A Guide to Raising Capital
For
Business Growth
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Introduction

Getting the right type of funding or capital for business growth can make a big difference to the success of your business. This guide gives an overview of the basics of raising capital.

The most common reasons for raising capital include working capital for growth, acquisitions, new product, service or market development, capital expenditure or restructuring.

The most suitable sources and types of capital for your business will depend on the nature of the project, amount required, type of business, market characteristics, business growth ambitions, size and timing of business cash flow and stage of business growth (see diagram page 6).

Every business is different and capital growth initiatives need individual consideration. It is important that you seek specialist professional advice which may not be available from your regular business advisors.

The information in this guide is designed to make the process of finding capital easier by helping you to:

- identify alternatives to external capital
- understand the capital-raising process
- determine the source of capital most appropriate for your growth needs – debt or equity
- become investment ready – to enhance your ability to raise capital
- identify what information you need to present to investors
- develop plans – such as business and commercialisation plans
- find additional information on raising capital.

Be sure you are within the law

The Financial Services Act (FSA) is responsible for administering the law relating to corporations and investments in the United Kingdom. There are many rules about raising capital from investors and you need to comply or face stiff penalties. For further information please visit: www.fsa.gov.uk

Be sure to get sound advice before you offer investment in your venture to anyone.

Remember every investment or lending proposal will have unique features and it is not possible for one model to fit all situations. The following information is provided as a guide and should be used as intended.

Disclaimer

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Capital Raising Pathway

1. Identify Capital Needs
   - Organic Growth

2. External Sources of Capital
   - Equity
   - Investment Readiness
   - Debt

3. Commercialisation Plan
   - Business Planning
     - Research Providers
       - Investment Summary and Pitch
         - Due Diligence
           - Funding
             - Yes
             - No

4. Alternatives
   - Strategic Partnership
   - Joint venture
   - Licensing Agreement
   - Franchise
The Capital Raising Process

The first step in the capital raising process is to draft a capital plan for the growth of your business. The capital plan is used to identify funding requirements in terms of the amount, the timing, the structure (loan, lease or equity) as well as the most appropriate capital mix for business growth. It should also investigate alternatives to raising external capital.

Start by defining your business objectives and strategies. Identify all the costs involved in your business growth plans, including working capital requirements as well as the impact of budget over-runs and product development delays. Then look long and hard at the feasibility of your proposition. The capital plan will need to be revisited once the business plan is completed as this is likely to identify additional issues.

Determine what resources you require to grow your business, when they are needed and how to obtain them and whether these can be sourced from within the business. If external capital is needed then consider what you are willing to give/offer to achieve your business objectives and what will be the value of your equity in the business following the introduction of new capital.

If you were a dispassionate investor with a wide range of choices, what would make your business expansion or idea irresistible? Check if your plan is viable, sound and realistic by seeking professional financial advice from someone familiar with the size and type of your business.

The need for external capital

External capital may not be the only means to grow your business. Growth potential could be constrained by a range of issues. Experience suggests that in the majority of cases it is not capital but better information, better analysis, further sales and more or better people that help realise business growth.

Ask yourself if there are other ways of achieving growth.

Options that can reduce the need for capital include:

- outsourcing manufacturing activities which can reduce the need for investment in manufacturing capacity.
- appointing a distributor with existing channels into the target market. This may result in reduced costs as well as earlier and greater sales.
- licensing – allowing others to produce your product or service in exchange for a royalty. This will normally be more suited to products or services with strong intellectual property protection. The licensing agreement may apply to secondary markets leaving you free to develop your primary market using funds generated from royalties.
- developing strategic alliances and joint ventures which can reduce risk and resource requirements.
- entering into franchising arrangements.
Organic growth – funds from within the business

The above options focus on reducing the need for capital. Another strategy is to increase the level of capital resources generated by the business. Perhaps you don’t need to raise all capital externally. Your cash flow may be sufficient or you may be able to increase available resources by:

- increasing the level of retained earnings
- operating your business more efficiently such as through better inventory and debtor control
- factoring - selling your accounts receivable to a financial organisation to collect them on your behalf.

