The Investment Readiness Toolkit

Free Downloadable Guide

Contents

Introduction

This free booklet is designed to get you started in your quest for raising capital, particularly equity. I update it regularly, and I hope you find it succinct and, above all, value-add.

Many people think that the recent financial crisis has made raising equity much more difficult. The reality is that it has always been difficult to raise equity, particularly for start up and young companies. Simply put, it is a very high risk endeavour for any investor and your job is to mitigate these risks as much as possible. Other opportunities will always be competing for this capital.

That said, good companies always get funded. There is always risk capital out there looking for strong opportunities.

I have written this booklet in the hope that for those of you who are committed; this will simply confirm, perhaps increase, those commitments and lead you to prepare fully for raising capital. For those of you who are not so committed, if this puts you off, then perhaps I have saved you a lot of time.

I live in the UK and this booklet reflects that. I would like to think that much of what I write here and the templates and documents available is applicable to any market based economy.

There are four main sections:

Chapter 1: Investors – the who/what/why/how.

Chapter 2: Preparation, Documentation and Presentation – what you need to undertake to give yourself the best chance of getting funded.

Chapter 3: The Process – The order in which you need to do things and realistic timelines.

Throughout the booklet I will view the world through the following framework. There are other ones, I know, but my long experience of raising capital from Institutions, Venture Capitalists and individuals is that they fundamentally share the same view:

- Value Proposition
- Market
- Barriers/IP
- Management
- Financials

Throughout the booklet I will also refer to other resources. I will use samples where I can. For a full complement of the databases, documents and templates, please see the Toolkit.

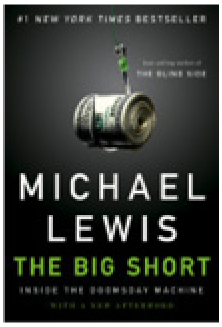
Chapter 1: Investors

Let's look at the following type of investors and potential sources of capital:

Banks

Personally, I do not see banks as pure 'investors', but I want to cover them here because it's important to show you that this can be a source of funding for your company.

Recently, banks have taken a huge battering from just about everyone on the way they operate. I'm an ex Investment Banker (please don't hold this against me) and I want to differentiate right from the start at which sector we are looking at: Commercial Banks.



(Investment Banks – Goldman Sachs, Merrill Lynch, JP Morgan etc. are usually the ones you hear about in terms of bonuses and risk. These banks, generally, are intermediaries and look to use other people's money, usually institutions like pension funds, mutual funds etc. to allocate capital to large companies or help them list on stock exchanges. It's a very well paid business as they are the confluence of information and capital. If you want to know more about these guys, read anything that Michael Lewis writes, like the Big Short.)

Commercial Banks (Lloyds, RBS, Barclays etc.) use their own capital, be it deposits, bonds etc to lend out to companies and individuals. A number of years ago, particularly in the UK and US, they realised how incredibly risky this was and focused their lending into large corporations, property and selling you products. [German banks, and the culture in general, is much more aligned to funding companies with bank debt.]

Lending capital to start up and young business has always been a difficult sell, not just after the Financial Crisis, and to be fair to most bank managers, their systems will simply not allow it. They are looking at four key areas:

1. Security: (Or Collateral). Funnily enough, banks want to see their money back and will invariably ask you to undertake a Personal Guarantee for any lending. This means they can come after you, not the company, to get their loans back. You MUST read the small print if you sign one of these and I would strongly recommend you get some legal advice (some banks won't even lend to you under this scheme unless you do this.)

2. Going to Zero: Related to above, the banks' main risk is that their loans become what they term "non performing". That is, they have lost their capital. I don't want to go into the details of how banks try to mitigate this, but if you think of it like this: They lend 20 companies £100,000 at 5%. Should one of those companies not payback the loan, then the bank is at breakeven (at best) – are you getting the picture how risky it is?

3. Products: There are a number of products out there that banks do offer, such as the Enterprise Finance Guarantee Scheme (see below), Factoring – buying your invoices to give you working capital, Export Finance Guarantee Scheme, Asset Finance etc. Your bank will have a full list if these, and some may prove useful.

4. Asset Based: If your business is asset based, i.e. property, then you will find the banks much more willing to lend, but at suitable 'loan to equity' rates. Again, Personal Guarantees will invariably be required.

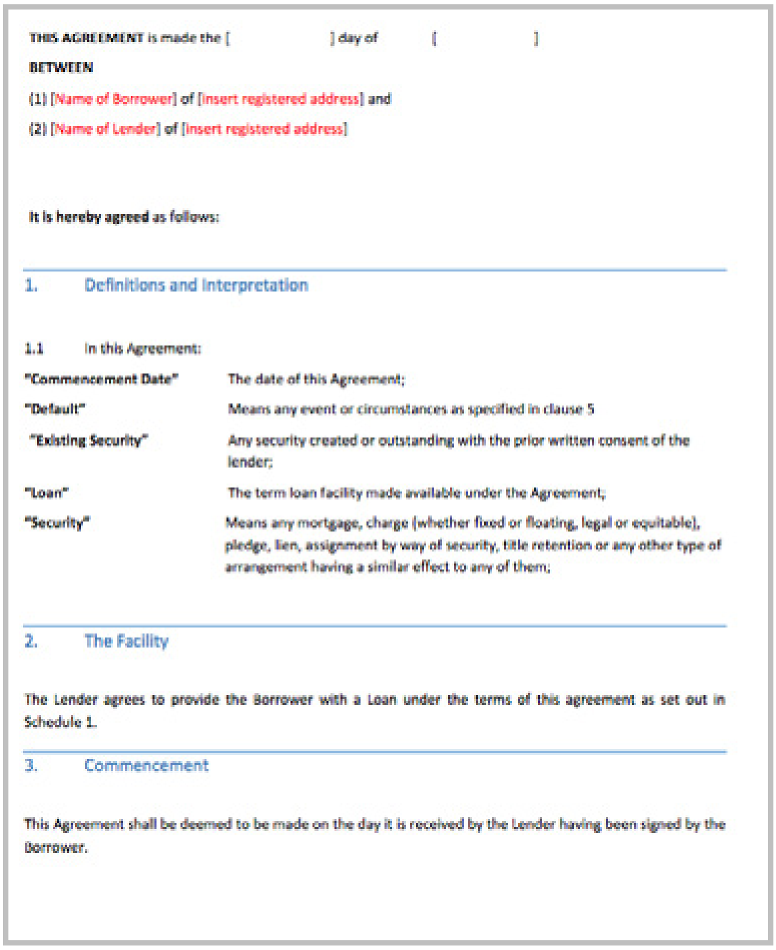
I will mention the Enterprise Guarantee Scheme separately here. More information can be found at https://www.gov.uk/understanding-the-enterprise-finance-guarantee . Although it looks like a no-brainer – i.e. the government 'backing' this loan to 75% of its value, just be clear that behind this agreement, the banks have agreed with the government that should these loans become non-performing on a portfolio bases above a certain percentage (I don't know for each case for sure, but would hazard a guess at 10%), then this government guarantee is removed. As such, they are still hard loans to get. Secondly, the bank will invariably ask you to sign a Personal Guarantee for the whole lot anyway.

