Investment Readiness Best Practices

Key learnings and best practice from support to Fintrac & GES companies preparing to access capital

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Feed the Future Partnering for Innovation

Submitted by:
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Open Capital Advisors supported Feed the Future Partnering for Innovation (FTF-P4I) over a six-month period to screen partner companies and identify those most suitable for investment, providing tailored pre-investment support to two selected companies. The same dedicated process was then followed for Global Entrepreneurship Summit awardees.

This document serves to record the best-practice learnings from delivering this support, to be used as a guide for FTF-P4I in preparing its other partners for accessing capital.

1. Overview of the investment readiness process

A multi-step approach is used to evaluate a portfolio of companies for the prioritisation of capital raise support. The structured process involves understanding each business in depth and then assessing them against key identified criteria.

![Figure 1 A 7-step structured approach to evaluate a portfolio of companies to determine capital raise support](image)

Each business model should be validated through review of company documentation, with business leaders challenged on growth strategies. While each business model is unique, evaluating each company against common criteria allows for comparisons of businesses operating across value chains and at different stages of growth. Prioritizing support will then require a trade-off of different considerations.

Up to this point, each assessed portfolio company will have received a high-level overview of a typical investor due-diligence process, pushing entrepreneurs to collate essential information and think critically of their business.

In the later stages of the investment readiness process, growth strategies are refined and validated through financial modelling, documented in investor facing materials and then presented to a refined list of the most relevant investors.

2. Preparing investor documents and supporting materials

Approaching investors requires supporting materials that present the opportunity in a relevant and compelling way. An investor teaser serves as an initial introduction to the company and market opportunity. A longer investor memorandum, shared when investor interest has been ascertained, articulates the opportunity at depth and is supported by a financial model around which negotiations can be based.

Preparation of these materials requires an in-depth understanding of the business and a well-developed growth strategy. It is crucial that these materials provide an accurate representation of the business that can be easily and quickly validated by investors in a due diligence process.
Preparing supporting documentation

A documents checklist shared with a business at the start of an investment readiness process allows time for management to gather and centralise critical information. An example list would include historical, policy and strategy documents across all areas of the business, outlining:

- Ownership structure including subsidiaries and parent companies
- Management roles & responsibilities and board oversight, including bios
- Organograms detailing business unit size and structure

<table>
<thead>
<tr>
<th>Company &amp; leadership structure</th>
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<tr>
<td>• Future growth plans and supporting proof-points</td>
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<tr>
<td>• Market landscape overview including direct and indirect competitors</td>
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<td>• Business risks &amp; mitigation strategies</td>
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<tr>
<th>Business strategy</th>
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<td>• Management accounts for financial performance on a monthly basis as well as non-financial business operations data on inputs, processing and output</td>
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<tr>
<td>• Audited accounts including statements of profit and loss, financial position and cashflows, as well as detailing financing to-date</td>
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**Figure 2 Document request list key areas**

Accessing up-to-date records

Investors will want to access extensive up-to-date records to validate growth projections relative to historical performance. Throughout the investment readiness process, up-to-date information should be sought to track management performance targets against reality.

Small and growing businesses often don’t prioritize systems and record keeping due to perceived financial and time investment required for implementation and up-keep. However, access to granular data and reports supports management in tracking performance and making internal decisions, as well as being of value to investors in the due-diligence process and imparting confidence that business resources are efficiently used. Software such as QuickBooks and Sage are designed for small microenterprises and can be used to generate regular reports.

The document review process will reveal gaps in reporting and represents an opportunity to improve operations and prepare for investor conversations. Reporting weaknesses may include:

- Incomplete records
  Reporting gaps reduce the ability to make detailed trend or position assessments

- Inconsistent reporting
  Errors in performance tracking over time can be particularly significant to seasonal businesses

- Data granularity
  High level data alone may be insufficient for detailed performance and risk analysis

**Figure 3 Reporting weaknesses**

Developing growth strategies

The growth strategy should be based on historical performance, internal capacity and other potential growth constraints. Reviewing financial and operational documents enables an informed but external view of the business, revealing risks and raising questions that the entrepreneur may not have considered while developing the strategy. Working closely with the management team is essential to clearly articulate a data-backed, growth strategy when approaching potential investors.
Investor landscape and outreach process

Investor outreach requires a targeted approach, with suitable investors identified based on various criteria. This saves on time and effort during outreach and, more importantly, ensures that both the business and investors are aligned.

Engaging with interested investors will typically involve initial high-level conversations. This will likely include tough questions based on country and sector insights already known to investors, as well as tough questions on business model and growth plan challenges. A deeper due diligence process will follow if investor and company interests are aligned. This will extend beyond conversations with management and focus on deeper audits of company documentation and validation of growth and market assumptions. Due diligence may also involve referencing and specialist third-party support in areas of legal, technical and finance depending on specific company considerations.

Typically conducted under non-disclosure agreement and with a period of investor exclusivity, the due diligence process will form the basis of deal-structuring and term sheet negotiations.