For most businesses, using internally generated capital is the easiest and cheapest way to fund growth. While most large expansion projects will be outside the capacity of a business to fully fund internally, the implementation of one or a combination of the above choices can act to reduce the level of external capital required.

Remember growth, particularly rapid growth, can be cash hungry and may consume large amounts of your cash flow. One of the most common reasons businesses face insolvency is due to cash flow issues as opposed to a lack of profitability. Sound cash flow management is critical for business success, especially fast growing businesses.

Determine the right source of capital

If you do need external capital it may have to be from more than one source. To determine the sources of capital most appropriate to your business, it is important to understand how different sources of capital operate.

The stage of business development is the major determinant of what type of capital is appropriate - see Diagram Capital Raising Life Cycle on page 7.

While risk levels largely impact on the cost of capital, they also influence the type of capital available.

Banks normally lend to low risk projects while equity investors will accept higher risk levels in exchange for higher returns.

Lenders and investors look at transactions from different perspectives. Lenders are more concerned with debt serviceability whereas investors focus on the potential for sustainable growth and a return on their investment that is proportional to the level of risk. The characteristics of the different sources of capital are shown in the following table.
### Characteristics of the different sources of capital

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Suitable growth strategy</th>
<th>Risk to business</th>
<th>Ownership</th>
<th>Involvement in the business</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N/A</td>
<td>Short term</td>
<td>Low</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Cost</td>
<td>N/A</td>
<td>Interest</td>
<td>Medium term</td>
<td>Not required</td>
<td>No</td>
<td>May be required</td>
</tr>
<tr>
<td>Suitable growth strategy</td>
<td>Interest</td>
<td>Medium term</td>
<td>Long term</td>
<td>Not required</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>Risk to business</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Required</td>
<td>May be required</td>
<td>Required</td>
</tr>
<tr>
<td>Ownership</td>
<td>N/A</td>
<td>Not required</td>
<td>High</td>
<td>Required</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Involvement in the business</td>
<td>N/A</td>
<td>No</td>
<td>Low</td>
<td>Required</td>
<td>May be required</td>
<td>May be required</td>
</tr>
<tr>
<td>Security</td>
<td>N/A</td>
<td>May be required</td>
<td>Medium</td>
<td>Required</td>
<td>Sometimes required</td>
<td>Required</td>
</tr>
</tbody>
</table>

*Quasi equity is a hybrid of debt and equity, with debt later converting to equity

### Capital Raising Life Cycle

#### Stages of Business Development

<table>
<thead>
<tr>
<th>Pre Seed and Seed Product Development Research and Development Prototyping</th>
<th>Start Up Market Introduction</th>
<th>Growth Stage</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
</table>

![Graph showing capital raising life cycle stages](image)
Pre seed and seed stage
The venture is at the idea stage and needs finance for research and development.

1. Start up stage
Product development has been completed and funding is needed to develop production capacity and sales activities.

2. Growth stage
The business is established and requires capital to fund growth and expansion. The business may or may not be profitable but is facing a period of rapid growth. Capital may be needed over a number of stages and involve a combination of debt and equity.

3. Maturity stage
The business is experiencing stable sales and strong profits and is well established in the market.

4. Decline stage
Sales begin to decline and profitability decreases as competition levels increase and consumers move to alternative products. The business needs to reposition or reinvent itself to survive.

The cost of capital
The cost of capital is largely related to the risk associated with the proposal. A risk free investment still has a cost and is normally calculated as the return available from government securities. This is the starting point for the cost of capital.

It is unusual for a business investment to be risk free. The risk profile of any business investment is made up of a number of components of which need to be understood and managed. The types of risk a business will face include:

- Political
- Economics
- Industry
- Market
- Business
- Financial
- Product
- Execution (project)

Risk and Cost of Capital
The more a business can manage risk levels the lower the cost of capital. Consideration should also be given to when external capital will be sought. The use of internal funds at an early stage and/or staging capital raising activities can significantly reduce risk levels and result in cost saving. These savings can be in the form of interest costs or the amount of equity given up.
Funding Growth Through Debt

Debt is the cheapest form of external funding and is an important source of capital for most businesses.