So, to summarise, it's going to be difficult getting a loan for an early stage/young business, just like it always has been. Manage your expectations and efforts accordingly. That said, you will need a bank regardless so open an account, try speak to a human being and get a relationship going. (More on this later).

There are now a growing list of funds (non banks) that will look to lend to start up companies and early stage ones. Some of these are regional, EU funded and require a rejection letter from a bank. A full list of these can be found in the Toolkit and I update it regularly. Just be aware, as always, with Personal Guarantees if they ask for them.

Fund name	Fund manag	Fund type	Fund status	Investment t	Amount on c	Contact deta	Further information URL
The North W	350 Investm	Local and Re	Green	Equity, Loan	Invests betw	http://www.	http://www.thenorthwestfund.co.uk/the-funds/energy-and-environmental
DFJ Esprit	DFJ Esprit	Private Equit	Green	Equity	This fund do	http://www.	http://www.dfjesprit.com/
Go Beyond	Go Beyond	Angel Netwo	Green	Equity	Typically inv	http://www.	http://www.go-beyond.biz/
Morningside	Morningside	Family Office	Green	Equity	This fund do	http://www.	http://www.morningside.com/
Parkwalk Adv	Parkwalk Adv	Private Equit	Green	Equity	This fund do	http://www.	http://www.parkwalkadvisors.com/
Avonmore D	Avonmore D	Private Inves	Green	Equity	Typically invests between		http://www.avonmoredevelopments.com/index.htm
North East P	Northstar Ve	Local and Re	Green	Equity	Typically inv	http://www.	http://www.northstarventures.co.uk/our-funds/current-funds/north-east-pr
Seroba Kerne	Seroba Kerne	Private Equit	Green	Equity	This fund do	http://www.	http://www.seroba-kernel.com/
New Enterpr	NEA	Private Equit	Green	Equity	This fund do	http://www.	http://www.nea.com/
Cambridge C	Cambridge C	Angel Netwo	Green	Equity	Invests betw	http://www.	http://www.cambridgecapitalgroup.co.uk/
Halo	Northern Irel	Angel Netwo	Green	Equity	Typically inv	http://www.	http://www.nisp.co.uk/halo/
Cambridge A	Cambridge A	Angel Netwo	Green	Equity	Typically invests between		http://cambridgeangels.weebly.com/
Atlas Ventur	Atlas Ventur	Private Equit	Green	Equity	This fund do	http://www.	http://www.atlasventure.com/
BP Ventures	BP Alternativ	Corporate	Green	Equity	Typically inv	http://www.	http://www.bp.com/sectiongenericarticle.do?categoryId=9040826&contentI
Greycroft Pa	Greycroft Pa	Private Equit	Green	Equity	Typically inv	http://www.	http://www.greycroftpartners.com/
The North W	AXM Venture	Local and Re	Green	Equity, Loan	Invests betw	http://www.	http://www.thenorthwestfund.co.uk/the-funds/digital-and-creative
London Busi	Angel Capita	Angel Netwo	Green	Equity	Invests betw	http://www.	http://www.lbangels.co.uk/companies
DN Capital	DN Capital	Private Equit	Green	Equity	Invests betw	http://www.	http://www.dncapital.com/
Greylock Par	Greylock Par	Private Equit	Green	Equity	Invests a mir	http://www.	http://www.greylock.com/

A sample of the IRT investor database, supplied as a CSV file with the toolkit.



THIS AGREEMENT is made the [ ] day of [ ]

BETWEEN

(1) [Name of Borrower] of [insert registered address] and

(2) [Name of Lender] of [insert registered address]

It is hereby agreed as follows:

1. Definitions and Interpretation

1.1 In this Agreement:

"Commencement Date"	The date of this Agreement;
"Default"	Means any event or circumstances as specified in clause 5
"Existing Security"	Any security created or outstanding with the prior written consent of the lender;
"Loan"	The term loan facility made available under the Agreement;
"Security"	Means any mortgage, charge (whether fixed or floating, legal or equitable), pledge, lien, assignment by way of security, title retention or any other type of arrangement having a similar effect to any of them;

2. The Facility

The Lender agrees to provide the Borrower with a Loan under the terms of this agreement as set out in Schedule 1.

3. Commencement

This Agreement shall be deemed to be made on the day it is received by the Lender having been signed by the Borrower.

The Simple Loan Template

Borrowing off Friends and Family: I often see this being done and let's face it, if you can't convince these people to lend you money, perhaps there is a reason. That said, invariably these are unsecured loans but more importantly never recorded or documented.

I would strongly advise using the Simple Loan Template in the Toolkit which is an easy to read format which you can adjust or amend as you see fit to record this activity. It's important that you do, especially if you go on to raise money from a third party and, guess what, its good practise anyway.

Lastly, extracting a loan, in whatever format, from a bank is best done when the company is sourcing other forms of capital such as equity. This is a great time to approach your bank manager, particularly if you have established a relationship with him/her and looking to take advantage of schemes which deliver working capital.

Venture Capital

When I use the term Venture Capital here, I am not referring to Private Equity. Depending on who you speak to, Private Equity houses usually only look at large/very large companies and look to buy them using various degrees and forms of leverage – I've hugely simplified this, of course, but don't go to a http://www.kkr.com/ looking to fund your start up with equity.)

The recent financial crisis has impacted this sector. Many funds have moved away from early stage to concentrate on what they would term 'expansion' capital. That is, for companies that are more established with a proven management team and product, and looking to raise equity over the £1m to £2m level. This book, while useful for companies seeking to raise this level of capital, is not aimed at them specifically, but more for the early stage and start up companies. That said, all the fundamental lessons apply.

