Eye on Accountancy



Are You "Investor Ready"?

Many businesses, particularly those in the start-up or early stage phases of the business life-cycle, are initially funded through personal savings, friends, family, salary sacrifice, profit re-investment or even credit cards.

eing able to secure the next level of funding can mean the difference of the business being able to kick-on to the next stage of growth or the business stagnating or even failing. When traditional sources of funding such as bank finance aren't available, securing equity investment may be a way for your business to achieve its goals and reach its full potential.

So what does it mean to be "investor ready?"

Being investor ready means getting your business to the point that other people ("investors") are willing to invest their money in your business.

The steps you need to take to become investor ready depend on the nature and stage of your business and the amount and type of equity investment you are seeking. There are a number of key principles that any business should apply to become investor ready.

Start early

From the outset prepare both yourself and your business for the investment. Preparing yourself means getting comfortable that you will be selling ownership of part of the business in return for the investor's funds. This will mean you no longer solely control the business. Preparing your business means ensuring that you keep proper books and records and that all your compliance, such as Companies House filings and payments and Returns to HMRC, are up-to-date.

At this stage you should explore the options to allow the most tax efficient investment by the investor. There are a number of incentives, reliefs and structures available such as Enterprise Investment Scheme (EIS), Seed EIS, Venture Capital Trusts. These have different qualifying criteria and it is advisable to discuss this with your advisors so that you can provide a

potential investor advance assurance and pre-approval from HMRC that they would be able to benefit from these tax reliefs if they proceed with investment in your business.

Selection of investor

There are a number of different types of potential investors to consider when seeking investment; Angel Investors, Private Equity, or Venture Capital. It is important to understand the type of investor as each will have slightly different expectations about your business and different investment requirements/criteria.

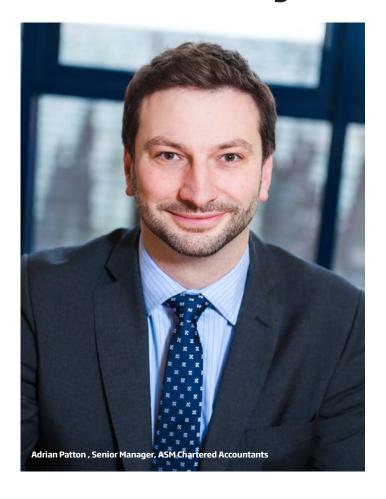
Be clear on the amount of equity investment you need and who you are going to approach – being able to show how you will use the funds will give comfort to an investor.

An investment could mean the start of a long term relationship so choose your suitor wisely - the right investor could be a good sounding board and door-opener with experience in your sector and have valuable connections.

Fail to prepare - prepare to fail

Approaching investors unprepared is probably the single most common reason why businesses fail to secure investment. The business plan is a key document to demonstrate your business is ready for potential investors. It should cover the business's history, operations, management team, financial history & projected performance, and include an analysis of your market and the business's growth potential within it. The business plan will set out exactly what the investor is buying into and is an opportunity to present the strengths of the business whether this is the management team, the product, market potential or other key factors that you wish to highlight to the investor.

Having a good business plan doesn't guarantee you will secure



investment but having a bad one can guarantee you won't.

Know the process

Most investments follow a similar path - taster, business plan, presentations, offer letter - followed by due diligence and legals. Understanding this process and having a solid grasp of your business, and in particular the finances, will be key in creating that all important first impression. Having customer contracts, lease agreements, IP documentation, employment contracts, recent tax returns, facility letters, etc. at hand and readily available will show that you have your "ducks in a row".

Being open and disclosing any potential problems or issues before being discovered by the investor's due diligence is key to demonstrating transparency and trust which are essential if any investment is to be made.

Show them the door

Investors want to understand your exit strategy. Typically, investors want an exit after 5 to 7 years and they will want to know how this will be facilitated. Set out the possible options and work to the plan – whether this is a trade sale, a secondary sale to private equity or an IPO. Having a clear defined exit strategy can be a key step in demonstrating you are investor ready.

Eye

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