

INVESTOR READINESS PROGRAM



GOVERNMENT OF
WESTERN AUSTRALIA

Department of
**Primary Industries and
Regional Development**



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The background image shows a bright, modern office building interior. A central staircase with a metal railing leads upwards. The architecture features curved white walls and walkways, with large windows and skylights allowing natural light. The overall aesthetic is clean and professional.

MAXIMISING INVESTOR READINESS

February 2020

PRESENTED BY TODD GROVER

OVERVIEW OF THE SESSION

Overview of the Department of Primary Industries and Regional Development (“DPIRD”)

- Seeking to help create jobs and improve career opportunities in regional Australia
- Looking to develop and broaden the economic base of the region
- Promote business development within the regions
- Have a particular focus (in this instance) on WA Agriculture and Food businesses

Objective of this Session

By the end of this you should be able to:

- Identify the key elements of investor readiness
- Describe the differences between selling equity and raising capital
- Know how to answer the questions that matter to investors
- Understand the key documents that support a capital raise
- Recognise the pros and cons of debt vs. equity financing



INTRODUCTION

1. Who am I
2. Cornerstone Elements to Investor Readiness

TEAM OVERVIEW



*All leads to credibility
(hopefully!)*

Who am I?

Background

- Partner in the Corporate Finance division, specialising in Mergers & Acquisitions, with extensive experience in negotiating and structuring complex corporate transactions across many sectors of industry.
- Prior to joining BDO, I was the co-founder and a Director of Tomkins Turner, a boutique corporate advisory firm that specialised in mergers and acquisitions for mid-market companies.

Most Recent Transaction

- Australian prison phone provider sells majority share to European market leader



Who is BDO?

BDO Overview (2018 Global Stats.)

- 1,591 offices in 162 countries & territories
- Global Headcount : 80,087
- Partner to Staff Ratio: 1 to 10
- Global Revenue US \$9 Billion

CORNERSTONE ELEMENTS OF INVESTOR READINESS

PRESENTED BY DANNY OLSEN

Cornerstone Element

Key Considerations

Business and Strategic Planning	What are you focused on today?
Financial Acumen	Books and records, KPI's and other financials measures
Legal	Ideal structure for potential investors?
People	Right people in the right roles?
Processes	Policies and procedures, systems and record keeping documented?



ATTRACTING INVESTMENT

1. Selling vs Raising Capital
2. 4 Key Questions an Investor will ask
3. Key Documents
4. Sources of Funds
5. Recap

SELLING VS RAISING CAPITAL

	Selling Equity	Raising Capital
<i>Investor Type</i>	<ul style="list-style-type: none"> Strategic / Trade-based Acquirers 	<p><i>Focus for Today's Session</i></p> <ul style="list-style-type: none"> Financial Investors - Individual, Venture Capital or Private Equity Most also bring skills
<i>Acquisition Characteristics</i>	<ul style="list-style-type: none"> 100% Acquisition May happen up front or over time 	<ul style="list-style-type: none"> Partial Equity Investment Seeking to partner
<i>Acquisition Rationale</i>	<ul style="list-style-type: none"> Buyer focused on what they can do with the business 	<ul style="list-style-type: none"> Investor focused on supporting your vision for the future

THE 4 KEY QUESTIONS ANY INVESTOR WILL ASK

You must have a clearly defined response with supporting materials

1

What does your business do?

2

How much money do you want and what are you going to do with the money?

3

What do I get (the investor)?

4

When do I (the investor) get my money back?

1. WHAT DOES YOUR BUSINESS DO?

Key Concepts

- Seemingly the easiest question to answer but is actually very tricky
- Your why vs your what
- What is the purpose of your business?
- What problem are you trying to solve?
- How do you execute your plan?
- What initiatives are required to execute your strategy?

Requirements to be Successful

- Needs **clarity in the your vision and story** for the business
- People like an exciting story. **Take them on your journey**
- A business plan is a story to help articulate your vision

Other Considerations

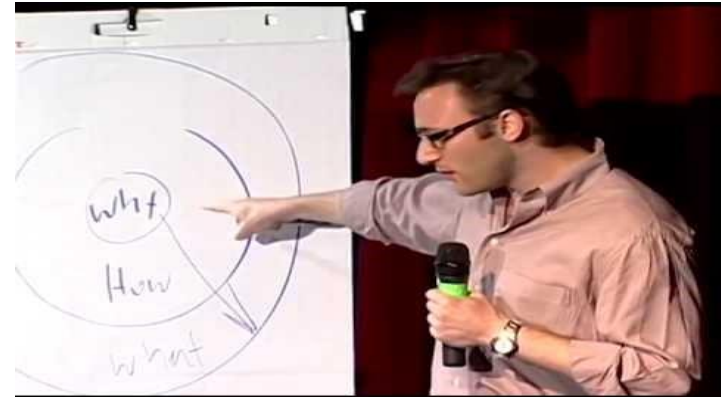
- **You are competing for investor dollars** so make your story more exciting than others
- Your **story needs to compliment the numbers**
- **Answer the 'Why' question.** This is far more important than the 'What' Question - See video!
- Example - do you want to buy my pen?