Venture Capitalists come in two forms – those managing other people's money (hard to raise capital from – it's a buyer's market) and those managing their own money (really hard to raise capital from).

Venture Capitalists who manage other people's money are usually on a "2 and 20" basis. It's important to understand this. The "2" stands for 2% which is an annual fee of the capital they manage. The "20" stands for their 'carry', this means that above a certain threshold, the managers of these Venture firms can take 20% of any gains on this investment. This 'carry' is why they do it.
This means that VC houses are really keen to buy at a low price and sell at much higher prices as fast as they can to lock in these gains. Bearing in mind that a number of their investments will never make any money, you can see why they are very choosey and focus on the 'exit route' right from the start. I have no issue with this as it is, of course, a free market.

But, it means:

- VC's are very aggressive on valuation.
- The more established and low risk you are, the nearer you are to an exit.
- Proven Management is absolutely key to attaining investment from these funders.
- Some have sector focus, some are more general.

As you can see from the list above, these hurdles can be substantial for early stage companies. (I address valuation later on).

VC's that manage their own money are usually backed by an individual that has enjoyed substantial commercial success and is looking to re-invest their capital. Regionally based (they don't like to travel too much), these investors can be a great source of capital, particularly if they are in your network and your company is related to their sector(s). Their valuations will always be aggressive (and probably more realistic than yours) but some may want to stay the course and not be in such a rush to exit – remember, they have generally already made their money.

In addition, and I think one of the key attributes they hold, their sector expertise, knowledge and contacts will be substantial and this is often the key to success for any new company.
(I have a complete database of these companies downloadable in Excel format of the Toolkit. Contact details, sectors etc allow you to search accordingly.)

Angels

Angels are private investors who invest modest amounts of money into early stage and young companies. In this section, I will include family and friends again, as this is what they are effectively doing.

Angels, in my opinion, enjoy the 'journey' as well as, or more so, than the 'destination'. What I mean by that is that they are very likely to want to get actively involved at a practical level and spend much time (most of which is not charged for) in helping the company achieve its objectives.

Many are middle to late aged men – that's just how it is – and have enjoyed a degree of commercial success in their business careers. Most belong to an association (www.ukbusinessangelsassociation.org.uk) and these are located throughout the UK. Similar organisations exist in most countries.

Although it may appear that these Angels are less discerning than Venture Capitalist, in my experience they are usually more so. For a start, this is their money going directly into a single investment so they lose the risk mitigation of diversification. Secondly, they will know their sectors very well and will be able to gauge your value proposition within seconds. Thirdly, many have relatively limited means, so they are reserved to invest into something which may need multiple rounds of investment before it becomes self-sustaining.
In my view, Angels are a key part of the funding environment for early stage and start up companies and represent a great opportunity. This is particularly true when you consider some of the tax advantages of Enterprise Investment Scheme and Seed Enterprise Investment Scheme initiatives which this government is promoting heavily. (http://www.hmrc.gov.uk/eis/)
Also, and this is key, many associations don't have the funds to undertake detailed due diligence so rely heavily on the companies seeking investment to provide this. *This is a great opportunity to demonstrate how prepared you are. More on this later.*

Crowd Funding

These are the new kids on the block. I've re-written this section a few times now as the sector is maturing relatively fast, but essentially these (web based) platforms allow many, many investors to invest into your company, albeit at individually low amounts.

There are numerous advantages to you on this:

1. It's usually a quicker process.
2. Valuations are more 'company friendly' than traditional routes.
3. They are particularly good for retail focused products and act as part fund raising/part marketing.
4. Are relatively low cost in time and fees (don't pay more than 5%).
5. Are particularly good if you have some investment commitment already.
6. Are flexible in allowing you to 'overfund' if able to.

Their disadvantage are:

1. More complex, IP heavy investments may be too sophisticated.

2. Sums are relatively low (£250k and below), though we have seen some companies come back for second/third rounds.

3. Individual investors may not be able to add significant value over and above their investment.

4. Regulation is a moveable feast. Recent FCA guidelines have limited this to 10% of an investors net worth. While I think it unlikely that the FCA will prohibit these platforms, I do think the Darwinian process is at work.

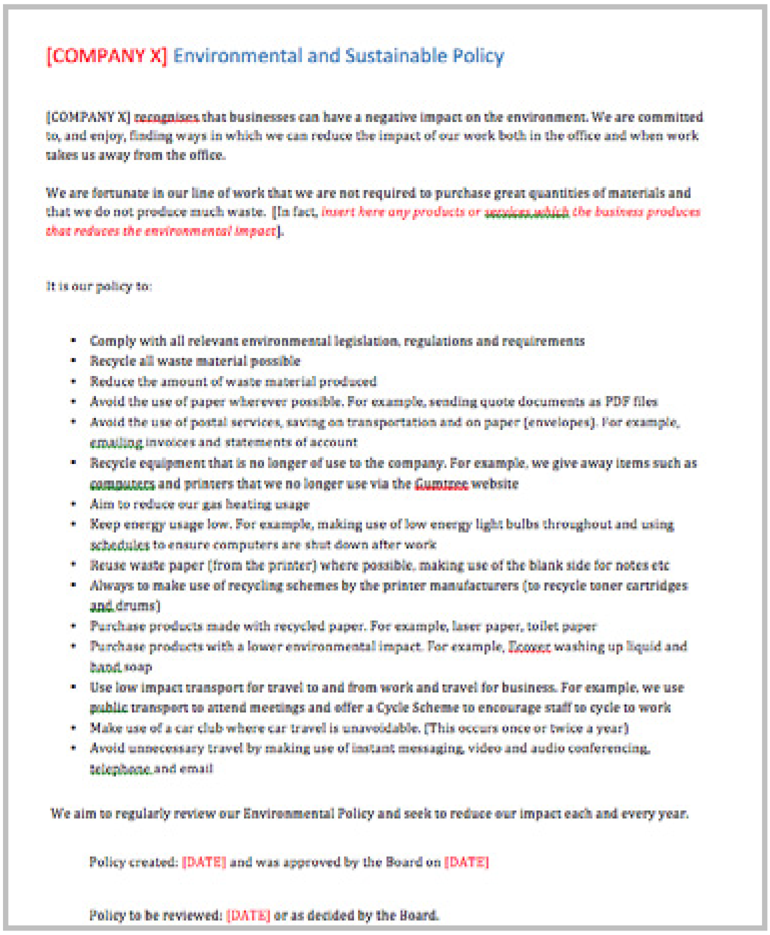
Further information is available in the Toolkit in the Members Area.

