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- Partner in the Gate2Growth initiative supported by the European Commission

How to attract investors

By

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Maison des Centraliens

Paris

February 13st. 2007



Entrepreneurship is “hype” in Europe with many projects looking for funding



Investors are looking for the dynamic entrepreneurs



They only invest in the winners !

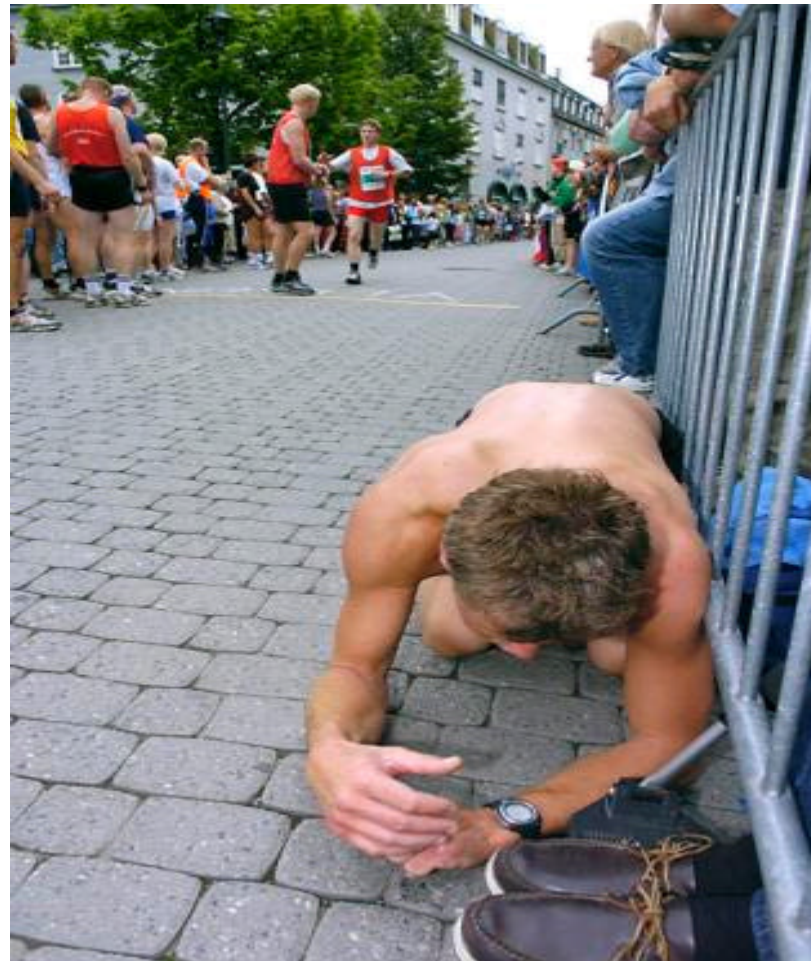




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..... **Still many fails !**