Selecting companies for investment readiness support

The trade-off between those companies who require support the most and those most likely to successfully raise capital was a key consideration in determining which businesses would receive in depth investment readiness services. To support the decision-making process, two key documents were prepared for each company assessed, including:

- **Financial model**
  - Built from historical financial data, projects future performance based on growth strategies
  - Forward looking financial projection over at least 5 years
  - Starting from most recent historical financial data
  - Based on validated growth assumptions
  - Included statements of profit & loss, financial position and cash flow
  - Details capital need and structure
  - Summarizes key performance and financial outputs in a dashboard

- **Investor memorandum**
  - Provides a detailed overview of the business, market opportunity and growth plan
  - A market landscape includes market sizing for products and regions of operation
  - The business model overview details products, customers, supply chain and team
  - The strategic growth plan incl. timing and business case for the growth strategy
  - Financial projections detail financial model outputs
  - An impact assessment of key metrics used to measure impact

- **Investor teaser**
  - Introductory sales document shared with investors to articulate the opportunity & gauge interest
  - A condensed version of the investor memorandum
  - A sales focused pitch document presents the opportunity and generates investor interest
  - Typically, less than 10 pages
  - Summarizes the market landscape, business model and capital need, and highlights exciting aspects about the business
  - Details the capital need and projected returns
1. A three-page screening memo outlining the business model, operations, management team, historical results, growth strategy, capital need and investor opportunities & risks

2. An investor scorecard evaluating the business need for pre-investment support including criteria such as company incentive and capacity building, business model, capital requirements, likelihood of a successful raise, and management mindset

Determining the maturity, value chain engagement, and capital need of small and growing businesses can be challenging. Each business was assessed through a review of historical financial and operational performances as well as interviews with management to understand processes and growth strategies to determine which companies needed support the most.

Anticipating agri-business sector challenges in Sub-Saharan Africa (SSA)

Businesses operating across the agricultural value chain in SSA often face similar market challenges to access capital. This includes the high cost of debt from local institutions that can range from 20-40 percent and FX risk on debt from foreign currency investment into companies dependent on local currency revenues. Additionally, competition from imported goods, poor infrastructure limiting reach into both local & foreign markets, and access to suppliers & clients are all challenges to business operations. The seasonal nature of these business and impact of external weather events call all create periods of lean cash inflow. In assessing Fintrac & GES companies, consideration was given to those businesses who had a track-record of managing these challenges and who weren’t overly reliant on any one customer or government expenditure.

Engaging entrepreneurs

Entrepreneur engagement was critical to the investment readiness process. First conversations, accessing supporting documentation, preparing for site-visits, finalising investor materials and engaging with investors all required business participation.

The 2-3-day site-visit was designed to focus on those business areas likely to be of most interest to investors as well as to prepare companies for buy-side due diligence. The key objectives included:

- Collating data and information essential to prepare investor documents
- Preparing management for buy-side due diligence and challenging investor conversations
- Understanding the business and local market context

The entrepreneurs were typically considering multiple growth strategies based on intuition, often without using data to support these. The key takeaway from each site-visit was to align on a tangible growth strategy supported by proof-points. Engaging with entrepreneurs involved thinking about long-term growth and financial implications beyond pure capital expenditure. This included considerations to working capital that is less obvious without more detailed financial analysis. In later conversations, the financial model was used to engage entrepreneurs for refinement on a preferred growth strategy.

5. Lessons learned from working with Fintrac companies

Engaging entrepreneurs throughout the support process was a key challenge. Rural locations and management time constraints presented difficulties in obtaining regular input from the businesses. Support to entrepreneurs throughout the capital raise process, including investor engagement may be essential for management who lack prior experience in raising capital. Investment structures for seasonal agri-businesses in SSA can be sophisticated and often demands a blending of debt and equity investments. It is important to ensure that management is guided appropriately and fully understands the implications of this aspect of investment readiness.
6. Best practice recommendations

Supporting women-led businesses

Accessing capital remains a challenge for women-led businesses in some geographies. In Ghana and Nigeria, stringent loan policies from local financial institutions often penalize women entrepreneurs, restricting access to essential early-stage capital. This is often attributed to asset and property ownership rights of women and their ability to provide collateral to secure debt.

Additional assistance for women led businesses could include support for even earlier stage businesses when capital is most critical, accessing guarantors for debt investment, and working with financial service providers to promote female entrepreneurial initiatives.

Encouraging adoption of technical expertise

Small and growing businesses are often constrained by their access to resources. However, investment in internal processes and capacity building improves the likelihood of a capital raise as well as the overall health of the business. Entrepreneurs should be encouraged to invest in critical roles and systems early on.

Entrepreneurs should focus time and resources where possible to attract and retain talent, leveraging company culture and non-financial benefits as differentiators in the market. Where hiring full-time employees is out of reach, entrepreneurs should consider engaging specialist expertise in technical areas, such as consulting accountants to establish financial processes.

Leveraging the start-up ecosystem

Incubators and accelerators are designed for early and growth stage companies. Entrepreneurs can access their expertise and networks to enhance growth initiatives and develop critical skills. Training programs dedicated to entrepreneurs can develop knowledge and build skills across business functions with cost-effecting infrastructure, such as office space, often available.

Support to agri-businesses could leverage the existing start-up ecosystem to improve networking opportunities and build deeper partnerships for portfolio companies.

Introducing educational initiatives

Providing workshops for entrepreneurs on the following investment readiness topics, such as:
Company systems and operations should be evaluated across business functions at the start of any support. A tailored list of recommendations would serve as an opportunity for the business to improve their position prior to investor feedback in preparation for their next raise. For those investors already known to the company, enacting a series of business improvements can act as a catalyst for starting an outreach strategy based on re-introductions.

Preparing for longer capital raise periods

Capital raise processes often experience delays originating from the business under due diligence. This might arise from internal restructuring, time constraints during peak seasons, or preparing for investor requests. Companies should anticipate this lead time and ensure they have sufficient liquidity to cover operations and the time to dedicate into the investor process. Consistent and transparent communication is important to maintain trust and sets the precedence for a potential future relationship. Investors have internal decision-making processes involving investment committees, frequent communication and status updates will facilitate faster turnarounds of information.