Grants

Lastly, the area of grants is one of much talked about potential but seems to suffer from bad press. In my view, there is a tremendous number of grant opportunities for companies should they look hard enough. Regional and sector restrictions apply, but don't be put off by this. (A full database is available in the Toolkit.)

	A	B	C	D	E	F	G	H
1	Fund name	Fund manag	Fund type	Fund status	Investment t	Amount on c	Contact deta	Further information URL
2	The North W	350 Investm	Local and Re	Green	Equity, Loan	Invests betw	http://www.	http://www.thenorthwestfund.co.uk/the-funds/energy-and-environmental
3	DFJ Esprit	DFJ Esprit	Private Equit	Green	Equity	This fund do	http://www.	http://www.dfjesprit.com/
4	Go Beyond	Go Beyond	Angel Netwo	Green	Equity	Typically inv	http://www.	http://www.go-beyond.biz/
5	Morningside	Morningside	Family Office	Green	Equity	This fund do	http://www.	http://www.morningside.com/
6	Parkwalk Ad	Parkwalk Ad	Private Equit	Green	Equity	This fund do	http://www.	http://www.parkwalkadvisors.com/
7	Avonmore D	Avonmore D	Private Inves	Green	Equity	Typically invests between		http://www.avonmoredevelopments.com/index.htm
8	North East P	Northstar Ve	Local and Re	Green	Equity	Typically inv	http://www.	http://www.northstarventures.co.uk/our-funds/current-funds/north-east-pr
9	Seroba Kern	Seroba Kern	Private Equit	Green	Equity	This fund do	http://www.	http://www.seroba-kernel.com/
10	New Enterpr	NEA	Private Equit	Green	Equity	This fund do	http://www.	http://www.nea.com/
11	Cambridge C	Cambridge C	Angel Netwo	Green	Equity	Invests betw	http://www.	http://www.cambridgecapitalgroup.co.uk/
12	Halo	Northern Ire	Angel Netwo	Green	Equity	Typically inv	http://www.	http://www.nisp.co.uk/halo/
13	Cambridge A	Cambridge A	Angel Netwo	Green	Equity	Typically invests between		http://cambridgeangels.weebly.com/
14	Atlas Ventur	Atlas Ventur	Private Equit	Green	Equity	This fund do	http://www.	http://www.atlasventure.com/
15	BP Ventures	BP Alternativ	Corporate	Green	Equity	Typically inv	http://www.	http://www.bp.com/sectiongenericarticle.do?categoryId=9040826&content
16	Greycroft Pa	Greycroft Pa	Private Equit	Green	Equity	Typically inv	http://www.	http://www.greycroftpartners.com/
17	The North W	AXM Ventur	Local and Re	Green	Equity, Loan	Invests betw	http://www.	http://www.thenorthwestfund.co.uk/the-funds/digital-and-creative
18	London Busi	Angel Capita	Angel Netwo	Green	Equity	Invests betw	http://www.	http://www.lbangels.co.uk/companies
19	DN Capital	DN Capital	Private Equit	Green	Equity	Invests betw	http://www.	http://www.dncapital.com/
20	Greylock Par	Greylock Par	Private Equit	Green	Equity	Invests a mir	http://www.	http://www.greylock.com/
21	Archangels	Archangels	Angel Netwo	Green	Equity	Invests betw	http://www.	http://www.archangelsonline.com/
22	Passion Capi	Passion Capi	Private Equit	Green	Equity	Typically inv	http://www.	http://www.passioncapital.com/
23	EC1 Capital	EC1 Capital	Private Equit	Green	Equity	Invests betw	http://www.	http://www.ec1capital.com/
24	Redpoint Ve	Redpoint Ve	Private Equit	Green	Equity	This fund do	http://www.	http://www.redpoint.com/
25	Balderton Ca	Balderton Ca	Private Equit	Green	Equity	Invests betw	http://www.	http://www.balderton.com/
26	Entrepreneu	Entrepreneu	Private Equit	Green	Equity	This fund do	http://www.	http://www.entrepreneursfund.com/
27	Capital-E	Capital-E	Private Equit	Green	Equity	Typically inv	http://www.	http://www.capital-e.eu/

A sample of the IRT Grant Award database, supplied as a CSV file with the toolkit.



[COMPANY X] Environmental and Sustainable Policy

[COMPANY X] recognises that businesses can have a negative impact on the environment. We are committed to, and enjoy, finding ways in which we can reduce the impact of our work both in the office and when work takes us away from the office.

We are fortunate in our line of work that we are not required to purchase great quantities of materials and that we do not produce much waste. [In fact, *insert here any products or services which the business produces that reduces the environmental impact*].

It is our policy to:

- Comply with all relevant environmental legislation, regulations and requirements
- Recycle all waste material possible
- Reduce the amount of waste material produced
- Avoid the use of paper wherever possible. For example, sending quote documents as PDF files
- Avoid the use of postal services, saving on transportation and on paper (envelopes). For example, emailing invoices and statements of account
- Recycle equipment that is no longer of use to the company. For example, we give away items such as computers and printers that we no longer use via the Gumtree website
- Aim to reduce our gas heating usage
- Keep energy usage low. For example, making use of low energy light bulbs throughout and using schedules to ensure computers are shut down after work
- Reuse waste paper (from the printer) where possible, making use of the blank side for notes etc
- Always to make use of recycling schemes by the printer manufacturers (to recycle toner cartridges and drums)
- Purchase products made with recycled paper. For example, laser paper, toilet paper
- Purchase products with a lower environmental impact. For example, Ecover washing up liquid and hand soap
- Use low impact transport for travel to and from work and travel for business. For example, we use public transport to attend meetings and offer a Cycle Scheme to encourage staff to cycle to work
- Make use of a car club where car travel is unavoidable. (This occurs once or twice a year)
- Avoid unnecessary travel by making use of instant messaging, video and audio conferencing, telephone and email

We aim to regularly review our Environmental Policy and seek to reduce our impact each and every year.

Policy created: [DATE] and was approved by the Board on [DATE]

Policy to be reviewed: [DATE] or as decided by the Board.

