company has issued a SAFE with a twenty percent discount and a valuation cap. The conversion model calculates the cap-based price only. The priced round is conducted at a pre-money valuation that, after dividing by the fully diluted share count, implies a per-share price that produces a discount-based conversion price lower than the cap-based price. The instrument converts at the discount price, not the cap price, because the discount produces a lower price and therefore more shares for the holder. The company's modeled post-conversion cap table is incorrect.

CD 3.2.3: The company has an outstanding convertible note with a principal of two hundred thousand pounds issued twenty-two months ago at an annual interest rate of eight percent. The conversion model uses the original principal of two hundred thousand pounds as the conversion basis. Accrued interest of thirty-five thousand two hundred pounds has not been included. The note converts on the accumulated principal and interest balance of two hundred and thirty-five thousand two hundred pounds. The cap table understates the shares issued upon conversion.

CD 3.2.4: The company has three outstanding SAFEs, two of which carry Most Favoured Nation clauses. After the first two SAFEs were issued, a third SAFE was issued at a lower valuation cap. The MFN holders have not been notified. Their rights entitle them to adopt the lower cap. The cap table model does not reflect the potential exercise of MFN rights. If exercised, the dilution from the first two SAFEs is materially higher than the cap table reflects.

SECTION 3.3: THE EQUITY COMPENSATION STANDARD

PURPOSE

The equity compensation standard governs the design, documentation, administration, and modeling of employee and advisor equity plans. Equity compensation is both a cash flow management tool and an ownership management tool. Its effect on the fully diluted cap table is permanent. Every grant made from an equity plan is a transfer of economic interest from existing holders to the recipient. The requirements of this section ensure that those transfers are documented, modeled, and disclosed with the same precision required of any other equity instrument.

DEFINITIONS

EQUITY COMPENSATION PLAN: A formally adopted plan under which a company grants options, restricted shares, restricted share units, or other equity-linked instruments to employees, advisors, and other service providers. The plan must be adopted by the board or equivalent governing body and must document the total number of shares authorised for issuance under the plan.

OPTION POOL: The shares reserved for issuance under an equity compensation plan that have not yet been granted. The option pool comprises both granted options and the ungranted reserve. The ungranted reserve must be included in the fully diluted share count and must be reflected in the cap table as an authorised but unissued block.

GRANT: The formal award of options or shares to a recipient under an equity compensation plan. A grant is not effective until documented in a written grant agreement executed by both the company and the recipient. An undocumented grant does not satisfy the requirements of this Standard.

VESTING SCHEDULE: The timeline over which a recipient's rights to exercise options or receive shares become effective. The vesting schedule must be documented in the grant agreement and must specify the vesting commencement date, the cliff period if any, and the vesting frequency after the cliff.

CLIFF: The minimum service period a recipient must complete before any portion of their grant vests. A one-year cliff means that no options vest until the recipient has completed twelve months of continuous service, at which point typically twenty-five percent of the total grant vests.

EXERCISE PRICE: The price per share at which an option holder may purchase shares upon exercise. The exercise price must be documented in the grant agreement. The exercise price is typically set at the fair market value of the shares on the grant date. An exercise price below fair market value on the grant date may create tax liabilities for the recipient in certain jurisdictions.

FAIR MARKET VALUE: The value per share on the grant date as determined by a formal valuation or, where a formal valuation is not available, by a documented management assessment of share value. The basis for any fair market value determination must be documented and retained.

GOOD LEAVER AND BAD LEAVER PROVISIONS: Contractual terms that determine what happens to unvested and vested options when a recipient leaves the company. Good leaver provisions typically allow departing recipients who leave under defined circumstances to retain or exercise some or all of their vested options. Bad leaver provisions typically result in forfeiture of unvested options and may affect vested options depending on the terms. These provisions must be documented in the equity plan and in each grant agreement.

FULLY LOADED COST OF EQUITY COMPENSATION: The economic cost to existing shareholders of each equity grant, calculated as the fully diluted ownership percentage transferred to the recipient multiplied by the current assessed enterprise value of the company. This cost is not recorded in the income statement in most jurisdictions under applicable accounting standards but must be reflected in the cap table and in the ownership dilution analysis.

OPTION POOL REFRESH: An increase in the number of shares authorised for issuance under an equity compensation plan, typically negotiated as a condition of a new funding round. An option pool refresh before a priced round increases the fully diluted share count before the new investment is made, which reduces the pre-money value per share and increases dilution for existing holders proportionally. The

refresh is taken from the pre-money value and is therefore borne by existing holders, not by the new investor.

PRINCIPLES GOVERNING THIS SECTION

The option pool refresh is a pre-money event. When a funding round requires an option pool refresh as a condition of investment, the refresh increases the fully diluted share count before the round price is set. The new investor's ownership percentage is calculated on the post-money valuation and the post-refresh fully diluted count. The dilutive effect of the refresh is therefore borne by the founders and existing common shareholders, not by the new investor. A company that models the option pool refresh as a post-money event in its cap table model misstates the dilutive effect on existing holders.

Every equity grant must be documented before it is included in the cap table. An oral promise of equity does not create a cap table entry. An unsigned grant agreement does not create a cap table entry. The cap table reflects only formally documented, executed grants.

COMPLIANCE CRITERIA

Level 1

3.3.L1.1: The company maintains a written equity compensation plan or equivalent document adopted by the board or governing body, stating the total shares authorised for issuance under the plan.

3.3.L1.2: The company maintains a schedule of all grants made under the equity compensation plan, listing for each grant: the recipient name; the number of options or shares granted; the exercise price; the grant date; and the vesting schedule.

3.3.L1.3: All grants in the schedule are supported by an executed grant agreement between the company and the recipient.

3.3.L1.4: The cap table reflects the total authorised option pool, distinguishing the granted portion from the ungranted reserve.

Level 2

3.3.L2.1: The company maintains a vesting schedule model for all outstanding grants that tracks, for each grant: the number of options vested to date; the number of options unvested; the next vesting date; and the number of options that will vest at each future vesting date through the end of the vesting schedule.

3.3.L2.2: The fair market value of shares on each grant date is documented with the basis for the determination stated.

3.3.L2.3: The good leaver and bad leaver provisions applicable to each grant are documented in the grant agreement and are summarised in the equity plan schedule.

3.3.L2.4: The company models the dilutive effect of any planned option pool refresh required by an anticipated funding round before that round is initiated, showing the pre-refresh and post-refresh fully diluted share count and the resulting change in ownership percentage for each existing holder.

3.3.L2.5: The company maintains a record of all options that have been exercised, forfeited, or lapsed, with the date and reason for each event.

3.3.L2.6: The ungranted option pool reserve is reviewed annually; where the reserve is insufficient to cover planned grants for the following twelve months, the company initiates the process to authorise an additional reserve before the existing reserve is exhausted.

Level 3

3.3.L3.1: The vesting schedule model projects, for each quarter in the following twelve months, the cumulative number of vested options outstanding and the potential dilutive effect if all vested options were exercised.

3.3.L3.2: The company models the economic cost of each grant cohort by calculating the fully diluted ownership percentage transferred at grant date multiplied by the company's current internally assessed enterprise value, and maintains this record for all grants made in the preceding twenty-four months.

3.3.L3.3: The equity compensation plan is reviewed by a qualified legal advisor at minimum every two years to assess whether the plan terms remain compliant with applicable tax and employment law in the jurisdictions where recipients are located.

3.3.L3.4: The company maintains a forward modeling scenario showing the fully diluted ownership structure after all planned grants over the next twelve months, after all vesting events over the next twelve months, and after the next anticipated option pool refresh.

BENCHMARKS

Option pool size benchmarks by stage:

Pre-Revenue to Early Revenue: total authorised option pool of ten to fifteen percent of fully diluted shares is typical. Pools below ten percent are commonly insufficient to cover grants required through the next funding round. Pools above twenty percent before any institutional investment dilute founder ownership without necessarily reflecting the grants required.

Growth Stage: total authorised option pool of fifteen to twenty percent of fully diluted shares on a post-round basis is commonly required by institutional investors as a condition of investment, reflecting the need to grant options to senior hires required to scale the business.

Scale Stage: the option pool is managed as a rolling reserve, with annual refreshes authorised as required to maintain sufficient ungranted shares for the following twelve months of planned grants.

Vesting schedule norms:

Four-year vesting with a one-year cliff is the most common vesting structure observed in venture-backed companies globally. Three-year vesting schedules are observed more frequently in European markets. Two-year vesting schedules are considered short and may be questioned by investors who prefer incentive alignment over longer periods.

Monthly vesting after the cliff is the standard frequency in most markets. Quarterly vesting is acceptable for advisor grants.

Exercise price benchmarks:

For markets where enterprise value is estimated at each grant date, the exercise price is set at the fair market value per common share on the grant date. For markets where an EMI valuation or equivalent is required by tax law, the exercise price must comply with applicable tax authority requirements.

AI-Native company equity structures: AI-Native companies have in certain cases structured advisor grants tied to research contributions or model performance milestones. Where vesting is conditional on a performance metric rather than time-based service, the grant must document the metric, the measurement methodology, and the dispute resolution process if the metric outcome is contested. Time-based and performance-based vesting conditions must not be combined in a single grant without documenting how each condition interacts with the other. Performance-conditioned grants present valuation and tax complexity that requires qualified legal and tax advice before grant.

COMMON DEFICIENCIES

CD 3.3.1: The company has made verbal equity commitments to two advisors and an early employee. None of the commitments are documented in executed grant agreements. None appear in the cap table. The company's founders believe the commitments exist and that the individuals expect to receive equity. The commitments are not reflected in the fully diluted share count. When the company initiates a funding round and the investors conduct cap table due diligence, the undocumented commitments surface. The resulting negotiation delays the round and produces an ownership structure that was not modeled in the pre-round cap table.

CD 3.3.2: The option pool was established at ten percent of fully diluted shares. Forty percent of the pool has been granted. At the current growth pace, the remaining ungranted reserve is insufficient to cover the planned grants for senior hires over the next twelve months. The company does not identify this insufficiency until it attempts to make a grant and discovers that the authorized reserve is exhausted. An emergency pool refresh is required outside of a funding round, which requires board approval and shareholder consent that was not anticipated.

CD 3.3.3: The company is in negotiation for a Series A funding round. The lead investor requires an option pool of twenty percent of post-money fully diluted shares as a condition of investment. The company's current pool is twelve percent of pre-money fully diluted shares. The company's founder models the pool refresh as a post-money event, concluding that the refresh does not affect their pre-money ownership. The pool refresh is a pre-money event that increases the fully diluted share count before the round price is determined. The founder's post-round ownership percentage is materially lower than the pre-money model implied because the refresh was taken from the pre-money value.

CD 3.3.4: An early employee was granted options eighteen months ago with a four-year vesting schedule and a one-year cliff. The employee leaves the company after fifteen months of service. The company's grant agreement does not specify the good leaver and bad leaver provisions clearly. A dispute arises about whether the employee is entitled to exercise the options vested after the cliff. The absence of clear provisions requires legal advice to resolve. The cap table cannot be updated until the dispute is resolved.

SECTION 3.4: THE CAPITAL ALLOCATION STANDARD

PURPOSE

The capital allocation standard governs the documentation of how capital raised is deployed. Every funding round commits the company to an implied use of the capital raised. The standard requires that the use of proceeds is documented before the capital is raised and that the actual deployment of capital is

tracked against the documented plan. The failure to document capital allocation is a governance deficiency. The failure to track actual deployment against the plan is a financial management deficiency.

DEFINITIONS

USE OF PROCEEDS: A document or section of a financial model that states how the capital raised in a specific funding round will be deployed across functional categories over the intended deployment period.

DEPLOYMENT PERIOD: The period over which capital raised in a funding round is expected to be deployed, from the date of receipt to the date on which the company expects to have reached the milestone that justifies the subsequent funding round.

MILESTONE: A specific, measurable achievement that the company intends to reach by the end of the deployment period, which justifies the next funding round at an expected valuation. The milestone must be specific enough to be assessed objectively. Vague milestones such as "achieve product market fit" do not satisfy the requirements of this Standard.

CAPITAL EFFICIENCY: The amount of capital consumed to generate each unit of defined progress toward the milestone. Capital efficiency is measured as total capital deployed divided by the progress metric appropriate to the company's stage and type. For Recurring Revenue companies, capital efficiency is commonly measured as total capital deployed per unit of monthly recurring revenue added.

BURN MULTIPLE: Defined in Book 2, Section 2.5. Calculated as net cash consumed divided by net new annualised recurring revenue generated in the same period.

RUNWAY TO MILESTONE: The projected number of months of cash runway remaining after the defined milestone is reached at the current net burn rate. A company that reaches its milestone with less than three months of cash runway has insufficient time to prepare and close a subsequent funding round in most market conditions and does not have adequate capital efficiency in its deployment plan.

PRINCIPLES GOVERNING THIS SECTION

The use of proceeds must be prepared before a funding round closes. A use of proceeds document prepared after capital is received does not demonstrate that the deployment was planned; it demonstrates that it was reconstructed. The Standard requires that the plan precedes the deployment.

Capital allocation must be tracked against the plan at minimum quarterly. A company that has received capital but cannot demonstrate that the deployment is tracking against the plan has not met the requirements of this section.

COMPLIANCE CRITERIA

Level 1

3.4.L1.1: The company has documented the intended use of proceeds for each funding round completed, specifying the functional categories to which capital will be allocated, before or within thirty calendar days of the closing of the round.

3.4.L1.2: The company has identified the milestone it intends to reach by deploying the capital from each completed round, with the milestone stated in specific and measurable terms.

3.4.L1.3: The company tracks actual capital deployment against the documented plan at minimum quarterly.

Level 2

3.4.L2.1: The use of proceeds document specifies the planned capital allocation by functional category, including at minimum: product and engineering; sales and marketing; general and administrative; and cash reserve at end of deployment period.

3.4.L2.2: The use of proceeds document states the planned deployment period and the projected runway to milestone in months.

3.4.L2.3: The company maintains a capital deployment tracking model that compares actual spend by functional category to the planned allocation for each quarter of the deployment period, with variance commentary for any category where actual spend differs from plan by more than fifteen percent.

3.4.L2.4: The company reviews the use of proceeds plan at minimum semi-annually and documents whether the plan remains appropriate given actual progress toward the milestone.

3.4.L2.5: Where the company determines that a material reallocation of capital between functional categories is required, the reallocation is documented, the revised plan is presented to the board or equivalent governing body, and the rationale for the reallocation is recorded.

Level 3

3.4.L3.1: The capital deployment tracking model integrates with the three-statement model such that actual spend against plan is reflected in the cash flow statement and the cash runway calculation without manual recalculation.

3.4.L3.2: The company maintains a capital efficiency model that calculates, for each quarter, the capital deployed per unit of progress toward the milestone and tracks this ratio over the deployment period.

3.4.L3.3: The company models the runway to milestone under a scenario in which deployment proceeds as planned, a scenario in which deployment is twenty percent above plan in one or more categories, and a scenario in which the milestone timeline extends by six months, with the cash runway implications of each scenario documented.

3.4.L3.4: The board or equivalent governing body reviews the capital deployment tracking report and the capital efficiency model at minimum quarterly.

BENCHMARKS

Runway to milestone benchmarks:

At the point of a priced funding round, the deployment plan should produce a runway that reaches the defined milestone with at minimum six months of remaining cash runway at current burn, to allow time for the next fundraising process. The commonly observed benchmark for institutional investors is that a company should reach its next milestone with between six and nine months of runway remaining.

A deployment plan that reaches the milestone with less than three months of remaining runway creates material execution risk: any delay in milestone achievement or any slowdown in the subsequent fundraising process produces an existential cash constraint.

Use of proceeds allocation benchmarks by stage:

These benchmarks are directional indicators based on commonly observed allocations in venture-backed companies. They will be refined in v1.0.