**Investors know that
all projects have lots of competitors !**

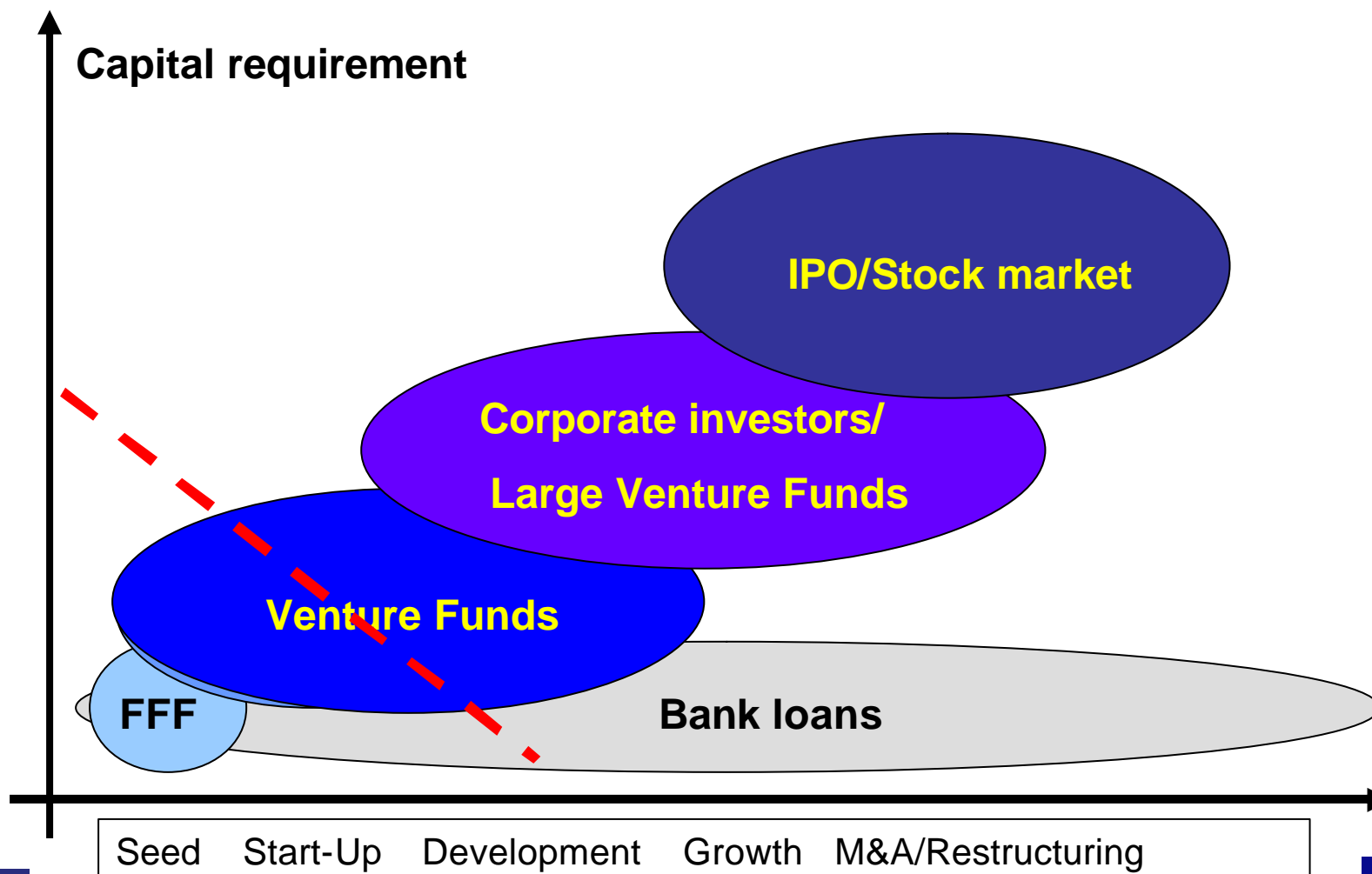


**You should know:
There is also competition for investors money**





Sources of financing





The deal Funnel



Screening process

2 min/deal

Investor questions:

Do I like the business concept and - model ?



The deal Funnel



Screening process

2 min/deal

10 min/deal

Investor questions:

Do I like the business concept and - model ?

If I believe in the business plan and the budgets can I make money?



The deal Funnel



Screening process

2 min/deal

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Do I like the business concept and - model ?

10 min/deal

If I believe in the business plan and the budgets can I make money?

20 min/deal

Do I believe in the business plan and the budgets?



The deal Funnel



Screening process

2 min/deal

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Do I like the business concept and - model ?

10 min/deal

If I believe in the business plan and the budgets can I make money?

20 min/deal

Do I believe in the business plan and the budgets?

4 Hours/deal

Is it realistic ? Can this management deliver the promised results ?



The deal Funnel



Screening process

2 min/deal

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Do I like the business concept and - model ?

10 min/deal

If I believe in the business plan and the budgets can I make money?

20 min/deal

Do I believe in the business plan and the budgets?

4 Hours/deal

Is it realistic ? Can this management deliver the promised results ?

10 Days/deal

Ok, would you like to meet us and discuss?



The deal Funnel



Screening process

2 min/deal

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Do I like the business concept and - model ?

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If I believe in the business plan and the budgets can I make money?

20 min/deal

Do I believe in the business plan and the budgets?

4 Hours/deal

Is it realistic ? Can this management deliver the promised results ?

10 Days/deal

Ok, would you like to meet us and discuss?

1-3 month/
investment

Are you ready to start serious negotiations.



Question 1:

Can I make money, if I invest in this project ?



Result

GATE 2 GROWTH is supported by the European Commission



You have now finished the self assessment! Below you can see the result of the answers you have given. The scoring and the Feed Back is entirely based on the input you have provided and the questions you have answered.

Summary of financial observations

What are the expected revenues ?