Environmental and Sustainable Policy Template

Preparation is the key with most of these, particularly in areas such as procurement and other company policies. As much grant monies come from the Government and the EU, strings are attached, but a modest amount of preparation can access these particularly if you start out 'right'. I go into more detail on this in the Toolkit which also includes Templates for various procurement, equality and environmental policies.

Of particular note is the Technology Strategy Board (www.innovateuk.org) which has a number of schemes and awards for young companies.

Many grants require a match funding element. Don't let this put you off. First of all, it signifies to any potential investor (Angel, VC etc.) that there is another body willing to grant you money – a good prejudice to have; and secondly, it reduces your potential dilution.

Summary

I hope this gives you a good idea of the potential sources of investment for your company. The next stage is to get into the detailed planning which will enable you to identify, prepare for and approach the relevant sources of capital. Often, this may mean a number of sources, but the preparation for them all is very similar.

Chapter 2: Preparation, Documentation and Presentation

Firstly, it is important to understand 'when' to approach potential sources of capital and I have outlined below a simple checklist to adhere to:

- 'Substance' will always trump 'style'. Another way of looking at this is that just having the bones of an idea is not good enough. You will need to demonstrate tangible assets, milestones and a strong value proposition from the get-go.
- Level of sales: These vary from the 'possible' to 'probable' to 'actual'. It is difficult to over-emphasise how important this is. As an investor myself, it's the first thing I look at – is the company in, or near to sales, and at what level. This is Mr Market telling me how good your value proposition is and how far along you are in delivering it. More sales, less risk, simple as that.
- IP Protection: I could write volumes on this alone, but the more secure you are (Patent Granted as opposed to Patent Pending etc.) and the stronger this is, the better.
- Team: Is there a team in place that can deliver this.
- Stage: What stage are you at – seed, early, expansion etc.

Bearing in mind that August and December are usually a 'no-go' in terms of approaching capital, and that the process can take at best three months for equity, factor this into your expectations when deciding when to go.

The investor will view the world in the following format, and my comments are designed to enable you to gauge what investors are looking for and therefore prepare accordingly:

- Value Proposition
- The Market
- IP/Barriers to Competition
- Management
- Financials

I will address all of these in turn.

The Value Proposition

Why will people/companies buy your product or service?
This has to be significant. A 5% or 10% improvement on the current status quo is probably not enough to get investors excited. Commonly termed as your 'elevator pitch', you need to be able to succinctly explain this to anyone in a single paragraph. The investors' primary aim is to make money, he can only do this if your company can sell its products or services with relative ease at attractive margins.
Investors generally prefer a "B2B" play, but not always. The simple reason for this is that it's

much cheaper approaching 100 companies with your products or services rather than millions of customers. The retail market is 'full', bombarding us constantly with offers and propositions. To get through this 'noise' [marketing and advertising] it is extremely expensive. Remember the best marketing quote I know: "We know that half of marketing works, we just don't know which half". Capital Efficiency: Investors will want to gauge very early on how much it will cost to get your product or service to the market at the right price and keep it there. IP heavy companies that can license technology are always attractive; asset heavy propositions are best left to those with the cash flows to fund these.

Spend some time on this to get it right and have any numbers at your fingertips to demonstrate you have thought this through.

The Market

The size of the market is always important – regional, national, global etc. Just bear in mind the costs to access them. Investors generally like large markets, of course, but niche ones can be extremely profitable. Not all propositions can compete with a "global cure for diabetes", and sophisticated investors realise this, but they do want to know the potential.
Do not forget regulation. In just about every market, there is some form of regulation. I know companies that have a sales line that correlates directly to current government regulations (the building sector is full of these). Be prepared to know how these regulatory dynamics impact your business.

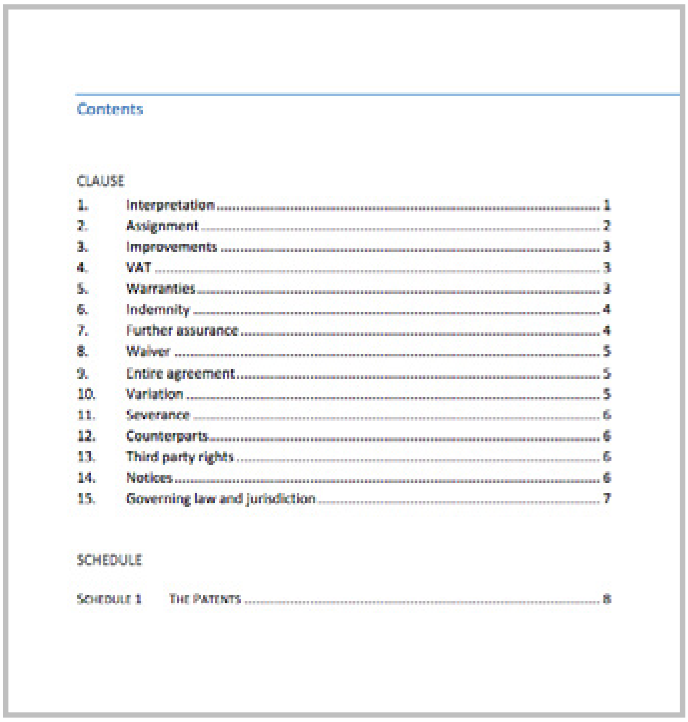
The US Market: I make special note of this as it invariably crops up in forecasts and models. In most sectors, it is the largest market in the world, and in most, also the most competitive. Be very careful on how you plan to approach this market in terms of timings and costs. We all almost always under-estimate this. The same can be said for the EU, though perhaps at a lesser level.

Any market research always adds to credibility. Be this market reports (with an appropriate source), focus groups etc. The best, of course, are repeat customers.

IP/Barriers to Competition

Investors will want to know how you plan to stop others copying what you do. If the value proposition is so strong, then others will try. (The life of even listed companies is relatively short precisely due to this.)