The most common forms of debt funding include bank loans, overdrafts, mortgages and equipment leases.

The main consideration in assessing the suitability of debt finance is the ability of the business to generate sufficient returns to service the debt (interest and capital repayment). While financial institutions will normally require security as a form of risk management for the funds provided, asset sales are a last resort to recover loan funds.

The ability to provide high levels of security for a loan without the necessary cash flow to support repayments does not make an attractive lending proposition for a financial institution.

Do your research: compare and contrast the different financial providers and their services before committing yourself.

Lenders assess loan applications by looking for:

- capacity to pay interest and capital
- adequate security
- evidence of sound management skills
- accurate financial data
- cash flow projections with substance
- credibility and sound knowledge of the proposal
- a strong track record in business.

Common barriers to accessing debt finance are:

- high debt: equity ratio (low levels of equity)
- lack of financial strength / project under capitalised
- lack of profitability
- lack of business planning and financial budgets
- lack of reinvestment of profits into business
- type and valuation of security
- quality and experience of management
- lack of financial management skills and management systems
- lack of separation between business funds and personal expenditure.

Factors influencing the cost of debt finance, include:

- capacity to meet repayments
- level of risk (business, industry and economic) associated with the proposal
- size of loan
- quality of the security offered
- quality of management and financial management skills
- potential for an ongoing business relationship
- cost of capital to financial institutions.

It is important to be prepared before approaching a debt provider. This will involve preparing a business plan. See the section on planning later in this guide.
**Investment and merchant banks**

While the most common form of debt financing is through retail banks, organisations such as investment banks can provide an alternative mix of financial products. These institutions may provide cash flow lending through products such as senior debt, mezzanine debt and equity finance.

Investment banks will normally target established larger profitable businesses (with a value of about £4 million or more) seeking amounts greater than £2 - £5 million to fund activities such as acquisitions, growth and shareholder restructures. While investment banks are unlikely to require the same level of involvement in the business as a venture capitalist (VC) they will require a history of profitable trading with cash flows capable of supporting their investment. The deal assessment process is similar to that of venture capitalists so it is important to be investment ready. Refer to the section on becoming investment ready later in this guide.

**Funding Equity Through Growth**

Equity finance is an important part of business funding for early stage development, growth and to support debt funding. Equity can come from an owner’s funds or external investors. The most significant difference between equity finance and debt finance is that the equity involves the investor taking an ownership position in the business. Investors may take an active role in the business and require a position on the board in order to influence management decisions and the direction of the business.

Equity investment becomes attractive to a business when it allows the business to undertake activities that it could not otherwise do and when it results in the value of the owner’s remaining equity being greater than it would be without the investment taking place. It could be argued (usually by investors) that the value of your equity at the completion of the investment and business growth process is more important than how much you receive from selling equity to the investor. Are you better off owning 100 per cent of a small business or a lesser percentage of a large business?

It is important to understand that taking on an equity partner requires a change in the culture of the business and the business owner. Many business owners have difficulty accepting this change. The owner (assuming they remain in the senior management role) will need to accept that they now work for the business and act accordingly by implementing appropriate corporate governance procedures.

The rate of return (internal rate of return or IRR) sought by equity investors is normally in excess of 25 per cent. These returns are achieved through the sale of the investor’s equity position when the business has grown in value and from business profits.

If investment funds are being sought for a project that is commercially sensitive then a confidentiality agreement may be needed before any discussions take place. Intellectual property (IP) protection should also be considered and professional advice may be required. IP leakage can occur when there is disclosure of information prior to gaining IP protection. This can result in it not being possible to obtain IP protection which can make it very difficult to obtain equity finance and commercialise a new product or service.
Equity investors can bring other benefits to a business besides funding. Experience in areas such as relevant markets, product development and business management can increase the growth potential of a business. Ideally businesses seeking equity funds should look for smart money, not just money.