- Pre-Revenue to Early Revenue rounds: forty to sixty percent of proceeds commonly allocated to product and engineering; fifteen to twenty-five percent to sales and marketing; fifteen to twenty-five percent to general and administrative and reserve.
- Growth Stage rounds: thirty to fifty percent commonly allocated to sales and marketing to accelerate customer acquisition; twenty to thirty percent to product and engineering; fifteen to twenty-five percent to general and administrative and reserve.

COMMON DEFICIENCIES

CD 3.4.1: The company raised a seed round twelve months ago. The use of proceeds was not formally documented before the round closed. Twelve months after the round, the company cannot demonstrate a clear connection between the capital deployed and the plan presented to investors, because no contemporaneous plan exists. The milestone was not defined in specific terms at the time of the raise and cannot be objectively assessed.

CD 3.4.2: The use of proceeds document allocates eighty percent of capital to product and engineering and twenty percent to general and administrative costs. Actual deployment over the first two quarters differs materially from the plan: forty percent has been allocated to sales and marketing, reducing the product and engineering allocation. The reallocation has not been documented or presented to the board. Investors who review the deployment tracking have no record of an approved reallocation.

CD 3.4.3: The company's deployment plan assumes the milestone will be reached in eighteen months. At the current burn rate, the plan reaches the milestone with two months of runway remaining. The company has not modeled the impact of a three-month delay in milestone achievement on the subsequent fundraising timeline. A three-month delay produces a cash constraint that requires a bridge round. The bridge round was not anticipated in the capital structure planning.

SECTION 3.5: THE LIQUIDATION AND EXIT MECHANICS STANDARD

PURPOSE

The liquidation and exit mechanics standard governs the modeling and documentation of how proceeds are distributed to all holders of equity and equity-linked instruments in a liquidity event. A liquidity event includes an acquisition, a merger, a secondary transaction involving a material portion of the company's shares, a dissolution, or any other event that results in the distribution of value to equity holders. The purpose of this modeling is to allow every founder, employee, and investor to understand what they will receive under a range of exit scenarios before any such event occurs, not at the moment of execution.

DEFINITIONS

LIQUIDITY EVENT: An acquisition of the company, a merger in which the company is not the surviving entity, a dissolution, or any other transaction that results in the distribution of value to equity and equity-linked instrument holders.

LIQUIDATION PREFERENCE: The right of a preference shareholder to receive a defined amount from the proceeds of a liquidity event before any distribution is made to common shareholders. The liquidation preference is typically expressed as a multiple of the original investment amount. A one times liquidation preference entitles the holder to receive the original investment amount before common shareholders receive any proceeds.

LIQUIDATION PREFERENCE MULTIPLE: The multiple of the original investment that a preference shareholder is entitled to receive before common shareholders participate in proceeds. A two times liquidation preference multiple entitles the holder to receive twice the original investment before common shareholders participate.

PARTICIPATING PREFERENCE: A preference share structure in which the holder receives their liquidation preference amount and then participates alongside common shareholders in the remaining proceeds on an as-converted basis. Participating preference produces higher returns for preference holders than non-participating preference at the same exit valuation.

NON-PARTICIPATING PREFERENCE: A preference share structure in which the holder either receives their liquidation preference or converts to common shares and participates in the full proceeds, but not both. Non-participating preference holders compare the liquidation preference amount to the as-converted common proceeds and take the higher of the two.

PREFERENCE STACK: The total amount of liquidation preference that must be distributed to preference shareholders before any proceeds are available to common shareholders. The preference stack is calculated as the sum of liquidation preference multiples multiplied by original investment amounts across all preference share series. As more funding rounds occur at increasing investment amounts, the preference stack grows. At a modest exit valuation, the preference stack may consume all available proceeds.

WATERFALL ANALYSIS: A model that calculates the distribution of proceeds from a liquidity event to all holders of equity and equity-linked instruments, in the order of priority established by the company's share structure and investment agreements. The waterfall distributes proceeds sequentially: first to preference shareholders in accordance with their liquidation preferences, then to common shareholders and, if applicable, to participating preference shareholders in the remainder.

PARTICIPATION CAP: A limit on the total amount that a participating preference shareholder may receive from a liquidity event, typically expressed as a multiple of the original investment. Where a participation cap applies, the participating preference holder compares their capped participating proceeds to their as-converted common proceeds and takes the higher of the two.

ANTI-DILUTION PROTECTION: A provision in preference share terms that adjusts the conversion ratio of preference shares downward if the company subsequently raises capital at a lower price per share than the price paid by the preference shareholder. Anti-dilution protection transfers dilution from the protected investor to founders and common shareholders when a down round occurs. The two primary forms are broad-based weighted average anti-dilution and full ratchet anti-dilution.

BROAD-BASED WEIGHTED AVERAGE ANTI-DILUTION: An anti-dilution mechanism that adjusts the conversion price of preference shares based on a weighted average of the old price and the new lower

price, weighted by the number of shares outstanding at each price. This mechanism produces a moderate conversion ratio adjustment that is shared between the protected investor and existing holders.

FULL RATCHET ANTI-DILUTION: An anti-dilution mechanism that adjusts the conversion price of preference shares to the price per share in the new round, regardless of the size of the new round. Full ratchet anti-dilution produces the maximum possible adjustment in the investor's favour and can result in severe dilution for founders and common shareholders in a down round.

DRAG-ALONG RIGHT: A contractual right held by a defined majority of shareholders to compel all other shareholders to approve a liquidity event on the same terms. Drag-along rights are typically held by preference shareholders above a defined threshold and are designed to prevent a minority of common shareholders from blocking an acquisition that the majority has approved.

PRINCIPLES GOVERNING THIS SECTION

The waterfall analysis must be modeled for all current holders of equity and equity-linked instruments before any funding round closes, not after. Every new funding round that creates or extends a preference stack changes the distribution of proceeds in a liquidity event. The founders and existing common shareholders must understand the implications of the new stack before agreeing to the round terms.

Anti-dilution provisions must be modeled at the time of agreement, not at the time they may trigger. A preference shareholder who holds broad-based weighted average anti-dilution protection in a round that is priced above the next round will have their conversion ratio adjusted in the next round. The dilutive effect of that adjustment on common holders must be modeled when the protection is agreed, even though it may not trigger for years.

The waterfall analysis must cover a range of exit valuations, not a single assumed exit. Common shareholders often receive no proceeds in a modest exit because the preference stack absorbs all available proceeds. Founders must understand the exit valuation at which their common shares first generate positive proceeds, commonly referred to as the preference stack breakeven.

COMPLIANCE CRITERIA

Level 1

3.5.L1.1: The company has documented the liquidation preference terms, participation rights, and anti-dilution provisions for each series of preference shares outstanding.

3.5.L1.2: The company has calculated the total preference stack as of the record date, expressed as the total amount that must be distributed to preference shareholders before any proceeds are available to common shareholders.

3.5.L1.3: The company has identified the exit valuation at which common shareholders first receive positive proceeds from a liquidity event at the current preference stack.

Level 2

3.5.L2.1: The company maintains a waterfall analysis model that calculates the distribution of proceeds to all holders of equity and equity-linked instruments across a range of exit valuations spanning from the total preference stack amount to three times the company's current internally assessed enterprise value.

3.5.L2.2: The waterfall model reflects the correct order of distribution priority for each share class, including any participation rights and participation caps for each series of preference shares.

3.5.L2.3: The waterfall model reflects the conversion mechanics of all outstanding SAFEs and convertible notes, showing the post-conversion shares that would be distributed proceeds in each exit scenario.

3.5.L2.4: The waterfall model shows separately, for each exit valuation modeled, the total proceeds received by each of the following groups: each series of preference shareholders; all common shareholders in aggregate; all option holders in aggregate.

3.5.L2.5: The waterfall model is updated within fifteen working days of any change to the preference share structure, option pool, or outstanding convertible instruments.

3.5.L2.6: The waterfall model is presented to the board or equivalent governing body before any funding round term sheet is executed and before any acquisition discussion progresses to a term sheet stage.

Level 3

3.5.L3.1: The waterfall model covers a range of at minimum ten exit valuation scenarios, including the preference stack breakeven, the valuation at which each series of preference shares converts to as-converted common participation, and the valuation at which founder and employee common holdings produce returns comparable to the investor returns at each preference series conversion point.

3.5.L3.2: The waterfall model integrates with the cap table maintained under Section 3.1 such that a change in any instrument position updates the waterfall without manual recalculation.

3.5.L3.3: The waterfall model reflects the anti-dilution adjustment mechanism for each preference series, showing the conversion ratio adjustment that would result from a down round at a range of down-round prices and the resulting impact on founder and common shareholder proceeds.

3.5.L3.4: The company maintains a return model for each preference series that calculates the internal rate of return and multiple on invested capital for that series at each exit valuation modeled in the waterfall, allowing the company to assess whether exit terms would provide acceptable returns to each investor class.

BENCHMARKS

Preference stack benchmarks:

The preference stack grows with each funding round. At Growth Stage after a seed and Series A, the preference stack commonly represents a significant portion of the company's current assessed value. A preference stack exceeding one times the company's current internally assessed enterprise value means that at the current valuation, all exit proceeds would be absorbed by the preference stack and common shareholders would receive nothing.

Founders must model the preference stack as a percentage of the company's assessed value at each funding round and understand how the stack affects the exit valuation required to produce meaningful returns for common holders.

Liquidation preference multiple benchmarks:

One times non-participating preference is the most common structure in well-functioning early-stage markets. It is the structure most commonly recommended by investor associations and legal bodies in the UK and US markets.

Participating preference structures are less common in US markets but occur in European and Asian markets. Full ratchet anti-dilution is considered an aggressive term and is uncommon in competitive funding markets but may appear in down rounds or bridge rounds where the investor holds a stronger negotiating position.

Anti-dilution benchmarks:

Broad-based weighted average anti-dilution is the standard provision in most institutional investment documents in UK and US markets. Full ratchet anti-dilution is considered an aggressive term and is uncommon in competitive funding markets.

COMMON DEFICIENCIES

CD 3.5.1: The company has raised three funding rounds over four years. Each round included a one times participating preference with a three times participation cap. The preference stack now totals six million pounds across all three series. The company is in acquisition discussions at a headline valuation of nine million pounds. The founder models the waterfall on the basis that founders and employees will share in three million pounds of proceeds after the preference stack is cleared. The participating preference terms entitle each series to their preference amount and then to participate in the remaining proceeds alongside common shareholders up to the cap. The actual distribution to common shareholders after preference and participation is materially less than three million pounds. The founder has not modeled the participation mechanics.

CD 3.5.2: The company raised a Series A round at a price per share of two pounds. The Series A preference terms include broad-based weighted average anti-dilution protection. The company subsequently raises a bridge round at a price per share of one pound. The anti-dilution mechanism adjusts the conversion ratio of the Series A preference shares. The founders did not model the anti-dilution adjustment at the time of the Series A agreement. At the bridge round, the adjustment is calculated for the first time and produces a conversion ratio change that increases the number of common shares into which the Series A preference converts, diluting founder and employee ownership materially.

CD 3.5.3: The company is acquired at a valuation below the combined preference stack of its two investor series. All proceeds are distributed to preference shareholders under the liquidation preference. No proceeds reach common shareholders or option holders. Founders and employees receive nothing from the acquisition. The founders did not model this outcome before agreeing to the preference terms in each round because no waterfall analysis was maintained.

CD 3.5.4: The waterfall model was prepared at the time of the last funding round and has not been updated. Since that round, three SAFEs have been issued and a new option pool was authorised and partially granted. The waterfall model does not reflect the SAFEs or the new option grants. The preference stack and the common distribution calculations in the model are both incorrect. The board approved the last acquisition term sheet based on an outdated waterfall analysis.

STAGE AND LEVEL APPLICABILITY

The compliance level expectations for each section of Book 3 are established in the Financial Infrastructure Maturity Model in Book 0, Section 0.8. The operative mappings for this Book are as follows.

Section 3.1: Cap Table Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 2 from the date of issuance of the first convertible instrument

Growth Stage: Level 2

Scale Stage: Level 3

Section 3.2: SAFE and Convertible Instrument Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1 from the date of issuance of the first SAFE or convertible note

Early Revenue: Level 2

Growth Stage: Level 2

Scale Stage: Level 3

Section 3.3: Equity Compensation Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1 from the date of the first equity grant

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

Section 3.4: Capital Allocation Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1 following the first funding round

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

Section 3.5: Liquidation and Exit Mechanics Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1 from the date of issuance of the first preference share

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Stage definitions are as established in Book 0, Section 0.5. The note from Book 0, Section 0.8 regarding capital structure requirements applying from the date of first instrument issuance governs the Early Revenue column for Sections 3.1 and 3.2.

Feedback on Book 3 may be submitted to 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.

BOOK 4: VALUATION

Book 4 defines the standards for how a company understands, documents, and communicates its valuation. Valuation is not a single number. It is a range of defensible estimates derived from documented methodologies applied to documented assumptions. A company that cannot explain how its valuation was derived cannot defend it. A company that presents a valuation without stating the methodology produces a number that has no basis an investor is required to accept. This Book establishes what a compliant valuation analysis contains, what methodologies are appropriate at each stage, and what the common failures of early-stage valuation practice look like when examined precisely.

Book 4 inherits the pre-money and post-money valuation definitions from Book 0, Section 0.4 and Book 3, Section 3.2. It inherits the fully diluted share count definition and the cap table standards from Book 3, Section 3.1. All references to ownership percentages in this Book use the fully diluted share count as defined in Book 3.

SECTION 4.1: THE VALUATION METHODOLOGY STANDARD

PURPOSE

The valuation methodology standard governs which methodologies a company must apply at each stage of development, how those methodologies must be documented, and what output a compliant valuation analysis must produce. No single valuation methodology produces a definitive value for an early-stage company. Each methodology applies a different set of assumptions, produces a different range, and is appropriate to a different set of circumstances. A compliant valuation analysis applies multiple methodologies, documents the assumptions underlying each, states the output range from each, and produces a synthesised valuation range that reflects the weight of evidence from all methodologies applied.

DEFINITIONS

VALUATION: An estimate of the economic value of a company at a specific point in time, derived from one or more documented methodologies applied to documented assumptions. Valuation is not a fact. It is an estimate with a range. A valuation stated as a single precise number without a stated range and a documented methodology does not satisfy the requirements of this Standard.

VALUATION METHODOLOGY: A structured analytical approach to estimating a company's value. Different methodologies are appropriate at different company stages and for different purposes. The methodologies recognised by this Standard are: Discounted Cash Flow Analysis, Comparable Company Analysis, Precedent Transaction Analysis, the Venture Capital Method, the Berkus Method, the Scorecard Method, and Asset-Based Valuation. A company applies the methodologies appropriate to its stage as defined in the compliance criteria of this section.

VALUATION RANGE: The span between the low estimate and the high estimate produced by a valuation analysis. A compliant valuation range is bounded by documented assumptions at the low end and documented assumptions at the high end. A valuation range is not a negotiating position. It is the honest output of the methodology applied under conservative and optimistic but plausible assumptions.

ENTERPRISE VALUE: The total economic value of a company, representing the value of its operations attributable to all capital providers, including equity holders and debt holders. Enterprise value is

calculated before the subtraction of cash and before the addition of debt. Enterprise value is not equivalent to equity value.

EQUITY VALUE: The value attributable to equity holders, calculated as enterprise value minus net debt. Net debt is total debt minus cash and cash equivalents. Equity value is the value that equity holders would receive in a liquidity event after all debt obligations are settled. For companies with no debt and material cash balances, equity value differs materially from enterprise value.

FAIR MARKET VALUE: The price at which a company's shares would change hands between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts and neither being under compulsion to complete the transaction. Fair market value is the standard used for equity compensation grant pricing, tax purposes, and certain regulatory requirements. It is distinct from transaction value, which reflects the actual terms agreed between specific parties in a specific transaction.

INVESTMENT VALUE: The value of a company to a specific investor, reflecting that investor's particular assumptions, synergies, or strategic benefits that would not be available to all market participants. Investment value may exceed fair market value where a specific acquirer derives unique synergies from an acquisition. Investment value is not the appropriate basis for fair market value determinations or option grant pricing.