Any Patents, or Patent Pending assets, are good. It is vitally important that the company owns these, not yourself as an individual. I have included in the Toolkit an Intellectual Property (IP) Assignment Template. Adjust or amend this if needs be, but I would strongly recommend that your solicitor or IP Attorney signs this off. *The company owning the IP is a mandatory requirement for just about every fund and investor I know.*



Contents

CLAUSE

1. Interpretation 1
2. Assignment 2
3. Improvements 3
4. VAT 3
5. Warranties 3
6. Indemnity 4
7. Further assurance 4
8. Waiver 5
9. Entire agreement 5
10. Variation 5
11. Severance 6
12. Counterparts 6
13. Third party rights 6
14. Notices 6
15. Governing law and jurisdiction 7

SCHEDULE

SCHEDULE 1 THE PATENTS 8

Intellectual Property Assignment Template Template

Don't forget other types of IP, be this trademarks, contracts, relationships etc. Another asset might be yourself and your knowhow. Be sure that you have a contract (or Service Agreement) with the company which outlines key issues such as IP, redundancy, Good leaver/bad leaver etc. I have included a draft template for this in the Toolkit.

If you have not registered any IP yet, then be sure to use a NDA with any companies that you deal with. Again, a template is in the Toolkit. Be aware that most funds will not sign an NDA – they would have to get legal advice for each one and it would cost them a fortune. What is more, they have money and are therefore sue-able!

I would also encourage you to start the IP process yourself through the Intellectual Property Office (http://www.ipo.gov.uk/) [Similar organisations exist in the US and EU] and not engage an IP Attorney until you are sure there is commercial value in your IP.

[I'm always joking that all my children will become IP Attorneys and the reason I do this is that the vast majority of patents out there will never be deliver profits - money for old rope for the Attorneys].

Management

The larger the sum of capital, the higher this requirement becomes. I think most Angels and early stage VCs are prepared to invest in small teams, perhaps even a team of one, but as companies grow then they look to see management with a proven track record that identifies with the business plan.

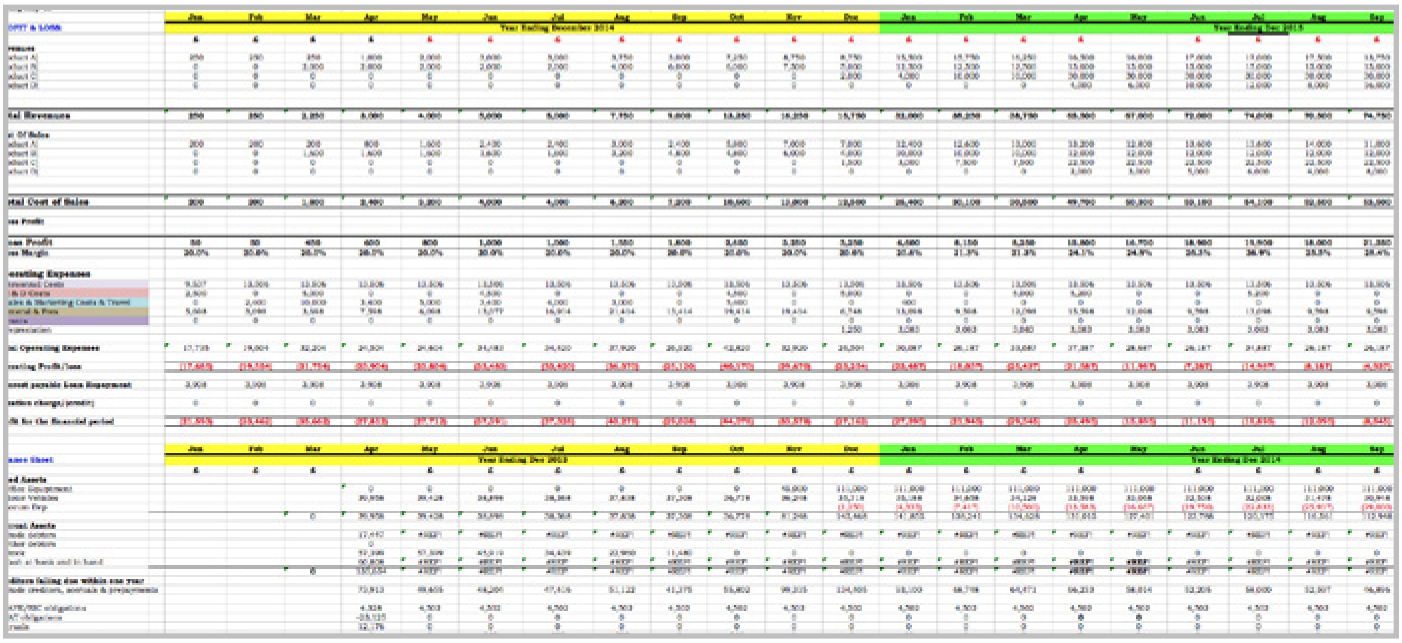
In addition to the point above, management (and people generally) are expensive. They incur tax (Employers National Insurance in the UK) and put obligations on the company. In my opinion, management can be expanded relatively easily when there is gross margin to pay for it.
For the companies I advise directly, I always remind them that the spending of shareholders' capital is a very limited affair!

These days, many of the capital and HR intensive business processes can be outsourced – accounting, manufacturing, stock etc. Online solutions are abound – more in the resource section in the Toolkit - but don't be afraid to use them.

One area that I would pay special attention to is bookkeeping. For young companies, bookkeeping is as much about 'what's coming' as it is about 'what's happened'. Ensure you plan adequately for this resource – most accountants supply it as part of a package, but ensure that your systems and processes include this and you can demonstrate it. Regular Management accounts are the primary way you communicate with your investors.

Financials

Following on from above, investors will want to know what the company can generate, how much it will cost to do this, under what time lines and levels of profitability. It is really important that you model this accordingly. I have included two financial templates in the Toolkit– a simple one (Profit and Loss based) and one that includes a balance sheet and cash flow forecasts. Both have pre-set links which should save you hours in putting them together. All issues such as VAT and National Insurance are key cash flow requirements and must be built into forecasts. [The detailed model requires some knowledge of accounting and a good knowledge of Excel].



A sample of the Financial Model Template, supplied as an Excel file with the toolkit.

Included in this section is something on valuation. As an ex City analyst, I can basically put together any valuation that you want, as can any reasonable investor. In my experience, I would note the following:

- Don't let valuations scupper a deal, especially at the earlier stages. One thing for sure, any valuation is wrong – it's just a best guess anyway.

- The investor is more important than the valuation. A good, pro-active, well connected investor is much more likely to result in you making money.
- Most investors don't want to 'take the Mickey' in that they want the founders to be motivated and work for a common purpose. Substantially diluting their equity is not a good start.
- Use options and the like to mitigate any valuation.
- It always hurts, concentrating on the net exit value to you helps! Owning 100% of something worth nothing is....nothing.

