

# INVESTOR READINESS

How to ensure your business is best placed  
for Investment success!



# SRJWW

## Growing Business Growing People

- **About Dianne Brown**

- Chartered Accountant
- Business Advisor
- Education/Training Specialist
- Strategic Business Planning
- Profit Improvement Advice
- Accredited Mindshop Facilitator (AMSF)
- Queensland Business Mentor (DEBST)
- **Dianne.brown@srjww.com.au**



# Investor Readiness

- Sources of Potential Funding
- Value Proposition
- Market Opportunity
- Management Capability
- Execution Plan
- Exit Strategy & Valuation
- 10 elements all investors want
- Pitch

# Sources of Funding

## Internal Investors

- Owners, Management, Employees, Banks

## External Investors

- Shareholders, **Government Grants**, Supply Chain partnership, JV's etc

## Angel Investors

- Affluent individuals investing in early stage enterprises (\$25k+) – “Brisbane Angels”
- Usually request equity or convertible debt (if can't pay back debt by due date, converts to equity)
- “Pitch”

## ESIC Investment

- Early stage innovation companies
- Tax incentives for investors
- Criteria apply (expenses <\$1mill, assessable income <\$200k) + Innovation Test
- See <https://esichub.com/>

# Sources of Funding

## Venture Capital

- Firms that invest other entities' money in early stage enterprises (\$50k+)
- Usually request equity or convertible debt
- “Pitch” events

## Private Equity

- Firms that invest other entities' money for **mature** companies to innovate

## Crowd Funding

- Online platforms such as Pozible and Go Fund Me
- Need “buy in” from your crowd – connect to people
- Cash contributions – ROI varies from goodwill to early-release products

## Equity Crowd Funding

- Corporations Amendment (Crowd Sourced Funding) Act 2017
- Unlisted public & Pty Ltd companies <\$25mill in assets and revenue
- Ability to raise up to \$5mill per year
- Up to \$10k per investor per year
- <https://equitise.com/invest>

# Sources of Funding

- Information requirements similar for whatever source of funding you are applying for, however **focus** for funder (and some data) will be different
- **GRANTS** = jobs & growth & economic/community development + ability to deliver
- **INVESTORS** = Return on Investment – how much equity, \$ dividends (and when), exit strategy + ability to deliver = people (passion, commitment, experience)
- **ALL funders** compare potential ROI v Risk

# Planning for Investment

- Engage Advisors early to support your pathway for value optimisation
  - Structure advice – facilitate framework for investment (equity, “Safe” notes, Convertible Notes, units in unit trust)
  - Taxation consequences – including eligibility for tax incentives if Early Stage Innovation Company
  - IP Protection

# Know your Value Proposition

- Why is your product innovative?
- What is your competitive advantage?
- Why will people buy your product/service?
- What identified need/issue is it addressing?
- What are the benefits of your product?
  - Save time/\$
  - Boost performance – ROI
  - Removes risk
- Independent evidence required



# Developing your Value Proposition

## Developing your Value Proposition

Product/Service Name:

Offers this essential benefit/gain:

Customer type:

To improve/Solve the problem/pain of:

In this better way:

# Developing your Value Proposition

- Consider “spill over” benefits of your product/service such as:
  - Increased collaboration between businesses and research institutions
  - Increased international profile for industry/market
  - Diffusion of knowledge and skills
  - Support for other industries – eg using Australian based manufacturer etc

# Quantify your Market Opportunity

- What is your demographic target ?
- What size is this market in terms of \$ revenue?
- How is your product/service scalable?
- What are the barriers to entry and how will you address these?
- See ABS, IbisWorld, economy.id and also <http://momtestbook.com/> to develop your skills on how to ask questions/ develop surveys to identify your market
- Validate your market – industry conventions with customer EOI + potential orders, Facebook stats (likes etc), Surveys where you validate key assumptions
- Provide independent verification from an expert in this field

# Management Capability

- What skills and expertise do you have to ensure the project is a success?
- How will you address any gaps?
- Consider an Advisory board

# Execution Plan

- Business Strategic plan
- Business structure – does it facilitate investment?
- Project activity – milestones, budget and deliverables
- Financial Model – sales cycles & pipeline, sustainable margins, positive cashflow
- IP Rights – what are they and how are they or will they be protected?
- Risk Analysis including mitigation strategies

# Exit Strategy

- Investors key focus = Return on Investment
  - For new businesses valuation is based on investors perception of the likelihood of return
  - Target investors from similar industry more comfortable with risk
  - Sophisticated Investors
- When
- How

# Exit Strategy - Valuation

- ROI based on future maintainable earnings (or potential FME for early stage busienss)
- Capitalisation rate (multiple of earnings) method to value free cash flow
- Simplified formula:
  - $XY$  where  $X = \text{FME}$  and  $Y = \text{EBIT multiple}$
  - EBIT multiple is reciprocal of investor's required capitalisation rate
  - EG Investor requires 25% ROI, reciprocal = 4

# 10 Elements all Investors want

## 1. People

- passion, commitment, experience, synergy

## 2. Value Proposition

- Solves a defined problem, unique

## 3. Intellectual assets

- Protectable, compelling, differentiated skill sets

## 4. Market and Customers

- Who, Where, Size, Barriers to entry, competitive awareness

## 5. Structure for Investment

- Company shares – share classes and voting rights, Units in unit trust, future dissolution of ownership, convertible notes or SAFE notes (simple agreement for future equity)



# 10 Elements all Investors want

## 6. Growth

- rapid v staged growth, clear strategy, global vision

## 7. Financial Model

- Sales cycle & pipeline, sustainable margins, path to positive cash flow, eligibility for Early Stage Investment

## 8. Strategic Fit

- Fits with investor's core business or portfolio

## 9. Exit for financial Investors

- Value creation, clear path for ROI, when, how, \$\$

## 10. Data

- Evidence – technical data support, verifiable & independent

# Developing your Pitch

- What's the **problem** or unmet need?
- What's our **solution**?
- Who's going to benefit? (**customer**)
- How big's the market? (**scalability**)
- What's the **WOW** factor?
- Why is it better than the competition?
- Why do we think you'd be interested?

# Developing your Pitch

- How will it make money? (**business model**)
- How do we know all this? (**data**)
- What's the **pathway** to market?
- What's the **timeline** from proposal to profit?
- How will we get there? (licence, sales, exit strategy including return on investment)
- What do you **need** to make this happen? (\$ investment)

# Developing your Pitch

- Create your pitch deck
  - Power point
  - For good examples – see [Startup Pitch Decks Of 21 Companies Before They Became Billion-Dollar Companies | CB Insights Research](#)
  - Detailed Investment Memorandum

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