Based on the input you have provided and the questions you have answered the major findings can be summarised.

(If you are not familiar with financial terminology it is recommended to consult the downloadable booklets and tools from the www.Gate2growth.com - tool box. There you will find further explanation of the terminology used in the text below. In the "tool box" you will also find an elaborate Financial glossary)

Summary of financial inputs	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Net result		€ -1.500	€ -2.100	€ -2.800	€ 9.100	€ 3.100	€ 12.000	€ 15.400	€ 22.600	€ 22.600	€ 22.600	€ 22.600	€ 22.600
Total assets	€ 0	€ 0	€ -2.100	€ -4.900	€ 4.200	€ 7.300	€ 19.300	€ 34.700	€ 57.300	€ 79.900	€ 102.500	€ 125.100	€ 147.700
Total debt	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €	in 1000 €

(note: if you did not fill in the Net Result in year (t), the model assumes continuation of the Net Result from year (t-1). If no other information is available the model increases assets in year (t) by the Net Result in year (t). Liabilities year (t) = liabilities year (t-1) if no other info available)

You have provided the following information as input for the calculations:

Total investment from this round of financing (in 1000 €)	€ 12.000
Investment from new investors (in 1000 €)	€ 10.000
Investment from "old" investors (in 1000 €)	€ 2.000
% ownership of your company offered to investor(s)	40.0%
Your estimate of "pre money" valuation of your company	€ 10.000
Your proposed rate of discount to be used for NPV calculations	15.0%
The assumed year when the investor(s) can exit from the investment	6
Anticipated PE ratio used to calculate exit value	

How much shall I invest ?

When analysing the answers you have given during the "time preference rate" and "Uncertainty" parts of the test the following results can be calculated. These results are used in the concluding tables shown below:

Implicit "pre-money" valuation calculated from the ownership % offered to the investor(s) in this round of financing (in 1000 €)

€ 18.000

Which ownership % do I get?

n.a. (Why?)

n.a. (Why?)

Realistic discount rate to be used

n.a. (Why?)

◀ BACK

FEEDBACK

PRINT

SEND

RESTART

TELL A FRIEND

If the foreseen investment is split into tranches to be invested over a period of more than year 1, the Net Present Value (NPV) of the committed investment is used for the financial calculations. In the calculation of the Net Present Value of the committed investment is used the proposed discount rate as discount



factor. If an investment takes place in year 1, then the Net Present value of the foreseen investment is equal to the nominal value of the investment.

Net Present Value in year 1 of the committed investment from both new and "old" investors. in 1000 €)

	Investment year 1	Investment year 2	Investment year 3	Investment year 4	Investment year 5
	€ 12.000	€ 0	€ 0	€ 0	€ 0

If you are not familiar with "discount calculation" then here is an easy explanation: The higher a discount rate you are using the less value is allocated to future income. In other words, a discount rate of zero % means that you are indifferent whether you get your income today or in 10 year time. The higher the discount rate the more you prefer to get your money today rather than tomorrow.

Comments to your input

⚠ The "pre-money" valuation you indicated when you answered the questions in the test is lower than the "pre-money" valuation which the investor can calculate from the ownership % you are offering. When speaking to investors be prepared to explain the reason for this difference.

Investor(s) view

An investor will probably make a first check of his expected return of his investment using the type of calculations illustrated below:

IRR calculation see

Will this investment make me rich, compared to other opportunities ?

The investor(s) from this round of financing can realise a full exit from the investment in the exit year you have proposed, then the IRR will be as indicated below. The result depends on the valuation principle to be applied when determining the exit value.

	The exit value calculated based on net assets and NPV of remaining EBIT	The exit value calculated based on the PE principle	The average of the two calculations
Realised IRR for the investor(s):	32.9%	19.1%	26.0%

It is not a good basis for negotiations that the investor is offered a smaller return on his investment than 30.0% which in this test has been assumed as a minimum return expected by investor. But maybe you are lucky and the investor might see other upsides in your business case than you do! You could also consider that the IRR your project is offering to the investor is below the often used 30.0% IRR requested by many investors.

Capital gain for the investor:

The investor(s) from this round of financing can realise a full exit from the investment in the exit year you have proposed, then his capital gain (cash to cash) will be as indicated below. The result depends on the valuation principle to be applied when determining the exit value.