PRE-MONEY VALUATION: Defined in Book 0, Section 0.4. The agreed value of a company immediately before a new investment is received. Pre-money valuation is the basis on which the price per share for a new investment is calculated. All references to valuation in funding round negotiations are pre-money unless explicitly stated otherwise. An unqualified statement of a company's valuation is ambiguous and does not satisfy the documentation requirements of this Standard.

POST-MONEY VALUATION: Defined in Book 0, Section 0.4. The value of a company immediately after a new investment, equal to pre-money valuation plus the investment amount. An investor's ownership percentage is calculated by dividing the investment amount by the post-money valuation. Pre-money and post-money valuations are not interchangeable and must be distinguished in all documentation.

VALUATION MULTIPLE: A ratio that expresses a company's value relative to a financial metric, such as revenue, earnings before interest, tax, depreciation, and amortisation, or annual recurring revenue. Valuation multiples are used in comparable company analysis and precedent transaction analysis to translate observed market valuations into an implied value for the subject company. A multiple applied without adjustment for differences in growth rate, margin, stage, or market between the subject company and the comparables produces a misleading valuation.

NORMALISATION: The adjustment of a financial metric to remove the effect of non-recurring, one-time, or distorting items, so that the metric reflects the ongoing operational performance of the company. Normalisation is required before any valuation multiple is applied to a company's financial metrics, and before any comparable company's metrics are used as the basis for a multiple.

PRINCIPLES GOVERNING THIS SECTION

A valuation analysis must use at minimum two methodologies appropriate to the company's stage. No single methodology is authoritative. The purpose of applying multiple methodologies is to triangulate toward a range that reflects the weight of evidence, not to select the methodology that produces the highest number.

The assumptions underlying each methodology must be documented at the time the analysis is prepared. An assumption that is added after the output is known is not a documented assumption; it is a rationalisation. The Standard requires that assumptions precede outputs.

A valuation prepared for the purpose of a specific transaction reflects the negotiated terms of that transaction and may differ from the fair market value of the company. A company that uses its transaction valuation as the basis for option grant pricing without a separate fair market value determination may be applying the wrong basis. The purpose of the valuation must be documented alongside the methodology.

Valuation analyses must be updated when the company's financial position, growth trajectory, or market conditions change materially. A valuation prepared more than twelve months ago does not reflect the company's current position unless updated. For companies in active fundraising, the valuation analysis must be current at the date of the fundraising conversation.

COMPLIANCE CRITERIA

Level 1

4.1.L1.1: The company has documented the basis on which its current internally assessed valuation was determined, including the primary methodology used and the key assumptions underlying that methodology.

4.1.L1.2: The company distinguishes between its pre-money and post-money valuation in all internal documents and investor communications, as defined in Book 0, Section 0.4.

4.1.L1.3: The company has identified the primary financial metric or metrics most relevant to its valuation at its current stage, such as annual recurring revenue, revenue run rate, or user count, and maintains current figures for those metrics.

Level 2

4.1.L2.1: The company maintains a written valuation analysis applying at minimum two methodologies appropriate to its stage as defined in the compliance criteria of each methodology section in this Book, with all assumptions documented for each methodology.

4.1.L2.2: The valuation analysis produces a stated range for each methodology applied, with the low end and high end of each range bounded by documented assumptions.

4.1.L2.3: The valuation analysis states a synthesised valuation range derived from the outputs of all methodologies applied, with the weight assigned to each methodology documented and the basis for that weighting explained.

4.1.L2.4: The valuation analysis documents the purpose for which it was prepared: fundraising, option grant pricing, strategic planning, or another stated purpose.

4.1.L2.5: The valuation analysis is updated within ninety calendar days of any material change in the company's financial performance, business model, or market conditions.

4.1.L2.6: Where the company uses its transaction valuation from a funding round as the basis for internal valuation purposes, the company has assessed whether that transaction valuation reflects fair market value and has documented that assessment.

Level 3

4.1.L3.1: The company maintains a version-controlled record of all valuation analyses prepared, such that any prior analysis can be retrieved and compared to subsequent analyses with all changes identified.

4.1.L3.2: The valuation analysis is reviewed by a qualified financial professional who did not prepare the analysis before it is used in any investor communication or transaction documentation.

4.1.L3.3: The company maintains a sensitivity analysis for its valuation, showing how the synthesised valuation range changes when the two most influential assumptions in the primary methodology are varied across their stated ranges.

4.1.L3.4: For option grant pricing purposes, the company maintains a separate fair market value determination prepared at minimum annually and within ninety calendar days of each option grant, using a methodology appropriate for fair market value determination in the company's jurisdiction.

BENCHMARKS

Valuation methodology applicability by stage:

- Pre-Incorporation: Berkus Method or Scorecard Method. No quantitative methodology is appropriate for a company with no operations and no financial history. Asset-Based Valuation may be applicable where the company holds intellectual property of assessable value.
- Pre-Revenue: Scorecard Method, Berkus Method, Venture Capital Method. Where the company has a clear revenue model and a bottom-up forecast, the Venture Capital Method produces a defensible range. Discounted Cash Flow Analysis is not appropriate at pre-revenue stage for companies without meaningful financial history; where applied, its outputs must be presented with explicit acknowledgment of the high sensitivity of the result to terminal value assumptions.
- Early Revenue: Comparable Company Analysis, Venture Capital Method, Discounted Cash Flow Analysis where revenue history is sufficient to calibrate forecasts. Revenue multiples become applicable where revenue is recurring and growing.
- Growth Stage: Comparable Company Analysis, Discounted Cash Flow Analysis, Precedent Transaction Analysis where relevant comparable transactions exist, Venture Capital Method as a cross-check.
- Scale Stage: Comparable Company Analysis, Discounted Cash Flow Analysis, Precedent Transaction Analysis. All three primary quantitative methodologies are applicable and must be applied where data is available.

Minimum methodology count by stage and compliance level:

- Pre-Revenue, Level 2: at minimum two of the following: Berkus Method, Scorecard Method, Venture Capital Method.
- Early Revenue to Growth Stage, Level 2: at minimum two of the following: Comparable Company Analysis, Discounted Cash Flow Analysis, Venture Capital Method.

- Scale Stage, Level 2: at minimum two of the following: Comparable Company Analysis, Discounted Cash Flow Analysis, Precedent Transaction Analysis.

COMMON DEFICIENCIES

CD 4.1.1: The company states its valuation as a single number without a range. The number was agreed with an investor in a funding round. The company presents this transaction valuation as its definitive fair market value in all subsequent contexts, including option grant pricing and strategic planning, without assessing whether the transaction terms reflect fair market value or investment value specific to that investor. No valuation analysis supports the number.

CD 4.1.2: The company's valuation analysis applies one methodology only. The single methodology produces a number that the company presents as its valuation. The assumptions underlying the methodology are not documented. The methodology selected is the one that produces the highest output among the methods the company considered. The selection basis is not disclosed.

CD 4.1.3: The company prepared a valuation analysis eighteen months ago for its last funding round. The company's revenue has grown by three times since that analysis. The market conditions for comparable companies have changed materially. The company continues to reference the eighteen-month-old valuation analysis in investor conversations without updating it. The analysis no longer reflects the company's current financial position or market context.

CD 4.1.4: The company's valuation analysis produces a synthesised range but does not document the weight assigned to each methodology. The low end of the range comes from a methodology the company weighted at ten percent. The high end comes from a methodology the company weighted at ninety percent. The weighting is not disclosed. A reader examining the range cannot assess whether it is balanced or whether the analysis was constructed to support a desired output.

SECTION 4.2: DISCOUNTED CASH FLOW ANALYSIS

PURPOSE

The discounted cash flow analysis standard governs how a company constructs, documents, and applies a discounted cash flow model for valuation purposes. A discounted cash flow analysis is the only intrinsic valuation methodology: it values a company based on its own projected future cash flows rather than by reference to what other companies are worth. This makes it the most transparent methodology and the most sensitive to assumption error. The requirements of this section ensure that a discounted cash flow analysis is constructed with sufficient rigour that the sensitivity of its outputs to its assumptions is visible and testable.

DEFINITIONS

DISCOUNTED CASH FLOW ANALYSIS: A valuation methodology that estimates the present value of a company by projecting its future free cash flows over a defined forecast period and discounting those cash flows to the present at a rate that reflects the time value of money and the risk of the projected cash flows. Discounted cash flow analysis values a company based on its own projected performance, not by reference to comparable companies or transactions.

FREE CASH FLOW: The cash generated by a company's operations after accounting for capital expenditures required to maintain and grow the business. Free cash flow to firm is calculated as earnings before interest and tax, multiplied by one minus the applicable tax rate, plus depreciation and amortisation, minus capital expenditure, minus the increase in net working capital. Free cash flow to equity additionally deducts interest payments and debt repayments. The type of free cash flow used must be specified in the analysis.

DISCOUNT RATE: The rate applied to future cash flows to calculate their present value. The discount rate reflects the time value of money and the risk that projected cash flows will not be achieved. For early-stage companies, the discount rate reflects the high probability that cash flow projections will not be achieved as forecast. The discount rate is not a precision-derived number; it is a risk-adjusted estimate that must be documented with the basis for its derivation.

WEIGHTED AVERAGE COST OF CAPITAL: A calculation of the discount rate that weights the cost of each source of capital by its proportion of the total capital structure. Weighted average cost of capital is the theoretically appropriate discount rate for a discounted cash flow analysis of a company with both debt and equity in its capital structure. For early-stage companies with no debt, the weighted average cost of capital approximates the cost of equity.

COST OF EQUITY: The return required by equity investors to compensate for the risk of holding equity in the company. Cost of equity for an early-stage company reflects the high probability of business failure and the illiquidity of the investment. The cost of equity for early-stage companies is materially higher than the cost of equity for public companies and must be documented with the basis for its derivation.

TERMINAL VALUE: The estimated value of all cash flows beyond the explicit forecast period of a discounted cash flow analysis, calculated as a single amount at the end of the forecast period and discounted to the present. Terminal value represents the continuing value of the business after the explicit forecast period ends and typically represents a substantial proportion of the total value produced by a discounted cash flow analysis. The method used to calculate terminal value must be documented, together with the key assumptions on which it depends.

TERMINAL GROWTH RATE: The long-term sustainable growth rate assumed for the company's cash flows beyond the explicit forecast period, used in the Gordon Growth Model calculation of terminal value. The terminal growth rate must be a conservative estimate of the long-term growth rate of the economy or the company's addressable market, not a continuation of the company's near-term growth rate. A terminal growth rate that exceeds the long-term growth rate of the economy in which the company operates produces a terminal value that implies the company will eventually become larger than the economy, which is not a plausible basis for a valuation.

GORDON GROWTH MODEL: A method of calculating terminal value by dividing the terminal year free cash flow by the difference between the discount rate and the terminal growth rate. Gordon Growth Model terminal value equals terminal year free cash flow multiplied by one plus the terminal growth rate, divided by the discount rate minus the terminal growth rate. This formula produces an implausible result if the terminal growth rate equals or exceeds the discount rate. The Gordon Growth Model must not be applied where the terminal growth rate is within two percentage points of the discount rate.

EXIT MULTIPLE METHOD: An alternative method of calculating terminal value by applying a valuation multiple to a financial metric in the terminal year. The exit multiple must be derived from comparable company multiples at maturity, not from the company's current growth-stage multiples. The exit multiple method is an alternative to the Gordon Growth Model, not a supplement to it.

NET PRESENT VALUE: The sum of all discounted future cash flows, including the terminal value, in a discounted cash flow analysis. Net present value represents the enterprise value of the company as implied by the discounted cash flow analysis.

PRINCIPLES GOVERNING THIS SECTION

The terminal value in a discounted cash flow analysis of an early-stage company typically represents more than seventy percent of the total implied enterprise value. A discounted cash flow analysis in which the terminal value represents more than ninety percent of the implied enterprise value is not producing a valuation based on the company's near-term cash flow prospects; it is producing a valuation that is almost entirely dependent on terminal value assumptions. Such an analysis must be presented with explicit acknowledgment of this dependency and must include sensitivity analysis on the terminal growth rate and the discount rate.

For pre-revenue and early-revenue companies, the explicit forecast period must be long enough to reach a state of normalised, sustainable free cash flow generation. Applying a terminal value to a company that is still in its high-growth, cash-consuming phase produces a terminal value calculation that compounds uncertain near-term growth assumptions indefinitely and produces an output that cannot be validated against any observable financial metric.

The discount rate for an early-stage company is not derived from public company cost of equity data without adjustment. The additional risk of an early-stage business, including execution risk, market risk, key person risk, and liquidity risk, must be reflected in the discount rate. An unadjusted public company weighted average cost of capital applied to an early-stage company understates the discount rate and overstates the implied value.

COMPLIANCE CRITERIA

Level 1

4.2.L1.1: Where the company applies discounted cash flow analysis, the analysis documents the explicit forecast period used and the basis for the length of that period.

4.2.L1.2: Where the company applies discounted cash flow analysis, the discount rate is documented with the primary factors considered in its derivation.

4.2.L1.3: Where the company applies discounted cash flow analysis, the terminal value calculation method is documented as either the Gordon Growth Model or the exit multiple method, with the key inputs to that calculation stated.

Level 2

4.2.L2.1: The discounted cash flow model uses the bottom-up financial forecast maintained under Book 2, Section 2.1 as the basis for projected free cash flows, and the connection between the valuation model and the financial forecast is documented.

4.2.L2.2: The discount rate is documented with the specific components considered in its derivation, including the base rate used, the equity risk premium applied, and any company-specific risk adjustments made, with the basis for each component stated.

4.2.L2.3: The terminal growth rate used in the Gordon Growth Model is documented with the basis for the rate, including reference to the long-term economic growth rate of the primary market and the basis for any premium or discount applied.

4.2.L2.4: The analysis includes a sensitivity table showing how the implied enterprise value changes when the discount rate and the terminal growth rate are each varied across a range of at minimum three values above and below the base case assumption.

4.2.L2.5: The analysis states the proportion of total implied enterprise value represented by the terminal value, and where that proportion exceeds seventy percent, the analysis includes an explicit acknowledgment of this dependency.

4.2.L2.6: Where the company is pre-revenue or early revenue, the discounted cash flow analysis explicitly acknowledges the high sensitivity of its outputs to the forecast assumptions and does not present its output as a precise valuation.

Level 3

4.2.L3.1: The discounted cash flow model integrates with the three-statement model maintained under Book 1, Section 1.1, such that a change in any forecast assumption updates the free cash flow projections and the implied enterprise value without manual recalculation.

4.2.L3.2: The discount rate is derived from a documented cost of equity calculation that includes a stated base rate, an equity risk premium referenced to an observable market source, a size premium reflecting the company's stage, and a company-specific risk adjustment reflecting the material risks identified in the company's risk assessment.

4.2.L3.3: The analysis applies both the Gordon Growth Model and the exit multiple method to calculate terminal value, presents the results of each, and documents the basis for the weight assigned to each in the synthesised output.

4.2.L3.4: The discounted cash flow analysis is accompanied by a written narrative that explains the key assumptions, the sensitivity of the output to those assumptions, and the reasons the analysis is or is not given significant weight in the synthesised valuation range.

BENCHMARKS

Discount rate benchmarks for early-stage companies:

- These benchmarks are directional indicators. Discount rates for early-stage companies vary materially by market, by sector, and by stage. They will be refined in v1.0 as additional data accumulates.
- Pre-Revenue: discount rates in the range of forty to seventy percent per annum are commonly observed in venture capital valuation practice for pre-revenue companies, reflecting the high probability of business failure and the long duration before expected cash generation.
- Early Revenue: discount rates in the range of thirty to fifty percent per annum are commonly observed, reflecting reduced but still material execution risk and liquidity constraints.

- Growth Stage: discount rates in the range of twenty to thirty-five percent per annum are commonly observed for companies with demonstrated growth and improving unit economics.
- Scale Stage: discount rates in the range of fifteen to twenty-five percent per annum are commonly observed, converging toward public company discount rates as the company approaches profitability and liquidity.