**Becoming investment ready**

Attracting equity investment is not an easy process. Businesses need to be well prepared and investment ready to maximise the potential for success. A failure to be investment ready is the most common barrier to accessing equity investment. Second chances are rare, so it is important to become investment ready before establishing relationships with potential investors, regardless of your company’s stage of development or capital needs. Investors may be found among friends and family, venture capitalists, financial institutions and business angels.

Remember there are more good ideas than there are management teams with the capacity to deliver on these ideas. Investors are investing in the capacity of the people and the business, not just a product or service.

Becoming investment ready requires the business to address a wide range of issues including:

- management capacity and systems
- suitable business structure (usually a company)
- a realistic business valuation
- management commitment and ability to stick with it
- the business model
- investment structure, terms sheet and exit plan
- business and/or commercialisation plan
- an investment proposal (information memorandum) and pitch.

**Management capacity and systems**

The balance of skills and experience needed to grow a business will change as the business moves through its business life cycle. Not all business seeking to attract equity investment will have the necessary skills and experience to undertake the range of activities needed to grow the business. Gaps can be addressed by one or a combination of the following:

- recruiting personnel with the necessary skills
- appointing a board that has the required skills and experience
- purchasing expert advice.

**Suitable business structure**

Investors normally prefer an uncomplicated share structure that allows future flexibility. If there is a complicated structure then you need to be able to explain it and the benefits it brings. Investors may also require that all assets reside with the company. For example IP rights are to be held by the company rather than it having access to the IP held by another entity.
A realistic business valuation

If you are going to accept equity investment you are in effect selling a portion of your business. You need to know how much it is worth (or will be worth) before being able to determine how much equity to give up for a particular amount of investment.

There are three main approaches (asset, earnings and market based) to business valuations with a number of variations within each of these approaches. Usually two or more valuation methods are used as a means of cross referencing. Valuing a business is more of an art than a science and, given that a valuation is an opinion, there is room for negotiation. The market value of anything is determined by what the market is prepared to pay.

Management commitment and ability to stick with it

Growing a business is often a difficult task requiring hard work and commitment. An investor will want to be comfortable that management will not walk away when things get tough. The ability to stick with it can be demonstrated through past achievements, the level of personal financial commitment and the sweat equity invested in the business. Sweat equity is the non financial input into the business. This might be the unpaid hours spent developing a new product. Investors want to see that you are committed to the business not just involved in it.

The business model

The business model needs to show investors how the business will make money. It contains a description of how the business operates and how it will generate revenue and profits. A business model for an internet based business will be different from a manufacturing business.

Investment structure, term sheet and exit plan

Investors need to know how the investment will be structured and how they will realise their investment. The term sheet identifies how much capital is required, what it will be used for, when it will be needed and how much equity is on offer. Provide an exit strategy: investors will want to know how they can get their funds out of your business and realise their investment.

You will need a plan to do this. Your strategy may be a trade sale, a management buy out, listing on a stock market or obtaining another investor. Next stage investors are usually reluctant to pay out the early stage investors as they want their money to grow the business.

Business and commercialisation plan

The business plan describes the opportunity as well as how and why it will be realised. If the investment proposal involves the commercialisation of a new product or service then a commercialisation plan (outlined in the planning section) should also be developed.

An investment proposal and pitch

Prepare a one page offer document or investment brief that outlines your investment opportunity by capturing the key points that will encourage an investor to seek more information. This is normally used to maintain confidentiality when gauging initial interest from investors and can be followed up with your business plan or investment memorandum when applicable. Tailor the documentation to the investor’s requirements.
An investment pitch needs to be planned and well prepared. When making your presentation:

- keep it short and simple
- stick to your key points
- pretend you are in a lift with your dream investor with only the time it takes to get from ground to your floor to make the investor want to seek you out for more information
- use pictures and diagrams to give a more succinct overview
- focus on the financials and the business not the technology

Road test your pitch – listen to feedback. Seek advice from potential investors even if they reject your initial proposal. Change your business plan or approach based on feedback, if appropriate. Keep in touch with all interested parties and update them on your progress.

Sources of equity capital

Family and friends

Family and friends are an important source of equity capital and one of the only sources available for early stage businesses development. Consideration should be given to the risk of business failure and the impact this is likely to have on the ongoing relationship with family and friends who have invested in the business.