Questions to Answer

- What's your purpose?
- What problem are you trying to solve?
- How do you execute your plan?
- What initiatives required to execute your strategy?

How to Answer

- Strategy Document
- Business Plan



'Start with Why'
- Simon Sinek

2. HOW MUCH MONEY DO YOU WANT & WHAT ARE YOU GOING TO DO WITH IT?

Key Concepts

- Otherwise known as the ‘use of funds’
- Investor wants comfort that **your plan makes sense** to them
- Need to be clear on type of growth:
 - **Organic:** Using funds to grow by **building** capabilities
 - **Inorganic:** Using funds to grow by **acquiring** capabilities
- Investors with sector familiarity are more equipped to make an informed decision and more likely to get comfort in your assumptions

Requirements to be Successful

- Critical that you **align the business plan with the financial model**
- Need to **connect historical performance with projected performance**
- **Allow flexibility for ‘use of funds’** to impact future performance based on key performance drivers
- Many assumptions will be made. **Assumptions need to be believable** as investors will test them so plan to **support your views**
- Beyond investors, you will need to prove your views to other vendors including banks and accountants

Other Considerations

- Modelling mechanics are assumed if prepared by a professional

Questions to Answer

- How will the money you raise impact your business?

How to Answer

- Financial model



3. WHAT DO I GET?

Key Concepts

- A business valuation is implied by the % ownership that you as the owner will exchange in return for the money invested.
- Understanding **what makes a good partner**. Some investors bring more than just cash to the table and may be rewarded accordingly
- Investment ultimately considered on a **risk vs. reward basis**

Requirements to be Successful

- Clarity on what is driving the investor decision. Do they prioritise:
 - **Capital Appreciation**: Focused on investment growth over time (e.g. house purchase)
 - **Yield**: Seeking regular ongoing cash flows (e.g. apartment)
- Clear agreement across both parties on the level of control:
 - **Active**: An investor who wants to contribute to the strategic direction and execution of the business plan
 - **Passive**: An investor who will monitor performance but is willing to relinquish control in delivering on the business plan

Other Considerations

- Will the **investor hold a role**? Executive? Non-exec?
- **What salary / benefits** will be paid to an investor, if any?

“A percent of something is better than 100% of nothing”

	Pre-Money		Post-Money	
	Value	%	Value	%
<i>Entrepreneur</i>	\$4m	100%	\$4m	80%

<i>Investor</i>	-	-	\$1m	20%

<i>Total</i>	\$4m	100%	\$5m	100%

- A *How much money do you want?*
- B *What are you willing to give up to get it?*
- C *Tells me what my post-money value is*
- D *Tells me what my pre-money value is*

4. WHEN DO I GET MY MONEY BACK

Key Concepts

- Investors want to know **how they will get out before they get in**

Requirements to be Successful

- Need to be clear about **who** is investing and **why** they are investing
- Close ties to the response to 'what's in it for me'. Key insight is difference between **yield** and **capital appreciation**
- Who are we planning to sell to? How are we making ourselves attractive to them?

Questions to Answer

How to Answer

- | | |
|---|---|
| <ul style="list-style-type: none"> What's the exit plan? | <ul style="list-style-type: none"> Business Plan Market landscape |
| <ul style="list-style-type: none"> What's the investment term? | <ul style="list-style-type: none"> Financial Model |

	Initial Capital		Pre-Money		Post-Money	
	Value	%	Value	%	Value	%
<i>Entrepreneur</i>	\$4m	80%	\$12m	80%	-	-
<i>Investor 1</i>	\$1m	20%	\$3m	20%	-	-
<i>Trade Buyer</i>	-	-	-	-	\$15m	100%
<i>Total</i>	\$5m	100%	\$15m	100%	\$15m	100%

A The business is sold for a price 3 years later

B Tells me what each investor is owed

C Tells me the capital appreciation over time

The investor and entrepreneur earn 3x their money over 3 years!

DO YOU NEED AN ADVISOR?