Terminal growth rate benchmarks:

A terminal growth rate above the long-term nominal GDP growth rate of the primary market is not appropriate as a base assumption. In most developed markets, long-term nominal GDP growth rates of two to four percent per annum are the appropriate ceiling for terminal growth rate assumptions. A terminal growth rate above five percent in any market requires explicit justification with reference to documented structural drivers.

Explicit forecast period benchmarks by stage:

- Early Revenue: five to seven years minimum to reach a state of normalised free cash flow.
- Growth Stage: five years minimum; seven to ten years for companies in early phases of a long growth cycle.
- Scale Stage: three to five years to the point of normalised margins.

COMMON DEFICIENCIES

CD 4.2.1: The company applies a terminal growth rate of fifteen percent to its discounted cash flow analysis, reflecting its current revenue growth rate projected in perpetuity. The terminal value represents ninety-three percent of the implied enterprise value. The implied enterprise value suggests the company will generate more free cash flow in perpetuity than the entire current addressable market can support. The analysis is not presented with any acknowledgment of this dependency or any sensitivity table.

CD 4.2.2: The company derives its discount rate from the weighted average cost of capital of three publicly listed companies in its sector. The public company weighted average cost of capital is between eight and twelve percent. The company applies eleven percent as its discount rate without adjustment for the illiquidity, execution risk, key person risk, and stage differences between a listed company and a pre-revenue startup. The resulting discounted cash flow produces an implied valuation that is three to five times higher than any comparable transaction in the private market at the same stage.

CD 4.2.3: The company's explicit forecast period is three years. After three years, the company is still loss-making in its base case forecast, with negative free cash flow. The terminal value is applied to negative free cash flow using the Gordon Growth Model. The formula produces a negative terminal value, which the company ignores, adjusting the terminal cash flow to a positive number on the basis that the company will be profitable "at some point beyond three years." No basis for this adjustment is documented.

CD 4.2.4: The discounted cash flow analysis produces a wide range of implied enterprise values depending on assumptions. The company presents only the output from the assumptions that produce the highest value without disclosing that the range under alternative assumptions is materially lower. The sensitivity table that would make this visible is not included.

SECTION 4.3: COMPARABLE COMPANY ANALYSIS**PURPOSE**

The comparable company analysis standard governs how a company selects comparable companies, derives valuation multiples from those companies, adjusts those multiples for differences between the comparables and the subject company, and applies those adjusted multiples to produce an implied valuation range. Comparable company analysis is the most commonly used valuation methodology in early-stage markets because it is observable and can be applied without a long financial history. It is also the methodology most susceptible to manipulation through selective comparable selection and unadjusted multiple application.

DEFINITIONS

COMPARABLE COMPANY ANALYSIS: A valuation methodology that estimates a company's value by reference to the valuations of similar companies, expressed as multiples of financial metrics such as revenue, annual recurring revenue, or earnings before interest, tax, depreciation, and amortisation, and applied to the subject company's equivalent metrics.

COMPARABLE COMPANY: A company whose business model, stage, growth characteristics, margin profile, and market exposure are sufficiently similar to those of the subject company that the multiple at which it is valued provides meaningful information about the value of the subject company. A company is not comparable solely because it operates in the same broad sector.

PEER SET: The group of companies selected as comparables for a comparable company analysis. The peer set must be constructed using documented selection criteria applied consistently to all candidates. A peer set constructed by selecting companies whose multiples support a desired valuation output is not a compliant peer set.

REVENUE MULTIPLE: A valuation multiple calculated as enterprise value divided by annual revenue. Revenue multiples are the primary multiple applied in comparable company analysis for early-stage companies that are not yet profitable. Revenue multiples vary significantly by growth rate, gross margin, and business model predictability.

ARR MULTIPLE: A valuation multiple calculated as enterprise value divided by annual recurring revenue. The ARR multiple is the primary multiple applied to Recurring Revenue companies and is more informative than a revenue multiple for businesses with a mix of recurring and non-recurring revenue.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AND AMORTISATION MULTIPLE: A valuation multiple calculated as enterprise value divided by earnings before interest, tax, depreciation, and amortisation. This multiple is applicable to companies that are profitable or approaching profitability and is not appropriate for pre-revenue or early-revenue companies with negative earnings before interest, tax, depreciation, and amortisation.

GROWTH-ADJUSTED MULTIPLE: A valuation multiple that has been adjusted for the difference in growth rate between the comparable company and the subject company. A company growing at twice the rate of a comparable commands a higher multiple than an unadjusted application of the comparable's multiple would imply. Growth adjustment is a required element of compliant comparable company analysis.

RULE OF 40 ADJUSTED MULTIPLE: A valuation multiple calibrated to the sum of the growth rate and the profit margin of the comparable company, used to compare companies with different growth and profitability profiles on a standardised basis. The Rule of 40 adjusted multiple is defined in Book 2, Section 2.4 and is applicable at Growth Stage and Scale Stage for Recurring Revenue companies.

SELECTION CRITERIA: The documented criteria used to determine whether a company qualifies for inclusion in the peer set. Selection criteria must be applied before multiples are observed. Selection criteria applied after multiples are observed are subject to selection bias and do not satisfy the requirements of this Standard.

MEDIAN MULTIPLE: The middle value in the range of multiples observed across the peer set, where half the peer set values are above the median and half are below. The median is the appropriate central tendency measure for a peer set because it is less sensitive than the mean to outlier multiples at either end of the distribution.

CONTROL PREMIUM: An adjustment to a comparable company multiple to reflect the additional value a buyer pays for a controlling interest relative to a minority interest. Control premiums are applicable in comparable transaction analysis but are not applicable in comparable company analysis based on public market trading prices, which reflect minority stakes.

LIQUIDITY DISCOUNT: A reduction applied to a comparable company multiple derived from publicly traded company valuations to reflect the difference in liquidity between a publicly traded share and a private company share. Private company equity is less liquid than public company equity. A liquidity discount of fifteen to thirty-five percent is commonly applied in fair market value determinations for private company equity, with the appropriate discount depending on the specific liquidity constraints of the share class.

PRINCIPLES GOVERNING THIS SECTION

The peer set must be constructed using selection criteria that are documented before the multiples of candidate companies are examined. A peer set is not compliant if the selection criteria were applied after the multiples of candidate companies were observed, because the knowledge of those multiples creates an incentive to include companies with high multiples and exclude companies with low multiples.

The selection criteria must address at minimum: business model similarity; stage similarity; growth rate comparability; gross margin comparability; geographic market; and primary revenue type. A peer set consisting solely of the largest publicly traded companies in a broad sector, without adjustment for scale, margin, or stage differences, does not satisfy the requirements of this Standard.

Multiples must be adjusted for material differences between each comparable and the subject company before they are applied. The most material adjustments are for differences in growth rate and gross margin. A company growing at twice the rate of a comparable is not appropriately valued at the comparable's unadjusted multiple.

For private company comparables where multiples are estimated from reported funding round terms, the multiple must account for the preference structure of the investment, which affects the true economic value received by common shareholders. A preference-adjusted multiple is more appropriate than an unadjusted multiple for private company peer sets.

COMPLIANCE CRITERIA

Level 1

4.3.L1.1: Where the company applies comparable company analysis, the peer set is documented with the name of each comparable and the primary selection criteria used to include it.

4.3.L1.2: The multiple applied to the subject company's metrics is identified as derived from the peer set and the median, mean, or specific peer multiple used is stated.

4.3.L1.3: The financial metric to which the multiple is applied is stated, together with the time period it represents, whether historical or forward-looking.

Level 2

4.3.L2.1: The selection criteria for the peer set are documented in writing before the multiples of candidate companies are observed, with each criterion applied to all candidates consistently.

4.3.L2.2: The peer set includes at minimum five comparable companies and does not include any company whose primary business model, gross margin profile, or stage of development differs so materially from the subject company that no growth rate adjustment could render the comparison meaningful.

4.3.L2.3: The analysis presents the distribution of multiples across the peer set, including the minimum, median, and maximum observed multiple, and states whether the subject company's characteristics support application of a multiple above or below the median, with the basis documented.

4.3.L2.4: The multiple applied to the subject company's metrics is adjusted for material differences in growth rate between the subject company and each comparable, with the adjustment methodology documented.

4.3.L2.5: Where the peer set includes public company comparables and the subject company is private, a liquidity discount is applied and the basis for the discount percentage is documented.

4.3.L2.6: The analysis states the implied enterprise value range produced by applying the peer set multiples, from the minimum to the maximum observed in the peer set, before adjustments, and the adjusted range after applying the growth rate adjustment and any other documented adjustments.

Level 3

4.3.L3.1: The peer set is reviewed and updated at minimum annually, or within ninety calendar days of a material change in the trading multiples of publicly listed peers, to ensure that the multiples reflect current market conditions.

4.3.L3.2: The analysis includes a regression of the peer set multiples against the growth rates of the comparable companies, to derive a growth-adjusted multiple that reflects the observed relationship between growth and valuation in the peer set rather than applying a fixed adjustment factor.

4.3.L3.3: Where the peer set is insufficient because no sufficiently comparable public companies exist at the subject company's stage, the analysis documents this limitation explicitly and assigns lower weight to the comparable company analysis in the synthesised valuation range.

4.3.L3.4: The analysis maintains a record of the multiples observed for each peer at each prior analysis date, to allow assessment of how the peer set multiples have moved over time and whether the current implied valuation range reflects a market multiple expansion or contraction relative to the prior analysis.

BENCHMARKS

Revenue and ARR multiple benchmarks by stage and company type:

These benchmarks reflect observed private market multiples and public market trading multiples as of the preparation of Beta v0.5. They are subject to material change as market conditions evolve and will be updated in v1.0. All multiples stated are enterprise value multiples applied to trailing twelve-month or forward twelve-month metrics as specified.

1. Recurring Revenue companies, Growth Stage, trailing twelve-month ARR:
2. Low growth, below thirty percent annually: three to six times ARR
3. Moderate growth, thirty to sixty percent annually: six to ten times ARR
4. High growth, sixty to one hundred percent annually: ten to twenty times ARR
5. Exceptional growth, above one hundred percent annually: fifteen to thirty times ARR or above, depending on gross margin and net revenue retention

These ranges reflect a period of multiple compression following the peak of 2021 and are calibrated to observed transaction data from 2023 through 2025. Multiples above the stated ranges require explicit justification by reference to company-specific characteristics that are observable and documentable.

Transactional Revenue companies, Growth Stage: two to five times trailing revenue is commonly observed, reflecting the lower predictability of transactional revenue relative to recurring revenue.

B2B Enterprise companies, Growth Stage: four to eight times ARR is commonly observed, reflecting high net revenue retention and large contract values offset by longer sales cycles and higher customer acquisition costs.

Consumer companies: multiples for consumer companies are highly variable and depend on monetisation model. Advertising-monetised consumer businesses are commonly valued on revenue or earnings before interest, tax, depreciation, and amortisation multiples rather than ARR multiples. Benchmarks for consumer company valuation by monetisation model will be stated in v1.0.

AI-Native companies: revenue and ARR multiples for AI-Native companies are not yet established with sufficient consistency to state as benchmarks in Beta v0.5. The high revenue growth rates observed in AI-Native companies in 2024 and 2025 have produced multiples that span a very wide range, reflecting the market's uncertainty about the long-term unit economics of businesses whose cost structure is dominated by inference compute costs that may change materially as model efficiency improves. The company must document the specific peer set characteristics and the adjustments applied, with explicit acknowledgment of the limitations of available comparable data. These benchmarks will be stated in v1.0.

COMMON DEFICIENCIES

CD 4.3.1: The company's peer set consists of three public companies, each with market capitalisation above five billion pounds, each profitable, and each growing at less than fifteen percent annually. The subject company is pre-revenue and projecting one hundred and fifty percent growth. The unadjusted median multiple from the peer set is applied to the subject company's projected forward revenue without

adjustment for stage, growth rate, or profitability differences. The resulting implied valuation is higher than any private market transaction for a company at the subject company's stage and financial profile.

CD 4.3.2: The company selects comparables by searching for companies that have been valued at high multiples in recent funding rounds. The selection criteria are reverse-engineered from the multiples rather than applied before the multiples are examined. The resulting peer set consists of companies that all trade at high multiples. The median of a non-representative sample is applied without acknowledgment of the selection methodology. The analysis cannot be replicated by a third party applying the stated criteria without producing the same peer set.

CD 4.3.3: The company applies the peer set median multiple to its forward revenue projection without applying a liquidity discount. The peer set consists of publicly traded companies. The subject company's shares are illiquid private equity. The absence of a liquidity discount produces an implied valuation that overstates the value a private market buyer would be willing to pay by fifteen to thirty-five percent.

CD 4.3.4: The company's peer set has not been updated in fourteen months. In that period, the trading multiples of the peer set companies have declined by forty percent due to a market-wide compression of technology company multiples. The valuation analysis presented to investors continues to reference the multiples from fourteen months prior. The implied valuation range is materially inconsistent with current market conditions and is rejected by the investor, causing the company to reassess its valuation at a significantly lower range than it had anticipated.

SECTION 4.4: PRECEDENT TRANSACTION ANALYSIS

PURPOSE

The precedent transaction analysis standard governs how a company identifies, documents, and applies multiples from prior transactions in comparable companies to estimate the implied acquisition value of the subject company. Precedent transaction analysis differs from comparable company analysis in two material ways: it reflects the prices paid by acquirers in completed transactions rather than trading prices in public markets, and it reflects the terms of those transactions, including control premiums and preference structures, that affect the total value paid. For early-stage companies not contemplating an imminent transaction, precedent transaction analysis is most useful as a cross-check on comparable company analysis and as a baseline for acquisition valuation conversations.

DEFINITIONS

PRECEDENT TRANSACTION ANALYSIS: A valuation methodology that estimates a company's acquisition value by reference to the multiples implied by completed transactions in comparable companies. Precedent transaction analysis is distinct from comparable company analysis because it reflects transaction values rather than trading values and includes control premiums paid by acquirers.

TRANSACTION MULTIPLE: A valuation multiple calculated from a completed acquisition, expressed as the total consideration paid divided by a financial metric of the acquired company at the time of the transaction. Transaction multiples are typically higher than trading multiples for equivalent companies because they include a control premium.

CONTROL PREMIUM: The additional value paid by an acquirer for a controlling interest in a company, above the value implied by minority market trading prices. Control premiums in technology company

acquisitions have historically ranged from twenty to fifty percent above the pre-announcement public trading price, reflecting the strategic value of control and the elimination of minority discount.

TRANSACTION DATE ADJUSTMENT: An adjustment applied to a historical transaction multiple to account for changes in market conditions, valuation multiples, and the macroeconomic environment between the date of the historical transaction and the date of the current analysis. A transaction that occurred at the peak of a market cycle in 2021 must be adjusted before its multiple is applied in a different market environment.

STRATEGIC ACQUIRER: An acquirer whose primary motivation for a transaction is the strategic benefit of combining the target's capabilities with its own business, rather than purely financial return. Strategic acquirers often pay higher multiples than financial acquirers because they ascribe investment value rather than fair market value to the transaction.

FINANCIAL ACQUIRER: An acquirer, typically a private equity firm or financial institution, whose primary motivation is financial return from the investment. Financial acquirers apply more disciplined multiple constraints than strategic acquirers and are generally more sensitive to the target company's financial metrics.

PRINCIPLES GOVERNING THIS SECTION

Transaction data for private company acquisitions is less available than public company trading data. Where transaction multiples cannot be verified from public sources, the source of each multiple must be documented and the reliability of the source must be assessed. An unverified transaction multiple sourced from secondary press coverage is less reliable than a multiple sourced from regulatory filings or audited accounts.

A precedent transaction analysis must apply transaction date adjustments where the transactions in the data set are more than eighteen months old. Market conditions for technology company valuations have changed materially in recent years, and historical multiples from peak market periods do not reflect current market terms without adjustment.