Normally the degree of investment readiness needed will be less rigorous than for other sources of capital, however all arrangements should be formalised.

Business angels

Business angels are usually high net worth individuals with cash resources to invest in a high growth business with potential to offer high returns. The level of risk and involvement in the business by an angel investor will vary from one investor to another.

Business angels invest in businesses they feel have a potential for growth and which they believe will provide them with a substantial return on their investment. They often have an active involvement in the development of the business, bringing skills, experience, contacts and networks, as well as funds. Generally, they provide funds during all stages of the business lifecycle, investing time and money over the long term – usually three to ten years – and between £100,000 and £1-2 million.

Investments are normally made in geographic locations that allow them to be actively involved in the business. Angel investors are one of the few sources of early stage (seed) capital but more often invest at the post seed stage.

How to find business angels

While angel investment is largely an informal investment process it has been estimated that the level of investment flows through this process are significant, being greater than £1 billion per annum. This means that, while angel investment is an important source of capital, it is often difficult to identify and access. Angel investors can be found through business contacts or networks and advisors such as accountants, lawyers and specialist consultants.
**Venture capital**

Venture capitalists are specialist financial intermediaries who seek high returns from investing in relatively high risk companies. Most will expect to take an active and influential role in the development of a business and may be more hard nosed about seeking an exit by selling their investment in a given timeframe. Investment levels are in the order of £1-£10 million or more and are likely to be staged according the achievement of agreed milestones. Generally, venture capitalists favour businesses with a successful operating history of several years.

The investment raising process through a venture capital company normally takes three to nine months. A business seeking investment will need to have sufficient funds to continue operations for about 12 months.

The rate of return sought by the investor will depend on the level of risk. It would be higher for an investment in a start-up company than for a business in the expansion stage. Venture capitalists will require at least 25 per cent per annum over the life of the investment.

Venture capitalists typically invest in less than two per cent of projects presented to them and might spend less than one minute on the initial assessment of a proposal that comes across their desk. It is important to present your case in a manner that will maximise the potential for it to be given serious consideration.

Qualify potential investors based on their preferences and availability of capital – not all venture capital funds have money available for start-up investments.

**What makes an attractive investment opportunity**

Some of the factors in making an investment opportunity attractive are:
- experienced and effective management – track record
- high growth sector
- high business growth potential
- replicable business model
- strong financial returns
- significant entry barriers – competitive advantage
- sales history or confirmed purchase intentions – customers
- market knowledge and distribution systems
- exit strategy

**The Venture Capital Investment Process**

1. Investment Opportunity Assessed
2. Preliminary Screening and Pitch
3. Memorandum of Understanding
4. Due Diligence
5. Approval Legal Agreements
6. Funds Invested
1. A VC will look at the offer document or the executive summary of the business plan and, if this is attractive, the business plan or investment memorandum.

2. If still interested, a meeting will be arranged and the proponent and key management asked to present their opportunity. Some initial investigation of the opportunity may then take place.

3. A memorandum of understanding (investment terms and conditions) will be negotiated between the VC and the proponent.

4. A due diligence investigation is undertaken. The investor will research your business and management prior to deciding whether or not to proceed with investment. The starting point of the due diligence is the detail in your business plan and information memorandum. The process usually involves multiple meetings and interviews with management at the offices of both the investor and company. The investor will contact existing and prospective customers and verify management credentials though references supplied by the company and the investor’s own contacts. Investigation of the industry sector, market potential, competitors, entry barriers, product/service life cycle, distribution channels, export potential and financial projections will be undertaken. This often involves using external industry experts and consultants.

The aim of the due diligence process is to:

- identify vulnerabilities and risks so that the risk/reward outlook can be quantified
- understand how management approaches problems, issues and decisions
- develop an understanding of the company and its market so that, as a partner, the venture capitalist is prepared to counsel management to anticipate and manage change
- confirm that information presented to them is correct.

The investor is likely to seek additional information and/or actions from the proponent.