THESE DOCUMENTS ARE KEY AS THEY ANSWER THE INVESTOR QUESTIONS

1

Strategy Document

2

Business Plan

3

Financial Model

4

Valuation

5

Market Landscape

1. STRATEGY DOCUMENT

Key Components	Description	Purpose
<i>Company Values</i>	<ul style="list-style-type: none"> Outline the non-negotiables for the business 	<ul style="list-style-type: none"> Lets investors know what are the core guiding beliefs of the business
<i>Core Purpose</i>	<ul style="list-style-type: none"> Articulation of what the reason is that the company exists 	<ul style="list-style-type: none"> Lets investors know why you are in business and why you will remain in business
<i>Target Market</i>	<ul style="list-style-type: none"> Document who the key customers are for the business. May include multiple segments 	<ul style="list-style-type: none"> Clarifies the main markets are for investors in assessing demand for products and services
<i>Your Promise to Customers</i>	<ul style="list-style-type: none"> What are the inherent promises to customers that come with products and services sold 	<ul style="list-style-type: none"> Clarity around what customers want and need from products and services purchased
<i>Positioning of the Brand</i>	<ul style="list-style-type: none"> Articulation of what the company name / logo represents in customer minds 	<ul style="list-style-type: none"> Helps investors understand the customer bias toward products and services offered
<i>Point of Difference</i>	<ul style="list-style-type: none"> Articulation of how the business differentiates its products and services from competitors 	<ul style="list-style-type: none"> Helps investors understand the pricing dynamics of products and services sold
<i>Short to Long Term Horizons</i>	<ul style="list-style-type: none"> Articulation of the short to long term opportunities available for business growth 	<ul style="list-style-type: none"> Inspires investors in the opportunities available to improve the business model

2. BUSINESS PLAN

Business Plan Example	
BUSINESS PLAN CONTENTS	1. INTRODUCTION Opportunity Highlights Investment Opportunity Product Range Overview Growth Opportunities Growth and Revenue Highlights Financial Overview – Scenario 1 Steady State Financial Overview – Scenario 2 Accelerated Growth Total Returns
	2. CAPITAL RAISE PROCESS Capital Raise Overview Indicative Offer
	3. BUSINESS DESCRIPTION Timeline Business Overview Company Purpose Precision Farming and Equipment High Quality Manufacturing Standards Key Benefits of Our Products Sales Model Suppliers Premises and Leases
	4. GROWTH OPPORTUNITY National Growth International Growth
	5. PRODUCTS Product Range Overview Products 1 / 2 / 3
	6. MARKET, INDUSTRY, COMPETITION Servicing the Food and Agribusiness Sector Market Landscape Major Competitors
	7. KEY MANAGEMENT Chief Executive Officer Organisational Chart
	8. FINANCIALS Basis of Preparation Statement of Financial Performance Cost Analysis Statement of Financial Position Research and Development Cash Flow Statement – Scenario 1 & 2
	9. SYSTEMS AND TRADEMARKS Information Systems and Accreditations Global Map of Trademarks Global List of Trademarks Registered Australian Trademarks

Snapshot
Overview <ul style="list-style-type: none"> The snapshot are the key selling points of any opportunity. Basically why an investor should go with you? Create it at the beginning and evolve it over time Critical final slide to review - make sure that it ties together your story!
Things to consider <ul style="list-style-type: none"> Key clients Future revenue secured Growth opportunities Demand for product/services Key management profile Unique selling point Track record Partnerships Best financial metrics Experience of business or team

3. FINANCIAL MODEL

A GOOD MODEL IS ONE WHERE IT IS EASY TO CONNECT INPUTS AND OUTPUTS

Key Components	Description	Purpose
<i>Inputs</i>	<ul style="list-style-type: none"> • These are the key assumptions that drive the forecast performance for the business • May includes 'scenario' tests to indicate what performance may look like under certain conditions (e.g. increased capex) 	<ul style="list-style-type: none"> • Allows investors to understand what the key drivers are of business performance • Gives the user flexibility to adjust key inputs as required • Helps investors consider where key due diligence areas are for the opportunity
<i>Calculations</i>	<ul style="list-style-type: none"> • This is the built up calculation methodology that aligns financial inputs to accounting methodology • Mechanics are assumed when model is created by a professional 	<ul style="list-style-type: none"> • Industry standard agreed metrics that turn inputs into relevant outputs from the analysis • Simplicity and elegance in the model build increases investor confidence in the model and reduced likelihood / perception of error
<i>Outputs</i>	<ul style="list-style-type: none"> • These are the key financial metrics and KPIs that are projected based on the key inputs • A dashboard may be used to help the user see the key drivers of the model • May also include sensitivity tables to indicate underlying assumption impact on projections 	<ul style="list-style-type: none"> • Helps the investor understand what they will get in return for their investment in capital • Connects the sources and uses of capital so that impact and timing of future performance can be considered when making an investment