COMPLIANCE CRITERIA

Level 1

4.4.L1.1: Where the company applies precedent transaction analysis, each transaction in the data set is documented with the name of the acquired company, the acquiring company, the approximate transaction date, the transaction value or implied multiple, and the source of that information.

4.4.L1.2: The financial metric to which each transaction multiple is applied is documented, together with the time period it represents.

Level 2

4.4.L2.1: The transaction data set includes at minimum five completed transactions; each transaction is in a company with a comparable business model and financial profile to the subject company; and the selection criteria for inclusion are documented before the multiples of candidate transactions are examined.

4.4.L2.2: Transaction date adjustments are applied to all transactions more than eighteen months old, with the adjustment methodology documented.

4.4.L2.3: The analysis distinguishes between transactions completed by strategic acquirers and those completed by financial acquirers, and documents whether the applicable control premium profile reflects strategic or financial acquirer behaviour.

4.4.L2.4: The analysis states the implied enterprise value range produced by the transaction data set and documents whether the subject company's characteristics support application of a multiple above or below the median transaction multiple.

Level 3

4.4.L3.1: The transaction data set is updated at minimum annually to include transactions completed in the preceding twelve months, removing the least comparable historical transactions as newer, more comparable transactions become available.

4.4.L3.2: The analysis includes a written assessment of whether the strategic or financial acquirer profile is more relevant to the subject company's likely acquirer universe, and the implications of that assessment for the appropriate multiple range.

BENCHMARKS

Transaction multiple benchmarks for technology company acquisitions:

Transaction multiples for early-stage private company acquisitions vary materially by acquirer type, strategic rationale, and market cycle. The following are directional indicators based on reported and regulatory-disclosed transaction data from 2022 through 2025.

Recurring Revenue companies, Growth Stage, acquired by strategic acquirers: four to twelve times trailing ARR has been observed across a range of transactions, with higher multiples associated with companies with strong net revenue retention, high gross margins, and product capabilities that would be difficult for the acquirer to replicate organically.

AI-Native companies: acquisition multiples for AI-Native companies in the 2024 to 2025 period have shown extreme variance, from two times revenue for businesses with uncertain unit economics to multiples that effectively reflect acqui-hire value for teams with research capabilities considered scarce. Benchmarks for AI-Native company acquisitions are not yet stable enough to state as reliable reference points and will be assessed in v1.0.

COMMON DEFICIENCIES

CD 4.4.1: The company's transaction data set includes two acquisitions from 2021, when technology company multiples were at a cyclical peak. No transaction date adjustment is applied. The multiples from those transactions are two to three times the multiples observed in comparable transactions completed in 2023 and 2024. The company presents the unadjusted 2021 multiples as the primary basis for its acquisition valuation expectation.

CD 4.4.2: The company sources transaction multiples from press coverage and investor blog posts that report approximate transaction values without specifying whether the stated value reflects equity value, enterprise value, total consideration including earn-outs, or implied value at a specific investor preference

structure. The multiples are applied without clarifying what they represent. A transaction described as a "fifty million pound acquisition" may reflect equity value to preference shareholders only, with common shareholders receiving materially less.

SECTION 4.5: THE VENTURE CAPITAL METHOD

PURPOSE

The venture capital method standard governs the application of the venture capital valuation framework, which derives a present-day valuation by working backward from an expected future exit value. The venture capital method reflects how many institutional investors actually assess the value of an early-stage investment: by estimating the exit value required to produce the return they need, discounting that exit value to the present at their required return rate, and determining whether the implied current valuation is acceptable. A company that understands the venture capital method understands how its investor is thinking about valuation.

DEFINITIONS

VENTURE CAPITAL METHOD: A valuation methodology that derives a company's present-day value by dividing an expected future exit value by the investment return multiple required by the investor, discounting that result to the present to account for the time value of money and investment risk, and then calculating the ownership percentage the investor must receive to achieve that return.

EXPECTED EXIT VALUE: The projected enterprise value of the company at the time of a future liquidity event, estimated using the financial projections maintained under Book 2 and valuation multiples appropriate to the company's projected financial metrics at the exit date. Expected exit value is an estimate, not a commitment.

REQUIRED RETURN MULTIPLE: The multiple of invested capital an investor requires to achieve their target internal rate of return, given the expected holding period. A fund targeting a thirty percent internal rate of return over a five-year holding period requires an approximately three point seven times return multiple on invested capital, before accounting for management fees and carry. Required return multiples vary by fund strategy, fund stage, and holding period.

HOLDING PERIOD: The expected number of years from the date of investment to the date of the anticipated liquidity event. Holding periods for early-stage venture investments commonly range from five to ten years.

POST-MONEY VALUATION, VENTURE CAPITAL METHOD: In the context of the venture capital method, post-money valuation is calculated as the expected exit value divided by the required return multiple. This produces the maximum post-money valuation at which the investor can achieve their required return. The pre-money valuation is then derived by subtracting the investment amount from this post-money valuation.

DILUTION ASSUMPTION: In the venture capital method, the adjustment made to the investor's expected ownership percentage at exit to reflect the dilution from anticipated future funding rounds between the current investment and the exit. If the investor holds fifteen percent immediately after the current round but expects to be diluted to eight percent by the time of the exit through subsequent rounds, the dilution assumption must be incorporated into the return calculation.

PRINCIPLES GOVERNING THIS SECTION

The venture capital method produces a valuation that reflects the investor's required return and the investor's expectations about exit value and dilution. It is not a methodology that values the company based on its intrinsic characteristics; it values the company based on what an investor with a specific return requirement would pay. A company applying the venture capital method must document the return requirements and assumptions used, because the result is highly sensitive to those inputs.

The expected exit value must be derived from a documented financial forecast and documented valuation multiple assumptions for the exit period, not from an aspirational exit number. An expected exit value that is not connected to a financial projection and a valuation multiple cannot be assessed by a third party and does not satisfy the requirements of this Standard.

COMPLIANCE CRITERIA

Level 1

4.5.L1.1: Where the company applies the venture capital method, the expected exit value is documented with the basis for the estimate, including the financial metric projected at the exit date and the multiple applied to that metric.

4.5.L1.2: The required return multiple or target internal rate of return used in the analysis is documented, together with the basis for the selection of that rate.

4.5.L1.3: The holding period used in the analysis is documented.

Level 2

4.5.L2.1: The expected exit value is derived from the company's bottom-up financial forecast maintained under Book 2, Section 2.1, using the financial metrics projected at the anticipated exit date and multiples drawn from the comparable company analysis maintained under Section 4.3 or the precedent transaction analysis maintained under Section 4.4.

4.5.L2.2: The dilution assumption is documented, reflecting the anticipated number of additional funding rounds between the current investment and the exit, the typical ownership dilution per round, and the resulting expected ownership percentage at exit.

4.5.L2.3: The analysis produces a stated pre-money valuation range by applying the venture capital method under at minimum two sets of return assumptions, representing the range of investor return requirements likely to be encountered in the current market.

4.5.L2.4: The analysis presents the implied ownership percentage the investor must receive at the current round to achieve the stated required return under the documented assumptions.

Level 3

4.5.L3.1: The venture capital method analysis is sensitivity-tested across a range of exit valuations, holding periods, and dilution assumptions, producing a matrix of implied current valuations that shows the company's negotiating range under different investor assumption sets.

4.5.L3.2: The analysis is updated before each fundraising process to reflect changes in the company's financial projections, changes in exit multiple benchmarks, and any changes in prevailing investor return expectations.

BENCHMARKS

Required return multiple benchmarks by stage:

Pre-Revenue and Early Revenue: institutional early-stage investors commonly target ten to twenty times return on invested capital over a five to seven year holding period, reflecting the high probability of loss or underperformance in the portfolio. The required return multiple for any specific investment is higher than the portfolio-level target because the portfolio includes companies that return less than the investment.

Growth Stage: institutional growth-stage investors commonly target five to ten times return on invested capital over a four to six year holding period.

Dilution benchmarks per round: twenty to thirty percent dilution per funding round is commonly observed in competitive markets. A company raising multiple rounds before exit should model cumulative dilution of fifty to seventy percent across all anticipated rounds when applying the venture capital method.

COMMON DEFICIENCIES

CD 4.5.1: The company applies the venture capital method using an expected exit value of five hundred million pounds derived from a market opportunity assessment rather than from a financial projection and a valuation multiple. The financial projection that would support a five hundred million pound exit valuation at any plausible multiple does not exist in the company's financial model. The venture capital method produces a current valuation that implies a growth trajectory the company has not modeled and cannot support.

CD 4.5.2: The company applies the venture capital method without a dilution assumption. The analysis assumes the investor's current ownership percentage is maintained through to exit without additional funding rounds. The company's financial model shows the company will require two additional funding rounds before exit. Omitting the dilution assumption overstates the investor's expected exit proceeds and produces a pre-money valuation that is higher than the investor's return requirements would support under realistic assumptions.

SECTION 4.6: EARLY STAGE VALUATION METHODS: BERKUS AND SCORECARD

PURPOSE

The Berkus Method and the Scorecard Method are qualitative or semi-quantitative valuation frameworks applicable to pre-revenue companies where quantitative methodologies cannot produce reliable outputs because no financial history exists and no financial metrics are available to which multiples can be applied. These methods provide a structured basis for estimating value where estimation is inherently imprecise. A company that applies these methods must acknowledge their limitations and must not present their outputs with the same precision implied by quantitative methods.

DEFINITIONS

BERKUS METHOD: A valuation framework for pre-revenue companies that assigns monetary value to five categories of startup progress: a sound idea; a working prototype; a quality management team; strategic relationships; and product rollout or initial sales. The total of the values assigned across the five categories produces an implied pre-money valuation. The maximum value assigned to each category is defined at the time of the analysis; commonly used maxima are five hundred thousand to one million pounds per category, producing a maximum implied valuation of two point five to five million pounds under this method. The Berkus Method is not applicable to companies with meaningful revenue.

SCORECARD METHOD: A valuation framework for pre-revenue companies that begins with a median pre-money valuation for comparable companies at the same stage and in the same geography, and adjusts that median using a weighted scoring of the subject company against the comparables on dimensions including management team strength, market size, product stage, competitive environment, marketing and sales channels, and need for additional investment. The sum of the weighted scores produces an adjustment factor applied to the median comparable valuation to derive the implied pre-money valuation.

BENCHMARK MEDIAN VALUATION: In the Scorecard Method, the median pre-money valuation of companies at the same stage, in the same geography, and in comparable sectors that have raised external capital in the relevant period. The benchmark median must be derived from a documented source and must reflect transactions completed within the preceding twelve months.

ADJUSTMENT FACTOR: In the Scorecard Method, the product of the weighted scores assigned to the subject company across all scoring dimensions. An adjustment factor of one point two implies that the subject company is assessed as twenty percent better than the median comparable on the weighted scoring. The adjustment factor is multiplied by the benchmark median valuation to produce the implied pre-money valuation.

PRINCIPLES GOVERNING THIS SECTION

The Berkus Method and Scorecard Method are appropriate only at pre-revenue stage. A company that has meaningful revenue must apply quantitative methods as defined in Sections 4.2 through 4.5. Applying the Berkus Method or Scorecard Method to a company with revenue understates the relevance of the financial evidence available and does not satisfy the requirements of this Standard.

The scoring in the Scorecard Method must be based on documented evidence, not on unsubstantiated management assessment. Each score assigned must be supported by a stated basis that a third party can assess independently.

COMPLIANCE CRITERIA

Level 1

4.6.L1.1: Where the company applies the Berkus Method, each of the five categories is documented with the value assigned and the basis for that value stated.

4.6.L1.2: Where the company applies the Scorecard Method, the benchmark median valuation is documented with the source and the date from which it is derived.

4.6.L1.3: Where the company applies the Scorecard Method, each scoring dimension is documented with the score assigned and the specific evidence supporting that score.

Level 2

4.6.L2.1: The valuation analysis acknowledges explicitly that the Berkus Method or Scorecard Method is being applied because the company is pre-revenue and that the output of these methods is more uncertain than the output of quantitative methods applicable to revenue-generating companies.

4.6.L2.2: Both the Berkus Method and the Scorecard Method are applied simultaneously, and the results of both are presented to produce a triangulated range rather than a single output from a single method.

4.6.L2.3: The benchmark median valuation used in the Scorecard Method is derived from transactions completed within the preceding eighteen months and the source is documented.

BENCHMARKS

Berkus Method value assignment benchmarks:

Commonly used maximum values per category range from five hundred thousand to one million pounds in UK and European markets, reflecting typical pre-revenue seed round valuation ranges. In US markets, maximum values of five hundred thousand to two million dollars per category are commonly observed. The maximum values must be calibrated to the current market environment and the geography of the company. Benchmarks calibrated to 2021 peak market conditions do not reflect the market environment of 2024 to 2026.

Scorecard Method benchmark median valuations by geography and stage:

- UK pre-revenue seed stage: benchmark median pre-money valuations of one to three million pounds have been observed in the 2023 to 2025 period, reflecting a compression from the 2020 to 2021 peak. These benchmarks will be updated in v1.0 with data from 2025 and 2026.
- US pre-revenue seed stage: benchmark median pre-money valuations of two to six million dollars have been observed in the 2023 to 2025 period.

These benchmarks are directional only. The applicable benchmark must reflect the specific geography, sector, and market conditions at the time of the analysis.

COMMON DEFICIENCIES

CD 4.6.1: The company applies the Scorecard Method using a benchmark median valuation sourced from a 2021 database that reflected peak market conditions. The benchmark median is three million pounds. Applying the company's adjustment factor of one point three produces an implied pre-money valuation of three point nine million pounds. Comparable transactions in the current market suggest a benchmark median of one point five million pounds for similar stage and geography. Applying the current benchmark produces an implied valuation of one point nine five million pounds. The company does not disclose the date or source of the benchmark used.

CD 4.6.2: The company applies the Berkus Method and assigns the maximum value to all five categories without documenting the basis for any score. The resulting implied valuation is at the maximum possible output of the method. The scores are not supportable by specific evidence. An investor reviewing the analysis cannot assess whether the scores reflect the company's actual position or an optimistic self-assessment.

SECTION 4.7: THE MARKET SIZING STANDARD FOR VALUATION**PURPOSE**

The market sizing standard for valuation governs how a company documents and presents the market opportunity that underlies its valuation. Market sizing is not, by itself, a valuation methodology. A large market does not imply a high valuation. But the plausibility of a company's growth projections and, therefore, the credibility of its valuation, depends on whether the market opportunity can support the projected revenue trajectory. A market sizing analysis that cannot support the company's projected revenue scale undermines the credibility of every quantitative valuation methodology that depends on those projections.

DEFINITIONS

TOTAL ADDRESSABLE MARKET: Defined in Book 0, Section 0.4. The total revenue opportunity available if the company captured its entire target market with its current or planned offering. Total Addressable Market is the ceiling of the market opportunity and is not a forecast.

SERVICEABLE ADDRESSABLE MARKET: Defined in Book 0, Section 0.4. The portion of Total Addressable Market accessible given the company's current product, business model, and geographic reach.

SERVICEABLE OBTAINABLE MARKET: Defined in Book 0, Section 0.4. The portion of Serviceable Addressable Market the company can realistically capture within a defined period given its current go-to-market capacity and competitive position.

TOP-DOWN MARKET SIZING: A market sizing approach that begins with the total market size derived from external research and applies a capture rate to derive the company's addressable opportunity. Top-down market sizing is directionally useful for establishing the order of magnitude of the opportunity but is not sufficient for a compliant market sizing analysis at Level 2 and above because it does not demonstrate a mechanistic connection between the company's operations and the projected revenue.

BOTTOM-UP MARKET SIZING: A market sizing approach that builds the total opportunity from the company unit level upward, by calculating the number of potential customers, the average revenue per customer, and the product of those two figures to derive the total opportunity. Bottom-up market sizing is the required methodology at Level 2 and above because it produces a figure that can be validated against the company's unit economics.

MARKET SIZING CONSISTENCY: The requirement that the company's financial projections are consistent with its market sizing. A company whose financial projections imply capturing thirty percent of its Serviceable Addressable Market in three years must demonstrate that the Serviceable Addressable Market is large enough to support those projections, that its go-to-market capacity can reach that portion of the market, and that the competitive dynamics of the market make a thirty percent capture rate plausible.

