



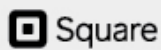
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FIVE THINGS START-UPS SHOULD ASK POTENTIAL INVESTORS BEFORE SIGNING THE DOTTED LINE



BY ALAN MANLY / EXPERT, FEATURED, RAISING CAPITAL, START-UP / 17 OCT 2016

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Entrepreneurs start businesses to solve problems facing customers or to improve the way customer needs are satisfied. In the event that on-hand funding is insufficient to fully realise the potential of their proposed business, an entrepreneur will need to seek assistance from investors.

Finding the right financial partner can be challenging. There are key things you should ask to ensure you're working with the right one:

1. HAVE YOU DONE THIS BEFORE?

This question sorts out the newbies from the veteran investors. Put another way, family, friends and fools, the

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famous three F's, fall into the newbies category. You would be very brave to accept an investment made by any of the three f's. Such investment comes with many emotional strings attached and can be a major distraction to you and your business, far outweighing any advantage. Professional investors are slower to sign up but will have a professional relationship with you as an investor and nothing more.

2. YOUR INVESTMENT, SHORT, MEDIUM OR LONG TERM?

All investments are really loans waiting to be repaid with interest. The waiting part is called the term, which must be discussed and agreed upon. Both parties could have wildly different views of when the investor is likely to get their money back. The answer should be clearly expressed in the business plan with time frames showing the link between the investment and the actual scaling up of the business. With the scaling up of the business there must be a consequent increase in returns or profit that allows the investment to be returned to the investor.

3. SHARES WANTED

Nothing is for nothing. What percentage of the business are you prepared to relinquish in return for an investment to grow the business. This will be a big challenge for a passionate start-up entrepreneur. Ownership gives you freedom in decision making. However, when you want an investor the serious bits start. How big do you want this business to grow? Better that you own 60% of a business than 100% of a start-up that, due to a lack of investment, died.

4. PLAN B

Having agreed on the percentage of shares that the investor will have in return for their investment, the next question is what if the business does not perform as planned and the investor can't get their money out as committed in the business plan? Emotions may run high. Plan B will now be implemented. Best that you understand what the investor's Plan B is before you take the investment. The investor may take legal action to recover the investment, claiming that your business plan was misleading. All start-up expenses may be reviewed and challenged for any personal usage that is common in a start-up. Accusations will fly as most start-ups have messy paper work. A legal cat fight is now on the cards. Moving to the end of this scenario we see two obvious

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outcomes. If the business has not performed as hoped then it may need more investment. The investor may be the only person interested in further investment so as to recover sunk costs. This would usually be in exchange for a controlling interest in your company. This may be a blessing for all parties or a sad ending to your promising start-up. Often emotions have run so high, and the lawyers have been paid so much, that the parties go their own separate ways, proving again that there is never a lack of risk when you venture to set up a start-up.

5. HOW MUCH IS NEEDED?

Most start-ups need twice as much investment, take twice as long as the business plan states and are twice as hard as anyone ever thought to make successful. That takes us back to the business plan. The investor should be aware that start-ups are a risk investment and several tranches of investment may be needed depending on how the business operates or to accommodate changes in the business environment. A business plan that covers a spread of outcomes from poor to medium, and of course exceeding the projections, needs to be discussed and agreed.

Start-ups are never short of excitement or risk, and investors should be told the full story and must sign a written agreement that they understand that it is a high risk investment. Now is the time to exploit the curiosity that made you bold enough to risk a start-up. You must now ask every question conceivable before selling any shares. Hopefully, you as an entrepreneur, will have enough street smarts to keep the maximum possible of your start-up and still give a great return to any investor daring enough to invest in your start-up.

About the author

Sydney-based Alan Manly is an entrepreneur with extensive experience owning and managing SMEs. He is the author of the forthcoming book, 'The Unlikely Entrepreneur' and his website is www.alanmanly.com.au

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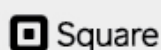
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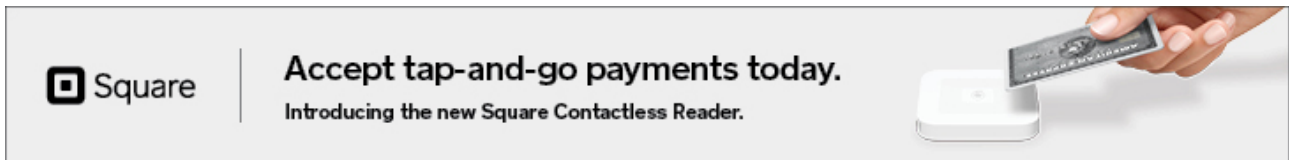
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