

greenborough

Basics of Investment Readiness



2018

To understand whether your business is “investment ready”, you really need to have addressed a number of key criteria. Experience tells us that these criteria form the primary basis for investment decisions by equity investors; although they can equally apply to those raising funding from other sources (grants, loans etc.).

1. A clearly defined product or service that can be explained in lay terms, without the need for technical competence. What is the problem that your product seeks to address? Can you create barriers to entry to hinder competitors from taking your market? Have you a defensible intellectual property position? Is it protected?
2. Have you identified your unique sales proposition (USP)? Can you explain how you differ from your competition? What is the core product or service element that makes you better/faster/cheaper than your competition?
3. Sales forecasts. Investors will want to see that you have ambitious growth projections, but that they are based upon reasonable, and reasoned, assumptions. Have you developed early, even trial, sales in the market? Can you prove that there is some tangible interest from your target customer groups? It is important that your sales assumptions are based upon credible evidence. Can you evidence letters of intent to purchase/order?



4. The strength and experience of the management team. Are your team enthusiastic, dynamic, credible and committed? Have they a strong track record of having grown successful businesses in the past? Do you have sectoral and functional identified the gaps in the management team that specialists within the team? If not, have you external investment can help plug?

Remember that investors, even institutional ones, invest in people as much as businesses!

5. Do you have both a full Business Plan and an excellent Executive Summary? The Summary needs to become the bait that attracts an investor to show interest in your business. It therefore needs to be attractive, catchy, complete and brief. If an investor becomes interested, do you have a complete Business Plan (with all of the details filled in) to be able to supplement the Summary?
6. Clear and complete financials. Unsurprisingly, all investors (whether business angels or Bank Managers) will show a keen interest in your financial projections. Where appropriate, depending on your trading circumstances, you will need to provide
 - Trading history
 - Income and expenditure (profit and loss) projections for the next 5 years
 - Cashflow projections for the next 5 years (cash is vital to being able to grow a business)
 - Balance sheet forecasts for the next 5 year ends
 - Sensitivity analyses showing the effect of a reduction in sales achievements
 - A headline investment plan, showing how the externally generated funds will be invested in the business
7. Can you justify both your current and future business valuations? It is important to note that you will be selling shares (equity) in your business and, as such, you will need to provide a justification for the price that you are charging. Similarly, investors are going to want to see that the future value of their investment is a healthy multiple (see 8 below) of their initial investment.
8. Most investors will want to see that they can get their return over a 3-7 year horizon. You will need to explain when your investor is likely to get his/her money back; at what amount (aim for a multiple of between 5 and 10x); and what mechanism you will put in place to facilitate their exit (trade sale, share buy-back, additional investment round etc).

9. Ensure that your business status enables equity investment. At the simplest level, this means making sure that you have an incorporated private company, with appropriate issued share capital and a shareholders' agreement, to enable someone external to invest in your business.
10. Define your ideal investor. Most business angels will want to add more than cash to your growing business. Although you may be nervous about having an external investor interfere in your business, in reality the best investors will want to help you to grow your business (by adding expertise, opening doors, helping set up contracts etc.).

Whilst this checklist may appear, at first sight, a little daunting it is worth investing some time (and perhaps money) up-front to optimise your chances of attracting the right investor, and within a reasonable time frame.

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