PRINCIPLES GOVERNING THIS SECTION

The Serviceable Obtainable Market is the market sizing figure that must be consistent with the company's financial projections. A large Total Addressable Market that is not translated into a specific Serviceable Obtainable Market does not provide a credible basis for the company's projected revenue.

Market sizing figures derived from external research reports must be assessed for their applicability to the specific segment, geography, and business model of the subject company. A global Total Addressable Market for a broad sector is not the correct reference for a company serving a specific customer segment in a specific geography with a specific business model.

The company's projected market share at the end of the financial projection period must be calculated explicitly and assessed for plausibility. A projection that implies a market share of more than ten percent of the Serviceable Addressable Market within five years requires explicit justification by reference to the company's competitive position and distribution capacity.

COMPLIANCE CRITERIA

Level 1

4.7.L1.1: The company has documented a Total Addressable Market estimate with the source and the date of the underlying data.

4.7.L1.2: The company has derived a Serviceable Addressable Market from the Total Addressable Market with the basis for the reduction documented.

4.7.L1.3: The company has estimated a Serviceable Obtainable Market covering the next three to five years with the basis for the estimate stated.

Level 2

4.7.L2.1: The Serviceable Obtainable Market is derived using a bottom-up methodology, calculating the number of potential customers in the reachable market and the average revenue per customer at the company's current pricing, and stating the product of those two figures as the Serviceable Obtainable Market.

4.7.L2.2: The company's financial projections are explicitly compared to the Serviceable Obtainable Market, with the implied market capture rate calculated for each year of the projection period.

4.7.L2.3: Where the implied market capture rate in the projection period exceeds ten percent of the Serviceable Addressable Market, the analysis includes a documented basis for why a capture rate above ten percent is plausible given the company's competitive position, go-to-market capacity, and market dynamics.

4.7.L2.4: The market sizing analysis is updated at minimum annually and within ninety calendar days of any material change in the company's product offering, geographic focus, or target customer definition.

Level 3

4.7.L3.1: The bottom-up market sizing is validated against external market data sources, with the number of potential customers in the addressable market cross-referenced against observable data such as company databases, industry association membership figures, or government statistical sources.

4.7.L3.2: The market sizing analysis models the share of market required to support the company's exit valuation assumption in the venture capital method or discounted cash flow analysis, and assesses whether that market share is achievable given the competitive dynamics of the market.

BENCHMARKS

Market sizing plausibility benchmarks:

A Serviceable Obtainable Market that is smaller than the company's projected revenue at the end of the financial projection period implies the company will capture more than one hundred percent of its reachable market, which is not possible. This condition indicates either that the financial projection is inconsistent with the market sizing or that the Serviceable Obtainable Market has been defined too narrowly.

A market capture rate of more than five percent of the Serviceable Addressable Market in year three of a projection is unusual for a company that is not the dominant established player in the market. A market capture rate above ten percent in year three requires explicit justification.

COMMON DEFICIENCIES

CD 4.7.1: The company's investor presentation states a Total Addressable Market of one hundred billion pounds, sourced from a global market research report for the broadest possible definition of the sector. The company's product serves a specific customer segment in the United Kingdom and is priced at a level that addresses a fraction of the cited market. No Serviceable Addressable Market or Serviceable Obtainable Market is derived from the Total Addressable Market figure. The company's financial projections imply capturing zero point zero zero one percent of the one hundred billion pound figure, making the market size irrelevant to the valuation analysis.

CD 4.7.2: The company's financial projections show revenue of forty million pounds in year five. The bottom-up Serviceable Obtainable Market, calculated from the number of addressable customers and the average revenue per customer, is thirty-five million pounds. The financial projections imply capturing more than one hundred percent of the Serviceable Obtainable Market. The inconsistency between the projections and the market sizing has not been identified or disclosed.

CD 4.7.3: The company's market sizing is based on a report published in 2019. The company operates in a market that has been materially affected by technological and regulatory changes since 2019. The market size figure does not reflect the current competitive landscape, the entry of new participants, or the contraction of certain demand categories that were prominent at the time of the report.

STAGE AND LEVEL APPLICABILITY

The compliance level expectations for each section of Book 4 are as follows.

Section 4.1: Valuation Methodology Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 4.2: Discounted Cash Flow Analysis

Pre-Incorporation: no requirement

Pre-Revenue: not required; where applied voluntarily, Level 1 minimum

Early Revenue: Level 1 where applied; Level 2 from Growth Stage

Growth Stage: Level 2

Scale Stage: Level 3

Section 4.3: Comparable Company Analysis

Pre-Incorporation: no requirement

Pre-Revenue: not required; where applied voluntarily, Level 1 minimum

Early Revenue: Level 1 where applied

Growth Stage: Level 2

Scale Stage: Level 3

Section 4.4: Precedent Transaction Analysis

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: no requirement

Growth Stage: Level 1 where applied

Scale Stage: Level 2

Section 4.5: Venture Capital Method

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 2

Section 4.6: Berkus and Scorecard Methods

Pre-Incorporation: Level 1 where applied

Pre-Revenue: Level 2

Early Revenue: not applicable; quantitative methods required

Growth Stage: not applicable

Scale Stage: not applicable

Section 4.7: Market Sizing Standard

Pre-Incorporation: Level 1

Pre-Revenue: Level 1

Early Revenue: Level 2

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 4 may be submitted to 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.

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 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.

BOOK 6: STRATEGIC FINANCIAL PLANNING

Book 6 defines the standards for the financial planning processes a company must maintain to translate its financial infrastructure into operational discipline and strategic decision-making. The five preceding Books define what a company must build. Book 6 defines how a company must use what it has built. A company that maintains investor-grade financial infrastructure but does not use that infrastructure to govern its annual plan, its strategic decisions, its departmental budgets, and its performance tracking has built the instruments without learning to read them.

Book 6 inherits the three-statement model from Book 1, the performance modeling standards from Book 2, the capital structure standards from Book 3, the valuation standards from Book 4, and the investor readiness standards from Book 5. All references to financial models, forecasts, and reporting in this Book refer to the instruments defined in those Books. The requirements of this Book apply to how those instruments are used for strategic management purposes; they do not duplicate the requirements for building or maintaining them.

SECTION 6.1: THE ANNUAL OPERATING PLAN STANDARD**PURPOSE**

The annual operating plan standard governs the construction, approval, maintenance, and operational use of the company's primary financial management document for the financial year. An annual operating plan is the formal financial commitment a company makes to itself and its governing body about what it will achieve, how it will spend its capital, and what it will produce from that investment. It is not a forecast, which is a projection of what is likely to happen. It is not a budget, which is an authorisation of expenditure. It is both of those things, integrated with a set of milestones and a management accountability framework, adopted through a formal approval process, and used throughout the year as the reference against which actual performance is measured.

DEFINITIONS

ANNUAL OPERATING PLAN: A board-approved financial and operational plan for a defined financial year, covering all functional areas of the company, that specifies projected revenue by period, planned expenditure by functional category, planned headcount by department, capital allocation by initiative, and the operational milestones the company expects to achieve. The annual operating plan is the authoritative reference document for measuring financial performance throughout the year. It is distinct from the rolling forecast maintained under Book 2, Section 2.1, which is updated continuously. The annual operating plan is set once per year and amended only through a formal re-planning process.

BUDGET: The expenditure authorisation derived from the annual operating plan. The budget specifies the maximum expenditure permitted in each functional category for each period of the financial year. The budget is not a separate document from the annual operating plan; it is the expenditure dimension of the operating plan. A company that has a budget without an annual operating plan has authorised spending without a revenue plan against which to measure whether that spending is producing appropriate returns.

OPERATING PLAN VARIANCE: The difference between actual financial performance in a period and the annual operating plan target for that period. Operating plan variance is calculated separately for revenue and for each major expenditure category. Variance is favourable where revenue exceeds plan or expenditure is below plan, and adverse where revenue falls below plan or expenditure exceeds plan.

REFORECAST: A formal update to the company's projected financial performance for the remainder of the financial year, prepared when actual performance diverges materially from the annual operating plan or when a material change in business conditions makes the remaining plan implausible. A reforecast does not replace or amend the annual operating plan; it sits alongside it. The annual operating plan remains the accountability reference. The reforecast represents the company's revised expectation of what will actually occur.

OPERATING PLAN AMENDMENT: A formal revision to the annual operating plan, approved by the board or equivalent governing body, that changes the plan targets for one or more categories for the remainder of the financial year. An operating plan amendment is required where the assumptions underlying the original plan are no longer valid and where continuing to measure performance against the original targets would produce metrics that misrepresent the company's management quality. An operating plan amendment requires the same approval process as the original plan.

ANNUAL OPERATING PLAN CYCLE: The recurring process by which a company develops, approves, executes, monitors, and updates its annual operating plan. A complete annual operating plan cycle covers: strategic context review, draft plan development, assumption documentation, management review, board approval, execution, monthly variance tracking, quarterly reforecast, and year-end review.

BOTTOM-UP OPERATING PLAN: An annual operating plan constructed from granular departmental plans that aggregate to company-level targets, rather than from company-level targets allocated downward to departments. A bottom-up plan is more operationally credible than a top-down plan because it reflects the capacity and cost structure of the actual organisation. A company whose annual operating plan is constructed top-down, by setting a revenue target and then dividing costs across departments to fit a margin target, does not have a compliant operating plan under this Standard.

HEADCOUNT PLAN: A component of the annual operating plan that specifies the number of employees in each department at the beginning of the plan period, the planned hire dates and roles for all new positions in the plan period, the planned departure date of any roles that are being eliminated, and the fully loaded cost of each position. The headcount plan is the primary driver of personnel cost in the annual operating plan and must be updated when any hire or departure occurs outside the plan.

MILESTONE: A specific, measurable, time-bound achievement that the annual operating plan targets as evidence of strategic progress. Milestones are distinct from financial metrics: they describe what the company must accomplish operationally to justify its financial trajectory. A company that hits its revenue target without hitting its product, market, or organisational milestones may be performing financially in the short term while falling behind strategically.

PRINCIPLES GOVERNING THIS SECTION

The annual operating plan must be constructed from the bottom up. Company-level targets must emerge from department-level plans, not precede them. A company that sets a revenue target and then builds a cost model to fit a desired margin has produced a wish, not a plan. A company that begins with the capacity of its sales team, the projected productivity of its current engineering headcount, and the actual cost structure of its operations, and aggregates these to a company-level view, has produced a plan that can be managed and that will reveal genuine constraints before they become crises.

The annual operating plan must be approved by the board or equivalent governing body before the financial year begins. An operating plan approved after the financial year has started cannot govern the period before approval. For companies without a formal board, approval by the founding team constitutes

compliance, provided the approval is documented and the plan is used as the management reference throughout the year.

Monthly variance analysis against the annual operating plan is not a reporting exercise. It is a management tool. The purpose of measuring variance is not to record that performance differed from plan; it is to identify whether the deviation requires a management response, a reforecast, or a plan amendment, and to determine the appropriate response before the deviation compounds.

COMPLIANCE CRITERIA

Level 1

6.1.L1.1: The company prepares a financial plan for the current financial year covering projected revenue by month and planned operating expenses by functional category.

6.1.L1.2: The financial plan is documented and available to the founding team at the beginning of the financial year.

6.1.L1.3: The company compares actual financial performance to the plan at minimum quarterly and documents material variances.

Level 2

6.1.L2.1: The company prepares an annual operating plan constructed from departmental plans that aggregate to company-level totals, covering: revenue by period and by revenue stream; operating expenses by functional category and by department; headcount plan by department with planned hire dates and fully loaded costs; capital expenditure by initiative; and planned milestones for each quarter.

6.1.L2.2: The annual operating plan is approved by the board or equivalent governing body before the financial year begins, or within fifteen calendar days of the financial year start for companies whose planning cycle does not yet precede the year.

6.1.L2.3: The annual operating plan integrates with the three-statement model maintained under Book 1, Section 1.1, such that the plan produces an income statement, cash flow statement, and balance sheet for the plan period consistent with the financial model architecture.

6.1.L2.4: The company compares actual financial performance to the annual operating plan monthly, documenting the variance for each revenue line and each major expenditure category, and presents this variance analysis to the board or equivalent governing body within fifteen working days of each month end.

6.1.L2.5: The company prepares a formal reforecast for the remainder of the financial year at minimum quarterly, documenting the assumptions that have changed from the prior forecast, the operational drivers of those changes, and the projected full-year outcome against the annual operating plan.

6.1.L2.6: Where the company's cumulative revenue variance from the annual operating plan exceeds fifteen percent in either direction at the end of any quarter, the company prepares a written assessment of the causes of the variance and the management response, presented to the board or equivalent governing body.

Level 3

6.1.L3.1: The annual operating plan cycle begins at minimum ten weeks before the financial year start, with a documented timeline covering draft development, management review, board review, and approval.

6.1.L3.2: The annual operating plan includes a written narrative covering the strategic context for the plan, the three primary assumptions on which the plan depends, the two operating scenarios under which the plan would require amendment, and the management actions that would be taken in each scenario.

6.1.L3.3: The annual operating plan is stress-tested against a scenario in which the primary revenue driver performs twenty-five percent below plan for two consecutive quarters, with the cash runway implications and the corresponding management response plan documented before the year begins.

6.1.L3.4: At year end, the company prepares a formal plan-versus-actual review documenting the full-year variance for each major category, the root causes of material variances, and the specific changes to the planning process or assumptions methodology that will be applied in the following year's plan.

6.1.L3.5: The quality of the annual operating plan, measured by the accuracy of the plan-versus-actual comparison, is reviewed by the board at year end and the findings are incorporated into the following year's planning cycle.

BENCHMARKS

Annual operating plan accuracy benchmarks by stage:

- Growth Stage: a plan-versus-actual variance of plus or minus fifteen percent for full-year revenue is the outer bound of acceptable planning accuracy. Persistent variance above this threshold indicates either that the planning methodology is flawed or that the company's business model has insufficient predictability to support annual planning. Either condition requires examination.
- Scale Stage: a plan-versus-actual variance of plus or minus ten percent for full-year revenue is expected. Companies at Scale Stage with demonstrated operating history have sufficient data to produce more accurate annual plans.
- Operating expense accuracy: plus or minus ten percent for full-year total operating expenses is the outer bound of acceptable variance at Growth Stage and Scale Stage. Personnel costs, which represent the largest component of operating expenses for most company types, are highly controllable. Persistent operating expense overruns indicate a failure of headcount plan discipline.

Annual operating plan development timelines:

- Growth Stage: planning cycle of six to eight weeks is typical; plan approved before the financial year begins.
- Scale Stage: planning cycle of eight to twelve weeks, with formal departmental plan submissions, management consolidation, and board approval.

COMMON DEFICIENCIES

CD 6.1.1: The company prepares an annual operating plan in January. The plan is approved by the board and then filed. Monthly variance analysis is not conducted. At the end of the financial year, the company

reviews its performance and compares it to the plan for the first time. Revenue was seventeen percent below plan for the full year. The revenue shortfall required three months of higher-than-planned operating expenses before management identified the trend and reduced costs. The cash impact of the delay is a four-month reduction in runway that could have been avoided if variance analysis had been conducted monthly and a management response initiated at month three.

CD 6.1.2: The company's annual operating plan is constructed by the chief executive setting a revenue target and then dividing the target across sales regions and customer segments without reference to the actual pipeline, conversion rates, or sales team capacity. The plan implies a revenue per sales employee that is forty percent above the highest level the sales team has ever achieved. The plan is approved without challenge. By quarter two, it is clear the revenue target is not achievable under any operational scenario. The company is managing against an unachievable plan for the second half of the year, which distorts variance analysis and makes performance measurement meaningless.