	The exit value calculated based on net assets in the year of exit and NPV of remaining result	The exit value calculated based on the PE principle in the year of exit	The average of the two calculations
--	---	---	-------------------------------------

Realised IRR for the investor(s):	32.9%	19.1%	20.0%
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	The exit value calculated based on net assets in the year of exit and NPV of remaining result.	The exit value calculated based on the PE principle in the year of exit	The average of the two calculations
Investor capital gain (cash to cash or "not discounted") from his investment in 1000 €	€ 35.276	€ 16.800	€ 26.038

Net present value of investors investment investment:

The investor(s) will also be looking at the "net present value" of his part of the exit sales price. Most investors will for this calculation use a discount rate of 30.0% or more. In this case the calculation has been done by using the discount rate is shown below :

The discounted net result has been calculated using "the required investor IRR" of: (Why?)	30.0%
Net present value of the investor(s) share of exit value using the "required" IRR as the discount rate (in 1000€):	€ 11.043
NPV of investors investment (in 1000€)	€ 12.000
The net result as the investor(s) will see it (in 1000 €):	€ -957

The negative result is not a good sign. The calculation is based on an exit value which is the average between the two principles used in this analysis for calculating the value of a company. Many investors might find it easy to identify other investment opportunities which will give a positive net result if calculated in the same way. One solution to attract investor interest in your case is to offer the investor a bigger "slice of the cake", or make a careful reconsideration of the business model and the associated budgets.

The busi
percent
is also in
calculati

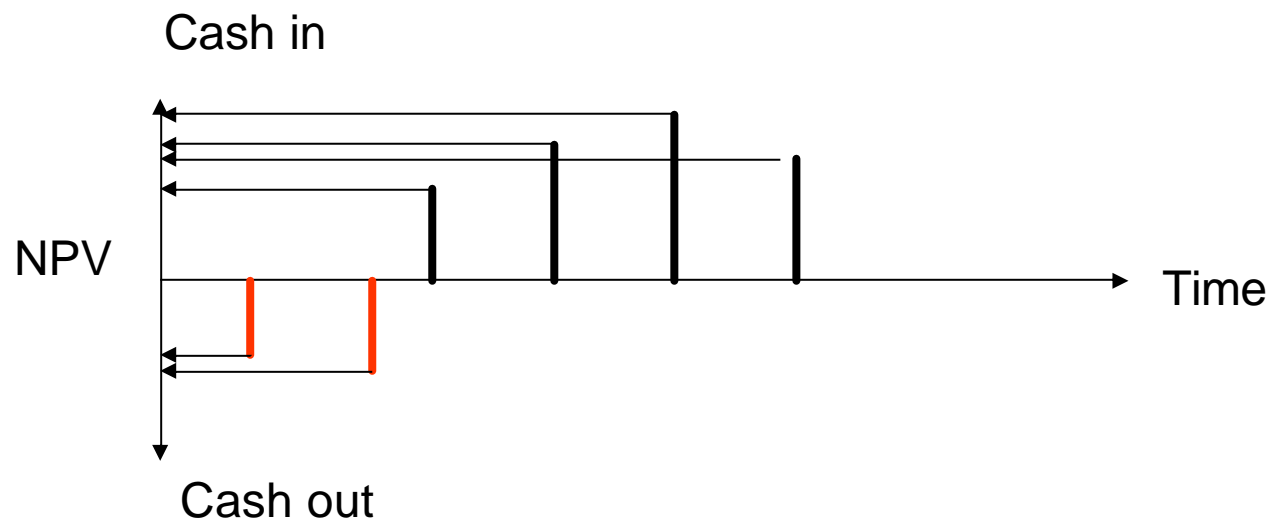
If my alternative investment opportunities offers 30% IRR, then this project shall offer not 40 % ownership but above 60 % ownership !

	The exit value calculated based on net assets and NPV of remaining EBIT	The exit value calculated based on the PE principle
If the investor is looking for a return measured as an IRR of 30.0% then the % ownership of the company should be	60.6%	61.9%
Corresponding pre-money valuation (in 1000 €)	€ 7.792	€ 7.392
The ownership requested by the investor(s) from this round of financing might therefore be something in between the two estimates, or something like:	61.3%	

You shall not draw any final conclusions from these results. The result is just a simple reflection of the budgets you have presented and is not a