Before we move onto the Documentation aspects, I want to cover of sales forecasts. I have grouped these into the 'Good, the bad and the Ugly':

The Good: These would include existing sales and channels, particularly any repeat customers. It's vital to understand the key tipping points for any market (Malcolm Gladwell's – The Tipping Point is just about the best thing I've read on this). Also, it's always good to include any corporate relationships be it direct sales, Research and Development, Partnerships etc. With all my companies that I consult to directly, this is one area I always focus on. Corporates generally 'own their market' and can access it for a much lower cost than you.

Building in these relationships early on significantly enhances the chances of getting funded. There is no better validation for investors.

IF sales forecast can be tied directly to existing customers/channels etc. then their credibility is high.

The Bad: Time and again I see high levels of sales penetration with unrealistic growth rates and low resources. Do not under-estimate the expense, effort and time it will take to deliver sales. People are generally lazy, and won't buy something new unless they have to (strong need) or are comfortable in doing so (strong brand). I regularly see sales cycles with Corporates in some of my own investments that are in excess of 18 months, and these are based on strong value propositions with relationships already in place.

Whatever you put in your model, you must be able to justify it.

The Ugly: The percentage of market share is perhaps my worse bug-bear. Albeit, in some cases it can demonstrate scale, but largely it ignores the huge costs in attaining even 1% of any market. That 1% already has buyer-seller relationships and processes in place, is usually profitable for both parties and therefore very hard to beat. Don't under-estimate this. A seasoned investor will just not buy it.

Documentation and Presentation

Bearing in mind all that has been said so far, the first step is to build a Business Plan and an associated Financial Forecast/Model.

A number of things to be aware of here:

- First of all, no-one reads a complete business plan unless they are paid to.
- Most of us have a very limited capacity for taking on new information (that's why phone numbers are so short!). Even the Oxbridge degrees amongst us have limitations.
- That said, every investor wants to know you have written one to a high standard!

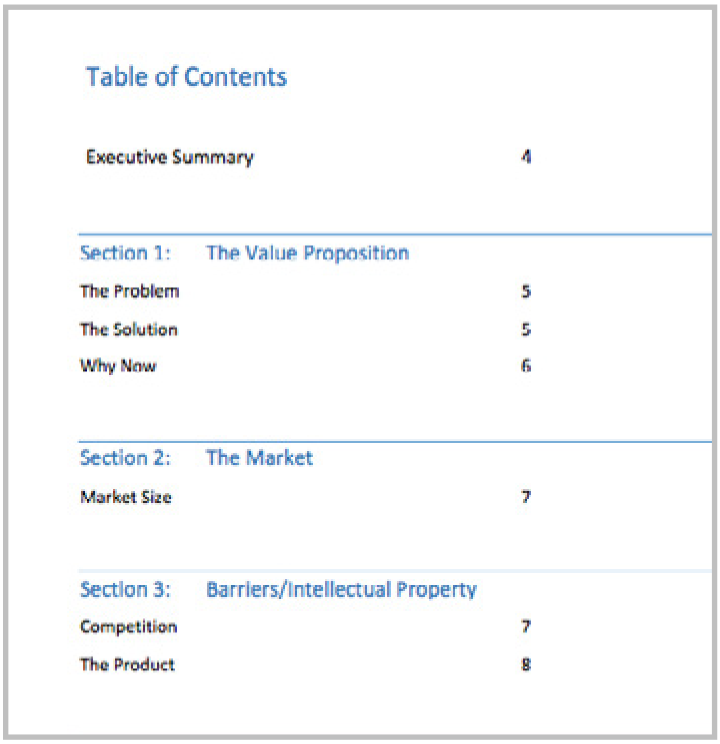


Table of Contents

Business Plan Template

What to do? My first piece of advice is to simplify everything. Sometimes, all of us can get so deep into a subject that we forget others are new to it and there may be associated jargon or prior knowledge that is required.

There is substantial evidence that you have about 20 seconds (in written or visual format) to impress. This is really, really short. So my second piece of advice is to keep everything as short as possible and put the BEST first.

I have included various templates in the Toolkit that have worked for me in the past and for other companies that I have helped get funded. I am not saying they are a mandatory format, but are, I believe, a good starting place. All are properly formatted, so look professional.

The theme throughout is to deliver a short, simple and clear prose style with any detail or relatively complicated evidence put into a comprehensive Appendix at the back. Most middle to late age men (sorry girls) will skim read first, and this gives them the chance to see what you have written knowing there is detailed evidence to back this up. If you have other ideas, I'm all ears, but this works for me.

More details are available in the Toolkit which also includes comprehensive Guidelines for each document and template.

The inclusion of video is becoming more commonplace and is a must for the Crowd Funders. This can be done relatively cheaply now by professionals. By all means write the narrative, but get a professional to produce it.

From the main Business Plan, it will be vital to produce a one-pager. This is usually your 'handshake' with most investors and must be simple, brief and good!

Further, presentations should then be produced which enable you to capture multiple audiences. I have summarised below the details:

- Business Plan (word or pdf)
- Model/Forecast (excel)
- One Pager – should read very similar to the Executive Summary in the Business Plan.
- Short power point presentation (for Angel groups etc.), 2 to [max!) 10 minutes long.
- (Short video – similar to the Short Presentation)
- Long presentation for one-to-one with investors, about 25 slides, maximum.

A few notes for documentation:

1. Mac/Apple has generally yet to hit the investment world. Most of us are still Microsoft heavy. Pdf docs are therefore a good idea, and cannot be changed by the reader.
2. Do not include confidential information if you can help it. Especially your one-pager – this needs to get around!
3. Make it easy on the eye, please. Don't cram War and Peace onto one page.
4. Less is more – simplify everything.
5. If you remember one thing from here, remember that you have less than 20 seconds to impress!

Chapter 3: The Process

For equity investments, I mentioned a three month time line earlier on. There are a number of reasons for this (access to investors, their diaries, due diligence etc.) but well prepared companies can shorten this process and the advent of Crowd Funding has helped.

In the good old days, before the Financial Crisis, you might have seen the following process:

• Access to the early stage VC with a 1 pager	1 Week
• Meetings, full business plan discussion, and questions	4 Weeks
• Heads of Terms from VC house	2 Weeks
• Due Diligence	4 weeks
• Legals – negotiations	2 Weeks
• Close	1 Week

While the above may still hold true for some (well prepared) companies seeking funding from established VC houses, it's a little more mixed these days, but the process will be similar:

1. 1 pager
2. Request for full business plan
3. Meetings
4. Due Diligence
5. Legals
6. Close

There is much a company can do to prepare itself for these stages and I have outlined those in terms of the documentation in the previous chapter.