5. If the investor is satisfied with the outcome of the due diligence process and gains the necessary internal approvals then legal documents such as shareholders’ agreement and term sheet will be prepared.

6. Funds are invested in accordance with the agreed terms and the investor takes an active role in the company.

**Investment outcomes**

If you are offered investment, make sure the investor is right for you and your business.

Before proceeding with an investor, investigate them while they are investigating for you.

Ask yourself the following questions:

- Are you happy with the rate of return required by the investor?
- Does the investor offer you the level of involvement or advice you require?
- Is it the right investor, can you work with them and do their objectives align with yours?

Not all investment raising deals have a happy ending.
Planning

Planning is a critical element of any capital raising process. It identifies the opportunity, where the business is going, how it will get there and the capacity to achieve desired outcomes.

Plan the feasibility of your business expansion by giving detailed thought to budgets, operational requirements, business capacity and strategy. Formulate a sound business plan in conjunction with an experienced advisor. Peer review may help you to revise and fine tune your approach.

A financing strategy or capital plan should be developed to identify how much capital is required, when it will be required, where it will be sourced, what it will be used for and what type of capital mix is most appropriate.

The capital plan can be part of the business plan. If the business expansion involves commercialisation of a new product or service then a commercialisation plan will be needed to address the additional factors this process imposes on a business.

Business plan
The business plan provides an effective way to present your lending opportunity to a financial institution or investor. Not only does it provide information for the potential lender to assess the proposal, it also demonstrates management capacity and is an effective business management tool.

There is a number of business planning models and you will need to identify one that matches your requirements and those of your potential capital provider.

Elements of a business plan include:

- executive summary
- business model and product/service description
- marketing plan
- operating plan
- management and personnel plan
- legal matters
- financial plan
- action plan.

Executive summary

This highlights the key points of your business plan and includes a business profile, goals and summaries of the other components of the plan. It is the most important part of the plan and is best prepared last.

The executive summary is the section the investor will read first. It should provide compelling reasons why your business should succeed and show how you propose to minimise risk and maximise return.
When preparing the executive summary, the following points should be considered:
- be realistic in your financial projections – unrealistic projections impair credibility
- don’t make vague or unsubstantiated statements - specify the basis of your projections
- set out clearly the management team’s experience - investors are looking to see if management can deliver
- state clearly how much money the company will need, over what period of time and how it will be used.

**Business model and product/service analysis**
This contains a description of how the business operates and how it will generate revenue and profits. It also contains a detailed analysis of the proposed products, services and plans for future product/service development.

**Marketing plan**
This identifies your business position in the market, nominates marketing strategies and sets directions in relation to product, pricing, distribution and promotion. The market prospects, opportunities and characteristics critical to the survival and growth of your business should be analysed. The plan needs to be based on sound market research.

Define your market, how it works, current trends, size and opportunities. Analyse and select marketing strategies, identify future marketing activities and develop reporting systems for marketing activities. Show results of your market research. Top down market research (there are 1 billion people in China, if we get a 1 per cent market share …) is not acceptable. You need to undertake primary and secondary market research to identify your customers and how to reach them. As few as 20 customer interviews can provide information that will be relevant to 80 per cent of the market. Identify your competitors, how they compete and impact on your business and define your competitive advantage.

**Operating plan**
This nominates volume/performance levels and identifies suppliers, costs and quantities of materials, processes, equipment, business systems, supply chains and methods of extending the services or products offered.

**Management and personnel plan**
This identifies key management strengths and capabilities, staffing levels and skills, communications with staff, monitoring and retaining key personnel and rewarding performance. An organisational chart can be included here.

**Legal matters**
This identifies how you will deal with some of the legal matters of the business - structure, intellectual property rights, licensing and contractual relations with suppliers.

**Financial plan**
This includes a financial analysis and preparation of projected financial statements (including sensitivity analysis) for your business. This can cover analysis of financial position and performance, levels of finance required for start-up or growth, sources of finance, application of funds, break-even analysis and anticipated growth in sales and profits.
**Action plan**
This identifies how you will implement your business plan and prioritise strategies for the first year of the plan.