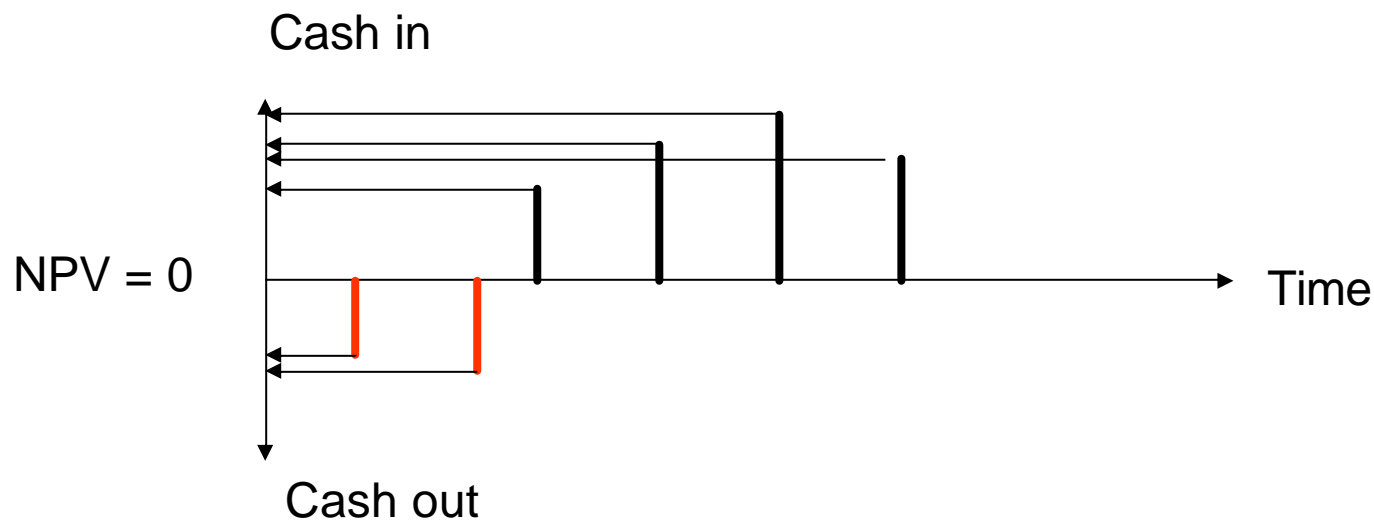
Net Present Value (NPV)

- Discounted cash flow calculated using a discount rate.
 - Only invest if NPV is positive
- The discount rate should reflect time preference rate and the uncertainty.



Internal rate of return (IRR)

- Compounded rate of return on an investment that an investor receives on an investment at the time of sale or other exit.
- Or: the discount rate which makes the NPV = zero !





Pre-Money Valuation

- Pre-money valuation is an often used term
 - It is a measure of the value of the company before the new investment comes in.
 - You can always calculate it, even if you do not think it is possible
 - It reflects directly the ownership % the new investor get.

$$\text{Pre Money Value} = \frac{\text{New Investment} \times (1 - \text{Ownership \%})}{\text{Ownership \%}}$$



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New invst	Owner %	Pre Money
1.000.000	50,00%	1.000.000
1.000.000	18,00%	4.555.556
1.500.000	40,00%	2.250.000
750.000	15,00%	4.250.000

You should be able to defend the pre-money valuation, and if it has changed since last round of financing, be able to explain why!



Question 2:

Is the business model and budget realistic ?



The product shall be excellent !





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But the solution shall also good !





Can only “Rocket Science” projects get financing?

Curves was created in 1995 in Texas. It has grown like a wild fire acquiring more than 2 million members in more than 6000 locations, with total revenues exceeding the 1 Billion \$ mark.