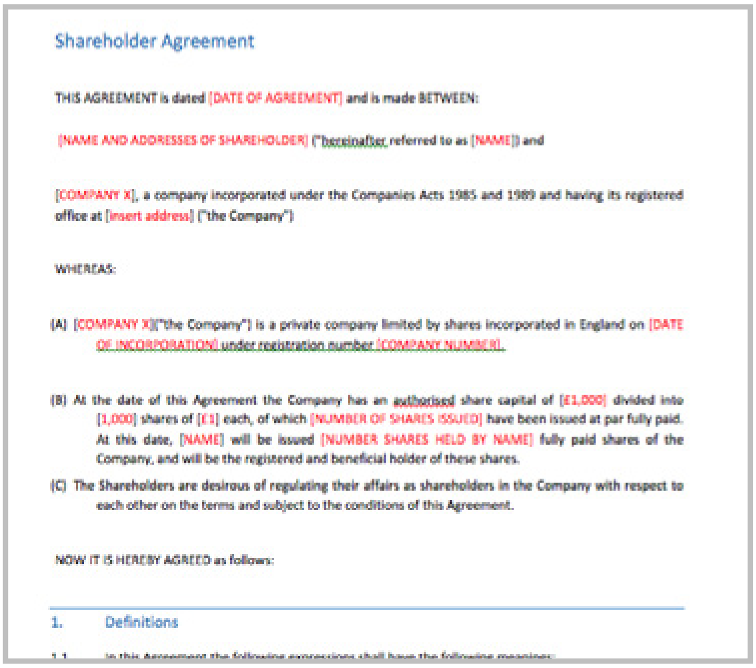
In this Chapter, the focus is on Due Diligence and some of the Key Issues and questions that lead to a delay in getting funded.

Due Diligence

Due Diligence can generally be put into three main categories:

1. Financial Due Diligence
2. Company Due Diligence
3. Directors Due Diligence

For Venture Capital houses managing other peoples' money, these steps are mandatory. All will have their own versions and templates. After 15 years of deals I have created mine in the Toolkit which I believe will cover off the majority of issues. I would strongly recommend that you complete these Due Diligence checklists and keep them alive (either hard or soft copy) for use immediately. There is nothing more impressive from an investor's view than seeing a company 'push these across the table', done and dusted. It just shows that management have got a grip. For companies doing multiple rounds, this process happens naturally as it goes from round to round.


Shareholder Agreement

THIS AGREEMENT is dated [DATE OF AGREEMENT] and is made BETWEEN:

[NAME AND ADDRESSES OF SHAREHOLDER] ("hereinafter referred to as [NAME]) and

[COMPANY X], a company incorporated under the Companies Acts 1985 and 1989 and having its registered office at [insert address] ("the Company")

WHEREAS:

(A) [COMPANY X]("the Company") is a private company limited by shares incorporated in England on [DATE OF INCORPORATION] under registration number [COMPANY NUMBER].

(B) At the date of this Agreement the Company has an authorised share capital of [£1,000] divided into [1,000] shares of [£1] each, of which [NUMBER OF SHARES ISSUED] have been issued at par fully paid. At this date, [NAME] will be issued [NUMBER SHARES HELD BY NAME] fully paid shares of the Company, and will be the registered and beneficial holder of these shares.

(C) The Shareholders are desirous of regulating their affairs as shareholders in the Company with respect to each other on the terms and subject to the conditions of this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. Definitions

1.1 In this Agreement the following expressions shall have the following meanings:

Shareholder Agreement Template Template

Key Issues

1. Valuations: Don't let this scupper the deal and remember that a good investor who can help you achieve your goals trumps this anytime.

2. NDAs: Most investors won't sign them, but use them for all other commercial relationships.

3. Your salary? Investors know you need to live, anything below the higher tax bracket coming from their pockets is acceptable, and anything above this should come from gross margin.

4. Key Man Insurance? Some investors insist on this, quotes vary tremendously in the market.

5. Financial Controls: Outsource to your accountant if needs be, make sure bookkeeping is resourced and processes are in place.

6. Shareholder Agreements (SA): Each SA is designed to get you to the next stage or funding round. It's not forever so don't get too hung up about it. Most investors will have their standard 'like it or leave it' template. [I have included a simple one for start up companies in the Toolkit]. There are for Four key areas to look at:

   a. Drag/Tag: These are provisions that allow different shareholders to participate in exits should an approach be made to only one. You can 'tag along' to others, or get 'dragged along' by others, depending on the terms.

b. Non-compete: Investors will try to put non-compete terms here as well as in your Service Contract as they are more enforceable here.

c. Each SA is only extant until the next one.

d. Warrants: Warrants are agreements you sign which warrant the investor usually to the level of his investment and are designed to ensure all you have said and evidenced is correct. If you seek legal advice in one area, I strongly recommend that it is with reference to warrants! Warrant obligations are mitigated by disclosure – i.e. disclose any and everything you think is relevant to the deal.

7. Service Contracts: The main aspect here to look at over and above the standard terms (salary, bonus, leave etc.) is Good Leaver/Bad Leaver Provisions. These are designed to protect the investor if you do something out of choice that damages their investment – such as commit fraud etc. Just ensure these are reasonable.

8. Presentations: You can't practise these enough, don't leave it to the day to prepare. If you don't think that you can do it justice, don't worry, this isn't TV. Practise, practise, practise.

To Finish

I hope this document gives you a good idea of what it takes to get funded, the options open to you and what you can and must do to make this a reality. Above all, I hope you are now wiser for reading it.

I would strongly recommend that much can be done by you. The Toolkit contains all the documents, templates and data bases mentioned here and I think offers tremendous value. There is also a Resource Area that contains additional material.

There is also much help out there in terms of advice and support. For any companies in the South West of the UK, I am keen to recommend the Growth Accelerator's Access to Finance package which offsets the majority of the £3,500 costs with a substantial grant.

I can be reached directly at info@investmentreadinesstoolkit.co.uk and happy to take any feedback.

We hope this free guide was helpful to you.

For more information please go to:

www.investmentreadinesstoolkit.co.uk