Other elements that can be in a business plan include:
- risk management
- corporate governance
- strengths, weaknesses, opportunities and threats
- vision and mission.

A business plan designed to support raising debt finance is different from one targeting venture capital. The major difference is that a VC business plan (or investment memorandum) should normally not exceed 10 pages.

This can be achieved by summarising the full business plan. A more detailed plan may then be needed if a VC becomes interested in a proposal.

**Information memorandum**
An information memorandum may need to be developed when seeking equity investment. It contains historical, operating and financial details of an investment offered for sale to a limited group of investors and is used when disclosure is not required under the Corporations Law.

While an information memorandum is based on the business plan, it is written specifically to raise capital whereas a business plan is primarily designed as a business management tool. An information memorandum contains much of the same information as a business plan but has a different emphasis or focus.

In addition to the information found in a business plan, it may include:
- shareholding structure
- shareholder agreement
- valuation of the company
- a disclaimer relating to the information
- term sheet for the deal (how much money is required, how you plan to spend it, how it will be drawn down, under what conditions the money will be paid and share of equity for investment).

**Commercialisation plan**
Commercialising a new product or service adds additional dimensions and risk to the process of growing a business. Developing a concept or even a working prototype to a market ready product is not a simple process. An additional skill set is needed to manage the research and development and commercialisation process as well as those skills needed to grow a business. The key person at the commercialisation stage might not be the key person at the business growth stage.
A commercialisation plan is similar to a business plan but has a focus on product/service development. The main additions to the business plan are:

- the technology or commercialisation capability section addresses the capabilities of the business/organisation to commercialise the new technology by identifying technical/research and development skills, links to other research organisations and past successes
- the product/technology section describes in simple terms the new technology, its application, market potential and IP protection.

Consider employing an intermediary who specialises in developing documentation for investors.

**Capital plan**

The capital plan is used to identify funding requirements in terms of the source (internal or external), amount, timing, structure and appropriate capital mix. You need to identify all the costs involved, including working capital requirements as well as the potential impact of budget overruns and product development delays.

You need to look long and hard at the feasibility/viability of your proposition. Once the viability of the project has been established then you can progress to the business planning phase. The capital plan should be revisited once the business plan is completed as this is likely to identify additional issues that will impact on funding requirements. While the capital plan is used primarily for internal assessment purposes, the results are used to structure the offer or application to capital providers.
## Investment Opportunity Summary Template

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Location</th>
<th>Industry Sector</th>
</tr>
</thead>
</table>

### Project / Opportunity Description:

Include type/stage up, growth, sale of business, turnaround

### Industry and Market Analysis

Size of market, growth rate, trends

### Current Business Operations, Management Experience and Competitive Advantage

Include any IP protection
Current and post investment business structure

### Funding Requirements and Equity Offered

<table>
<thead>
<tr>
<th>Maximum Funding Required</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Funding Required</td>
<td>£</td>
</tr>
<tr>
<td>Minimum Investment Parcel</td>
<td>£</td>
</tr>
<tr>
<td>% Equity offered per £ 10,000 of investment</td>
<td>% (or negotiable)</td>
</tr>
</tbody>
</table>

Investment will be used to fund
Example: Research and development, buyout existing investor, growth

### Business Expertise Sought from Investor and Investor’s Role in Business

Example: Export markets, business management, finance, technical, no expertise necessary
Non-executive director, consultant, silent shareholder, negotiable

### Retirement of Investment

<table>
<thead>
<tr>
<th>Exit Strategy</th>
<th>Example: Trade Sale, Management Buy Out, Public Float</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exit Timing</td>
<td>Example: Year 5</td>
</tr>
</tbody>
</table>
## Projected Financial Performance (£, 000)

<table>
<thead>
<tr>
<th></th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
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</thead>
<tbody>
<tr>
<td>Sales</td>
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<tr>
<td>Expenses</td>
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<tr>
<td>Net profit</td>
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<tr>
<td>ROI %</td>
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<tr>
<td>Capital returned at retirement of investment</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>% of original investment</td>
</tr>
</tbody>
</table>