CD 6.1.3: The company amends its annual operating plan informally in month six by emailing an updated revenue projection to board members. No formal amendment process is followed. The board receives different versions of the plan at different points. By year end, the company cannot produce a clear account of what the plan was at any given point in the year because no version-controlled record of plan amendments exists. The year-end review cannot distinguish between performance against the original plan and performance against an informally amended plan.

CD 6.1.4: An AI-Native company's annual operating plan does not include a compute cost budget that is modeled against projected usage volume. Inference compute costs are treated as a fixed monthly overhead based on current usage. By quarter three, usage has grown three times faster than the plan assumed. Compute costs have grown proportionally. The operating plan shows a significant cost overrun in the infrastructure category with no mechanism to predict when costs will exceed the budget. The plan did not model the variable relationship between usage and cost that is the defining financial characteristic of an AI-Native business.

SECTION 6.2: THE STRATEGIC DECISION MODELING STANDARD

PURPOSE

The strategic decision modeling standard governs the financial analysis a company must conduct before making decisions of material strategic and financial consequence. A strategic decision is one that commits the company to a course of action that is either difficult or expensive to reverse and that has a material effect on the company's cash position, revenue trajectory, or capital structure. The requirement to model a strategic decision before making it is not a bureaucratic constraint. It is the mechanism by which the financial consequences of a decision are understood before, not after, the decision is made and the consequences are irreversible.

DEFINITIONS

STRATEGIC DECISION: A decision that meets at minimum one of the following criteria: it commits the company to expenditure exceeding ten percent of monthly operating expenses on a recurring basis; it enters the company into a market, product line, or geography not covered by the current annual operating plan; it requires hiring five or more additional employees not in the current headcount plan; it involves acquiring, disposing of, or licensing material intellectual property; it changes the company's pricing model or primary revenue mechanism; or it initiates or modifies the company's capital structure.

STRATEGIC DECISION MODEL: A financial model prepared specifically to analyse the financial consequences of a defined strategic decision, showing the cost of implementing the decision, the revenue or efficiency impact expected from it, the timeline to those impacts, the cash drag during the implementation and ramp period, and the conditions under which the decision produces a positive financial return.

CASH DRAG: The cumulative net cash consumption attributable to a strategic decision between the date the decision is implemented and the date on which the decision produces net positive cash flow. Cash drag is the most commonly underestimated financial consequence of strategic decisions in early-stage companies because it combines the upfront cost of implementation with the opportunity cost of management attention and the delayed revenue ramp that follows most strategic expansions.

BREAK-EVEN ANALYSIS: The calculation of the point at which the cumulative financial benefit of a strategic decision equals the cumulative financial cost, measured in time from implementation. A strategic decision model must state the expected break-even point and the assumptions on which it depends.

OPPORTUNITY COST: The value of the best alternative use of the resources committed to a strategic decision, foregone by making that decision. A strategic decision model must identify the primary alternative use of the capital and management capacity committed to the decision and assess the financial return foregone.

REVERSIBILITY ASSESSMENT: A structured evaluation of the cost and timeline of reversing a strategic decision if the decision does not produce the expected financial return. A decision that is difficult or expensive to reverse requires a more rigorous financial analysis before it is made than a decision that can be reversed at low cost.

STRATEGIC DECISION THRESHOLD: The quantitative criteria used to determine whether a decision is material enough to require a formal strategic decision model before it is made. The threshold is defined in the compliance criteria of this section and is calibrated to the company's stage and monthly operating expenses.

STAGE-GATE: A formal review point at which the company assesses whether a strategic decision that is being implemented is producing results consistent with the strategic decision model, and determines whether to continue, modify, or abandon the initiative. A stage-gate is a pre-committed decision point, not a reactive review triggered by negative results.

BUILD VS BUY ANALYSIS: A specific type of strategic decision model applied to decisions about whether to develop a capability internally or acquire it through a purchase, licence, or partnership. A build vs buy analysis compares the total cost of internal development including time, opportunity cost, and execution risk against the cost of the external alternative including acquisition price, integration cost, and dependency risk.

PRINCIPLES GOVERNING THIS SECTION

The financial model for a strategic decision must be prepared before the decision is made, not after the decision is announced internally. A model prepared after the decision has been made is a rationalisation, not an analysis. The Standard requires that the financial consequences are understood before the commitment is made.

The strategic decision model must include a cash drag calculation that covers the full period from implementation to expected break-even. The most common failure of strategic decision analysis in early-

stage companies is the omission of the ramp period from the cash model: the decision is assessed on its steady-state financial impact, ignoring the months during which the decision consumes cash before producing any revenue or efficiency benefit.

The strategic decision model must be stress-tested under a scenario in which the primary revenue or efficiency assumption is delayed by six months or reduced by thirty percent. A decision that is financially viable only if its primary assumption is achieved exactly on schedule and at full magnitude is a decision with inadequate financial margin. The stress test must be conducted before the decision is made and the results must be available to the board or equivalent governing body.

COMPLIANCE CRITERIA

Level 1

6.2.L1.1: The company documents the financial rationale for any strategic decision that commits the company to expenditure exceeding fifteen percent of monthly operating expenses, before the decision is implemented.

6.2.L1.2: The financial rationale documents at minimum: the cost of the decision; the expected financial benefit; the timeline to that benefit; and the cash available to fund the decision after accounting for the cost.

Level 2

6.2.L2.1: The company prepares a strategic decision model for any decision that meets the strategic decision threshold defined as: commitments exceeding ten percent of monthly recurring operating expenses on a recurring basis; entry into a market, product, or geography not in the current annual operating plan; or any capital structure change.

6.2.L2.2: The strategic decision model includes all of the following components: a cost model covering all direct and indirect costs of implementing the decision; a revenue or efficiency impact model showing the projected benefit and the timeline to that benefit; a cash drag calculation covering the full period from implementation to expected break-even; a break-even analysis stating the expected break-even point and its primary assumption dependencies; an opportunity cost assessment identifying the primary alternative use of the committed resources; and a reversibility assessment.

6.2.L2.3: The strategic decision model is stress-tested under a scenario in which the primary revenue or efficiency assumption is delayed by six months, with the cash runway implications documented.

6.2.L2.4: The strategic decision model is presented to the board or equivalent governing body before the decision is implemented, and the board's decision to approve, modify, or decline the initiative is documented.

6.2.L2.5: Where a strategic initiative is approved, the company defines at minimum two stage-gates: a first review at ninety days from implementation assessing whether the initiative is tracking against the strategic decision model; and a second review at one hundred and eighty days. The criteria for continuation, modification, and abandonment at each stage-gate are documented at the time of the decision.

6.2.L2.6: For acquisition decisions, the strategic decision model is supplemented by a build vs buy analysis that documents the cost and risk of developing the same capability internally, the integration cost and timeline of the acquisition, and the financial terms and structure of the transaction.

Level 3

6.2.L3.1: The company maintains a strategic decision register documenting all strategic decisions made in the current and preceding financial year, with the original strategic decision model, the stage-gate outcomes, and the actual financial performance of each initiative against the model, updated quarterly.

6.2.L3.2: The strategic decision model uses the scenario architecture maintained under Book 2, Section 2.3 as the framework for the stress-test scenarios, ensuring consistency between the company's operating scenario framework and its strategic decision modeling methodology.

6.2.L3.3: At year end, the company reviews all strategic decisions made in the year against the strategic decision models prepared for each, documents the accuracy of each model's primary assumptions, and incorporates the findings into the methodology for future strategic decision modeling.

6.2.L3.4: For AI-Native companies making decisions about model training investment or compute infrastructure scaling: the strategic decision model includes a compute cost projection showing the relationship between the investment and the expected improvement in model performance or cost efficiency, the timeline to that improvement, and the financial return from that improvement at the company's current and projected usage scale. Where the financial return depends on model performance improvements that are not yet demonstrated, that dependency must be disclosed and a scenario in which the improvement is not achieved must be modeled.

BENCHMARKS

Strategic decision model depth by decision size:

- Decisions representing ten to twenty-five percent of monthly operating expenses on a recurring basis: a financial model covering the cost, revenue or efficiency impact, and cash drag for a minimum twelve-month period from implementation.
- Decisions representing more than twenty-five percent of monthly operating expenses on a recurring basis: a full strategic decision model as defined in this section, stress-tested, with board review and documented approval.
- Market entry decisions: regardless of cost, a market entry decision requires a strategic decision model covering the full ramp period from initial investment to break-even, including the cost of establishing local distribution, sales capacity, regulatory compliance, and the minimum customer count required to reach cash flow break-even in the new market.

Break-even timeline benchmarks by decision type:

- New market entry: break-even in the new market within twenty-four months is a commonly used internal threshold in growth-stage companies. An initiative that cannot reach break-even within twenty-four months under base case assumptions requires exceptional justification by reference to the strategic value of establishing the market position ahead of break-even.

- New product line: break-even within twelve to eighteen months at Growth Stage.
- Acquisition: the financial model should demonstrate a path to break-even on the total acquisition consideration within a period consistent with the company's growth trajectory and the strategic value attributed to the acquisition.

COMMON DEFICIENCIES

CD 6.2.1: The company decides to enter a new geography. The decision is made at a management offsite based on a market opportunity discussion. No financial model of the expansion is prepared before the decision is announced. Three months after announcing the expansion, the company has committed to a local office, hired two market-specific employees, and engaged a local distribution partner. A financial model prepared at this point reveals that the cash drag during the ramp period exceeds the company's available cash runway by four months. The expansion is not reversible at low cost. The company must raise additional capital earlier than planned to fund a decision that was made without financial analysis.

CD 6.2.2: The company's board approves an acquisition of a smaller competitor. The strategic decision model prepared for the board covers the acquisition price and the projected revenue from the acquired customer base. It does not model the integration cost, the management time required, the technology migration cost, or the customer churn that commonly follows acquisitions in the company's sector. The total cost of integration exceeds the acquisition price. The actual cash drag is three times the modeled cash drag. The break-even is delayed by fourteen months beyond the model's projection.

CD 6.2.3: The company approves a strategic decision to build a new product capability in-house rather than acquiring a company with existing capability. The build vs buy analysis compares only the acquisition price to the estimated engineering cost. It does not model the opportunity cost of the engineering capacity diverted from the core product, the timeline risk of internal development, or the competitive risk of the twelve-month development period. The internal development takes twenty-two months rather than the modeled twelve. The competitor advances its position during the development period. The strategic decision model understated the full cost of the build option by omitting opportunity cost and timeline risk.

CD 6.2.4: An AI-Native company decides to upgrade its model from a third-party API to a proprietary fine-tuned model. The strategic decision model covers the training cost and the expected inference cost reduction. It does not model the ongoing maintenance cost of the proprietary model, the cost of the data infrastructure required to support continuous fine-tuning, or the scenario in which the third-party foundation model improves faster than the company's proprietary model. The total cost of model ownership exceeds the inference cost savings for the first three years. The decision produces a negative financial return in the period modeled.

SECTION 6.3: THE DEPARTMENTAL FINANCIAL PLANNING STANDARD

PURPOSE

The departmental financial planning standard governs the construction, integration, and management of financial plans at the individual department level. The company-level financial infrastructure defined in Books 1 through 5 is a consolidation of departmental financial activities. The quality of that consolidation depends on the quality of the inputs from each department. A company-level model built from undocumented departmental assumptions, informal headcount plans, and undefined cost allocation

methodologies is structurally unreliable regardless of its presentation quality. This section requires that each department maintains its own financial plan as a formal input to the company-level model.

DEFINITIONS

DEPARTMENTAL FINANCIAL PLAN: A financial plan covering one functional department of the company, specifying the department's planned headcount, fully loaded personnel costs, direct operating expenses by category, planned initiatives and their costs, and the revenue or efficiency contribution the department is expected to deliver. A departmental financial plan is a formal input to the annual operating plan and must be consistent with the company-level plan when aggregated.

FUNCTIONAL DEPARTMENT: A defined organisational unit with a designated head, a distinct operating budget, and a defined contribution to company-level revenue or efficiency. The minimum departmental structure for financial planning purposes is: sales and customer success; marketing; product and engineering; and general and administrative. Companies at Scale Stage maintain additional functional departments as their organisational structure requires.

COST CENTRE: A department or organisational unit that consumes resources but does not directly generate revenue. General and administrative, product and engineering, and marketing (where marketing is not directly attributable to revenue) are cost centres. Cost centre budgets are managed against the planned allocation in the annual operating plan.

PROFIT CENTRE: A department or organisational unit whose financial performance is measured on a revenue and cost basis. Sales is typically managed as a profit centre, with performance measured against a revenue quota and a cost budget. Where a company has multiple product lines or geographies, each may be structured as a profit centre.

COST ALLOCATION: The assignment of shared costs, such as facilities, information technology infrastructure, and administrative services, to the departments that consume them. The cost allocation methodology must be documented and applied consistently across all periods. An undocumented cost allocation methodology makes departmental financial plans incomparable across periods and between departments.

DEPARTMENTAL HEADCOUNT PLAN: The component of a departmental financial plan that specifies current employees by role, planned new hires by role and date, planned departures by role and date, and the fully loaded cost of each position. The departmental headcount plan is the primary mechanism by which the annual operating plan controls personnel cost. A company whose actual headcount deviates from the departmental headcount plan without a formal plan amendment has a control deficiency.

CROSS-DEPARTMENTAL DEPENDENCY: A planned activity in one department whose completion or success depends on inputs from another department. Cross-departmental dependencies must be identified in each departmental financial plan and reconciled in the annual operating plan, so that the plans of dependent departments are consistent with each other.

DEPARTMENTAL VARIANCE REPORT: A monthly report produced by each department comparing actual expenditure and headcount against the departmental financial plan, documenting variances by category and providing a written explanation for any variance exceeding ten percent of the planned figure.

PRINCIPLES GOVERNING THIS SECTION

The departmental financial plan is not the department head's wish list. It is a financial commitment made by the department head to the company, reviewed and approved by the chief executive or financial lead, and incorporated into the annual operating plan as a binding input. A department that consistently overspends its plan without a formal amendment process undermines the integrity of the company-level financial model.

Personnel costs must be planned at the individual role level, not as an aggregate headcount cost. An aggregate personnel cost budget that does not specify the roles, hire dates, and fully loaded costs of planned positions cannot be managed against actual hires, cannot be reconciled to the payroll at the end of the period, and does not provide the information required to assess whether actual headcount growth is consistent with plan.

The sum of all departmental financial plans must equal the company-level plan. Where the sum of departmental plans exceeds the company-level plan, the excess must be reconciled before the annual operating plan is approved. A company-level plan that cannot be reconciled to the sum of its departmental inputs is not a bottom-up plan; it is a top-down plan with departmental decoration.

COMPLIANCE CRITERIA

Level 1

6.3.L1.1: The company maintains a documented operating budget for the current financial year, organised by functional department.

6.3.L1.2: Actual expenditure is compared to the departmental budget at minimum quarterly, and material variances are documented.

Level 2

6.3.L2.1: Each functional department maintains a departmental financial plan as a formal input to the annual operating plan, covering planned headcount by role with hire dates and fully loaded costs, direct operating expenses by category, and planned initiatives with individual cost estimates.

6.3.L2.2: The sum of all departmental financial plans reconciles to the company-level annual operating plan; any allocation of shared costs is documented using a consistent cost allocation methodology.

6.3.L2.3: Each department produces a monthly departmental variance report within fifteen working days of month end, comparing actual headcount and expenditure to plan and providing written explanation for any variance exceeding ten percent of the planned figure.

6.3.L2.4: Cross-departmental dependencies are identified in each departmental plan and reconciled in the annual operating plan before it is approved, such that no department's plan assumes inputs from another department that the other department's plan does not commit to deliver.

6.3.L2.5: Any new hire that was not in the approved departmental headcount plan, or any hire at a fully loaded cost more than fifteen percent above the planned cost for that role, requires written approval from the chief executive or financial lead before the hire is made, and the approved headcount plan is updated to reflect the addition.

6.3.L2.6: For the sales department: the departmental financial plan includes a sales capacity model as defined in Book 2, Section 2.4, connecting planned sales headcount to projected revenue and demonstrating that the revenue plan is achievable under the stated headcount and quota assumptions.