4. VALUATION

KEY POINTS TO CONSIDER

1 Lots of different methods of valuation available, depending on purpose

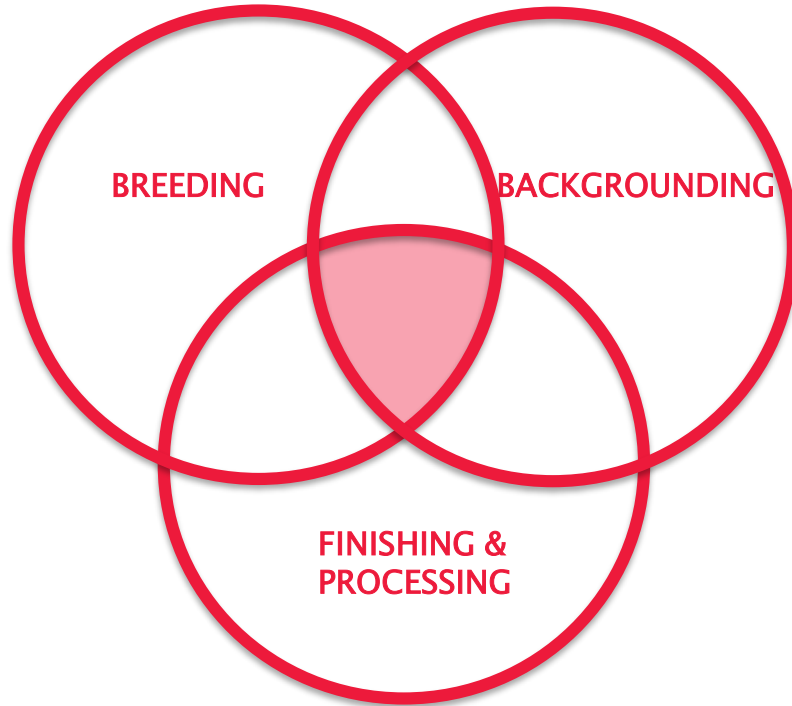
2 Third party valuations provide additional comfort to banks and investors

3 A risk that you sacrifice equity if not commercial- big opportunity cost for over/under

4 Big difference in value to the man on the street vs. someone with synergies. Pay away?

5. MARKET LANDSCAPE

Something that Andrew Forest might complete



Market Landscape

Overview

- Where do you play in the market
- How are you differentiated from your competitors
- Use this to identify and justify your ultimate strategic exit - e.g. who wants what you have?

Things to consider

- Market Growth / Profitability
- Competitive Tension (Concentration)
- Customers & End users
- Value Chain
- Market Drivers
- Threats

SOURCE OF FUNDS: DEBT

THERE ARE TWO PRIMARY SOURCES FOR DEBT FINANCING AVAILABLE

Banks

- Tough market with a high degree of concentration
- Very onerous requirements to secure financing
- Risk aversion is misaligned with the needs and characteristics of small & medium sized enterprises
- High exposure to verticals

Pseudo Banks / Family Funds

- Higher rates charged than banks. Can put undue stress on smaller businesses with limited free cash flow in servicing debt requirements
- More open to more novel risk vs. reward arrangements
- Similar approach to an equity investor where providing comfort in future performance is key to winning
- Provide structured products that are typically secured with tangible assets held by the business including:
 - **Convertible Notes:** Convertible notes are attractive because they provide downside protection to investors with equity upside potential. Common in VC investments
 - **Options:** Provide an option to acquire shares at a given 'strike price' allowing investors to minimise their early stage investment requirements.

SOURCE OF FUNDS: EQUITY

A NUMBER OF SOLUTIONS EXIST FOR EARLY STAGE AND DEVELOPED COMPANIES

Family & Friends

- First port of call for small business with small capital raises
- Typically has a lack of structured requirements which improves attractiveness for small firms
- Risk that personal relationships can be harmed by underperformance in the investment
- Typically has limits to how much capital a business can actually raise

Venture Capital

- Small deals have a high perceived risk so they are typically expensive. This means that a fair amount of equity will likely be required to raise VC funds
- Sometimes this is the only source of capital available so is the cost of starting out. This includes pre-revenue businesses
- Downside is that these firms demand reward for the risk they take

Private Equity (PE) / High Net Wealth (HNW)

- Capital available to more mature growth businesses
- These investors are typically looking for a proven business model with demonstrated future maintainable earnings
- These investors typically have more than just money to contribute to a business
- Can have inflexible timelines on exit
- Some businesses have a history of over-gearing in an effort to increase their return on equity in the business

Strategic Buyers

- More applicable for owners/entrepreneurs that are looking to sell their stake in a business
- Provides an opportunity to crystallise your achievements and walk away from the operations
- Limited ability to share in the upside of the business potential as you are effectively 'out' of the business

RECAP

1

Capital Raising is different to selling

2

Address the investors 4 big questions

3

Support those answers with materials

4

Source the right funding for you



QUESTIONS?

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