Level 3

6.3.L3.1: Each departmental financial plan integrates with the company-level three-statement model, such that a change in a departmental assumption updates the company-level income statement, cash flow statement, and balance sheet without manual recalculation.

6.3.L3.2: The company maintains a cost allocation model that distributes shared costs across departments using a documented methodology, and the methodology is reviewed annually to assess whether the allocation reflects actual consumption.

6.3.L3.3: Each department head reviews their departmental variance report with the financial lead monthly and documents any changes to forward assumptions that result from the variance analysis.

6.3.L3.4: The company maintains a departmental financial planning calendar specifying the submission deadline for departmental plan inputs, the management consolidation timeline, and the board approval date for the annual operating plan.

BENCHMARKS

Departmental variance tolerance benchmarks:

- Personnel costs by department: plus or minus five percent per quarter is the outer bound of acceptable variance from the approved departmental headcount plan, reflecting the high degree of control that management has over hiring timing and role specification.
- Direct operating expenses by department: plus or minus ten percent per quarter for controllable cost categories. Non-controllable cost categories, such as software licence renewals and facilities charges, may be subject to wider variance where the variance is driven by factors outside management control; these must be documented as non-controllable and the variance explained.
- AI-Native departmental planning benchmarks: for AI-Native companies, the engineering and infrastructure department's financial plan must include a compute cost budget modeled against the projected usage volume at the company's current growth rate. The compute cost budget must distinguish between fixed infrastructure costs and variable inference costs, as defined in Book 2, Section 2.5. A compute cost budget that is stated as a fixed monthly amount without reference to usage volume does not satisfy the requirements of this Standard for AI-Native companies.

COMMON DEFICIENCIES

CD 6.3.1: The company's annual operating plan contains a single personnel cost line for the engineering department totalling seven hundred thousand pounds for the year. The line is not broken down by role, hire date, or individual cost. By month seven, actual engineering personnel costs are nine hundred and twenty thousand pounds, representing a thirty-one percent overrun. The company cannot determine whether the overrun resulted from hiring more people than planned, hiring at higher salaries than planned, or accelerating the hire dates of planned roles, because the plan did not specify roles, rates, or dates. The company has no basis for a controlled management response.

CD 6.3.2: The company's sales department plan projects revenue that requires twelve quota-carrying sales employees. The current sales team has seven employees. The plan assumes five new hires in the first quarter. The recruiting plan has not been reviewed with the human resources function or the finance team. By the end of the first quarter, only two new sales employees have been hired because three offers were declined and one approved candidate withdrew. The revenue plan for the year is not achievable under the actual headcount. The sales capacity model was not reconciled to a realistic hiring timeline.

CD 6.3.3: The company's marketing and sales departments each maintain separate pipeline models. The marketing department's plan projects a volume of marketing qualified leads that, at the sales department's stated conversion rate, would produce one hundred and forty percent of the revenue target. The sales department's plan projects a different volume of qualified pipeline based on its own conversion assumptions. The two plans have not been reconciled. The annual operating plan aggregates both plans at company level without identifying the inconsistency. The revenue target is supported by two internally inconsistent departmental plans.

SECTION 6.4: THE KPI FRAMEWORK STANDARD

PURPOSE

The KPI framework standard governs the selection, definition, tracking, and reporting of key performance indicators across the company. A key performance indicator is a metric that provides actionable information about whether the company is on track to achieve its financial and operational objectives before the financial statements confirm the outcome. A KPI framework that measures what has already happened rather than what is likely to happen, that tracks metrics the company cannot influence, or that presents so many metrics that no single one commands attention, does not satisfy the requirements of this Standard. The purpose of the KPI framework is to give the founding team, the board, and the investors the earliest possible signal that the company's trajectory is or is not consistent with its plan.

DEFINITIONS

KEY PERFORMANCE INDICATOR: A specific, measurable metric that meets all four of the following criteria: it is a leading indicator, meaning it provides information about future financial or operational outcomes before those outcomes are recorded in the financial statements; it is actionable, meaning a change in the metric produces a specific and known management response; it is within the company's control, meaning management decisions directly influence the metric rather than merely observing it; and it is calculated using a consistent, documented methodology that produces a figure comparable across periods.

LEADING INDICATOR: A metric whose change precedes, and is predictive of, a subsequent change in a financial outcome. The number of qualified leads entering the sales pipeline is a leading indicator of revenue three months later. Monthly active user growth is a leading indicator of future recurring revenue for subscription businesses. Leading indicators must be distinguished from lagging indicators, which record what has already happened, in any compliant KPI framework.

LAGGING INDICATOR: A metric that records a financial or operational outcome that has already occurred. Revenue, gross margin, net income, and cash balance are all lagging indicators. They confirm what happened but do not predict what is about to happen. Lagging indicators are necessary for financial management and investor reporting but do not constitute a KPI framework under this Standard when used alone.

VANITY METRIC: A metric that appears to measure progress but does not connect to a financial outcome that the company cares about and cannot be traced to a management decision that would change it. Total website visitors without conversion data, total app downloads without active user data, and total social media followers without engagement-to-revenue attribution are vanity metrics. A KPI framework that includes vanity metrics reduces the signal value of the framework by consuming attention on measures that do not predict outcomes.

KPI DASHBOARD: A structured presentation of the company's key performance indicators, showing the current value of each KPI, the target value from the annual operating plan, the variance from target, and the trend over the preceding three to six periods. The KPI dashboard is the primary operating tool for weekly and monthly management review.

NORTH STAR METRIC: The single metric that most directly captures the value the company delivers to its customers and that, when it grows, is most reliably associated with the long-term financial success of the business. The North Star Metric is not a financial metric. It is the operational outcome that drives financial results. For a Recurring Revenue company, the North Star Metric is commonly related to customer activation or product engagement that predicts retention. For a Consumer company, it is commonly related to the frequency and depth of user engagement that predicts lifetime value.

METRIC OWNER: The individual within the company responsible for the accuracy of a specific KPI, the methodology used to calculate it, and the management actions taken in response to it. Every KPI in a compliant framework has a named metric owner.

METRIC DEFINITION DOCUMENT: A written specification of each KPI in the framework, covering: the exact calculation methodology; the data source; the update frequency; the metric owner; the target value and the basis for that target; the management response triggered by a defined deviation from target; and the date the definition was adopted. A metric whose calculation methodology is not documented cannot be compared across periods because the methodology may change without disclosure.

THRESHOLD: A defined level of a KPI that, when breached, triggers a specific management response. A threshold is distinct from a target: a target is the value the company aims to achieve; a threshold is the value below which a specific action is required. A company that tracks KPIs without defined thresholds is observing its performance; a company that sets thresholds is managing it.

PRINCIPLES GOVERNING THIS SECTION

The KPI framework must include leading indicators as the primary metrics. A company whose KPI dashboard consists entirely of lagging financial metrics is not managing forward; it is recording the past. The value of the framework lies in its ability to surface the signal that a course correction is required before the financial consequences of the deviation become visible in the income statement.

Every KPI in the framework must be connected to a financial outcome in the financial model. The connection must be documented: the KPI is a leading indicator of a defined financial metric, and the expected lead time from a change in the KPI to the corresponding change in the financial metric must be stated. A metric that cannot be connected to a financial outcome in the model is not a KPI for the purposes of this Standard; it is a monitoring metric.

The KPI framework must be small enough to be actionable. A framework with more than twelve KPIs at the company level produces a dashboard from which no single metric can command sufficient management attention. The Standard requires that the company identifies its most important leading indicators, not that it tracks every observable metric.

COMPLIANCE CRITERIA

Level 1

6.4.L1.1: The company has identified at minimum five KPIs that meet the definition of a key performance indicator as defined in this section, at least three of which are leading indicators.

6.4.L1.2: Each KPI is tracked at minimum monthly and the current value of each KPI is known to the founding team without document consultation.

6.4.L1.3: Each KPI has a stated target for the current financial year, derived from the annual operating plan or the financial forecast.

Level 2

6.4.L2.1: The company maintains a KPI framework of five to twelve company-level KPIs, each of which meets the four criteria of the key performance indicator definition: it is a leading indicator, it is actionable, it is within management control, and it is calculated using a consistent documented methodology.

6.4.L2.2: Each KPI in the framework is documented in a metric definition document, covering the calculation methodology, data source, update frequency, metric owner, target value with its basis, and the management response triggered by a defined deviation from target.

6.4.L2.3: The KPI dashboard is updated at minimum monthly and presented to the board or equivalent governing body at each scheduled board meeting, showing current value, target, variance, and trend for each KPI.

6.4.L2.4: Each KPI is connected to a financial outcome in the financial model with the expected lead time documented: the metric owner can state, for each KPI, which financial line it is a leading indicator of and the approximate lag between a change in the KPI and the corresponding change in the financial metric.

6.4.L2.5: At least one KPI in the framework is a leading indicator of cash runway: a metric that, when it deteriorates, signals a future cash constraint before that constraint appears in the cash position. For Recurring Revenue companies, monthly recurring revenue growth rate and net revenue retention serve this function. For transactional businesses, weekly transaction volume serves this function.

6.4.L2.6: Threshold values are defined for at minimum three KPIs in the framework, with the specific management response triggered by each threshold breach documented.

6.4.L2.7: The KPI framework is reviewed annually at the start of the planning cycle and updated to reflect any changes in the company's primary revenue model, growth mechanism, or strategic priorities.

Level 3

6.4.L3.1: The company has identified its North Star Metric and has documented the connection between the North Star Metric and long-term revenue retention, using cohort data where available.

6.4.L3.2: Each functional department maintains a set of two to four departmental KPIs that are leading indicators of the department's financial contribution, connected to the company-level KPI framework, and reviewed monthly in the departmental variance report.

6.4.L3.3: The company maintains a KPI evolution log documenting any change to the definition, methodology, or target of any KPI, the date of the change, and the reason for it. Historical KPI values are restated under the new definition where the definition change affects comparability.

6.4.L3.4: The KPI framework is validated annually against actual financial outcomes, assessing whether the leading indicators identified in the framework have in fact predicted the financial outcomes they were intended to predict, and updating the framework where a metric has proved not to be a reliable predictor.

BENCHMARKS

KPI framework composition benchmarks by company type:

RECURRING REVENUE COMPANIES

Company-level KPI framework must include at minimum: monthly recurring revenue growth rate; net revenue retention; customer acquisition cost by primary channel; LTV to CAC ratio; and cash runway at current net burn. These five metrics cover the three most important financial risk areas for a Recurring Revenue company: growth momentum, customer base quality, and capital efficiency.

Additional leading indicators commonly maintained: sales qualified lead volume; trial-to-paid conversion rate; product activation rate for new customers; and support ticket volume per customer as a leading indicator of churn risk.

TRANSACTIONAL REVENUE COMPANIES

Company-level KPI framework must include at minimum: weekly transaction volume trend; average transaction gross margin; customer acquisition cost by channel; repeat purchase rate at thirty and ninety days; and cash runway.

CONSUMER COMPANIES

Company-level KPI framework must include at minimum: daily active users or monthly active users depending on engagement frequency; day seven and day thirty retention rate; average revenue per active user; user acquisition cost by channel; and cash runway.

B2B ENTERPRISE COMPANIES

Company-level KPI framework must include at minimum: qualified pipeline value; pipeline conversion rate from stage two to close; average sales cycle duration; net revenue retention; and cash runway.

AI-NATIVE COMPANIES

Company-level KPI framework for AI-Native companies must include company-type-specific leading indicators that reflect the distinctive financial structure of AI-leveraged businesses. Required metrics include at minimum: usage volume per active customer; inference cost per unit of output; gross margin at current usage scale; model performance metrics that predict customer retention where these are measurable; and cash runway.

The inclusion of model performance metrics as a KPI for AI-Native companies reflects the direct connection between model quality and customer retention in AI-Native businesses. A deterioration in

model performance is a leading indicator of churn in a way that has no direct analogue in traditional software businesses. The model performance metric must be defined precisely, the measurement methodology documented, and the connection to retention and revenue established using available cohort data.

Leading indicator design benchmarks:

A compliant leading indicator anticipates its corresponding financial outcome by at minimum four to eight weeks. A metric that anticipates an outcome by less than two weeks is not a leading indicator; it is near-real-time tracking of a lagging metric. The lead time of each KPI must be documented and validated against historical data where the company has sufficient history.

COMMON DEFICIENCIES

CD 6.4.1: The company's KPI dashboard contains ten metrics. Eight of the ten are lagging financial metrics: revenue, gross margin, operating loss, cash balance, runway, headcount count, customer count, and average revenue per customer. Two are leading indicators: pipeline volume and trial-to-paid conversion rate. The dashboard is presented to the board monthly. Board discussion focuses on the eight lagging metrics because they are larger in number and familiar in interpretation. The two leading indicators receive minimal discussion. A deterioration in the trial-to-paid conversion rate over three consecutive months is not identified as a signal requiring management action. Revenue decline six months later is attributed to market conditions rather than to the conversion rate trend that preceded it.

CD 6.4.2: The company tracks twenty-two metrics across all functional teams. No metric has a named owner, a documented methodology, or a defined threshold. The metrics are updated at different frequencies by different team members using different data sources. A discrepancy between two metrics that should be related, customer count in the sales CRM and active customer count in the product database, is identified during investor due diligence. The company cannot explain the discrepancy because neither metric has a documented calculation methodology. The investor identifies the inconsistency as evidence of insufficient operational control.

CD 6.4.3: The company defines its North Star Metric as total registered users. Total registered users grows consistently because the company's marketing investment drives sign-ups. Thirty day retention of registered users is twelve percent and declining. The North Star Metric does not capture whether users are activating, engaging with the product, or deriving value. It measures an input to the product, not an outcome from it. A growing total registered user count alongside declining retention is a signal that the company's growth investment is not producing durable value. The KPI framework does not surface this signal because the metric chosen as the North Star does not predict retention or lifetime value.

CD 6.4.4: A company raises a bridge round reactively after discovering that its cash runway has fallen to six weeks. The KPI dashboard tracks revenue and expenses but does not include a leading indicator of cash runway. Monthly recurring revenue growth has been declining for four months and net revenue retention has been below one hundred percent for three months. Both metrics were visible in the monthly reports but neither had a defined threshold that triggered a management response. A leading indicator framework that treated a sustained decline in monthly recurring revenue growth below a defined threshold as a cash risk signal would have surfaced the issue seven months before the runway crisis.

STAGE AND LEVEL APPLICABILITY

The compliance level expectations for each section of Book 6 are as follows.

Section 6.1: Annual Operating Plan Standard

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 6.2: Strategic Decision Modeling Standard

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 6.3: Departmental Financial Planning Standard

Pre-Incorporation: no requirement

Pre-Revenue: no requirement

Early Revenue: no requirement

Growth Stage: Level 2

Scale Stage: Level 3

Section 6.4: KPI Framework Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

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.

VERSION AND STATUS NOTES

This volume, Beta v0.5, comprises Book 0 and Book 1 as the Foundation Volume and extends through Books 2, 3, 4, 5, and 6 in the extended beta release. Book 6 completes the seven-Book architecture of the Founder Financial Infrastructure Standard as defined in Book 0, Section 0.1.

The complete Standard now covers: Book 0 (Foundations and Definitions); Book 1 (Financial Architecture); Book 2 (Performance Modeling and Forecasting); Book 3 (Capital Structure and Equity); Book 4 (Valuation); Book 5 (Investor Readiness); and Book 6 (Strategic Financial Planning).

Version 1.0 will incorporate practitioner feedback received during the beta review period across all seven Books. The primary areas in which v1.0 will expand on the beta are: quantitative benchmarks for AI-Native companies, for which sufficient market data was not available at the time of beta preparation; regional benchmark appendices for the United Kingdom, United States, European Union, Middle East, and other markets; and the independent advisory panel governance structure for major version amendments from v2.0 onward.

Feedback on any section of the Standard may be submitted to standard@ffistandard.org with reference to the specific Book, section, and criterion number. All feedback received before the close of the beta review period will be considered in the preparation of v1.0.