Curves

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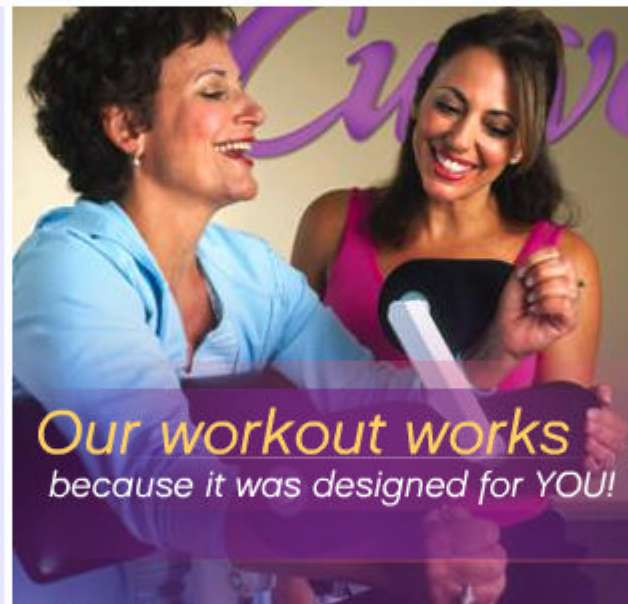
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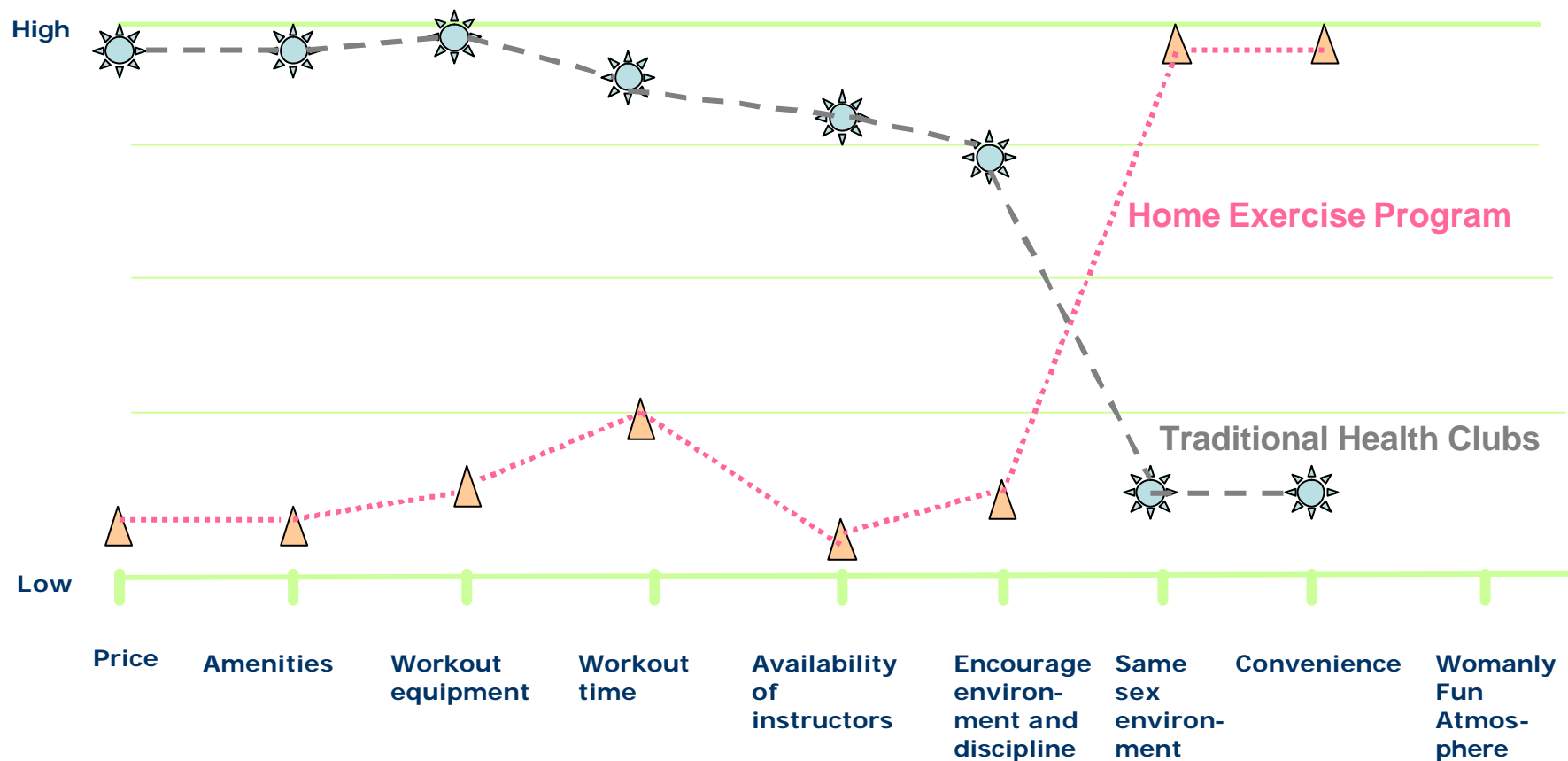
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The Friendship
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Competition from Traditional Health Club

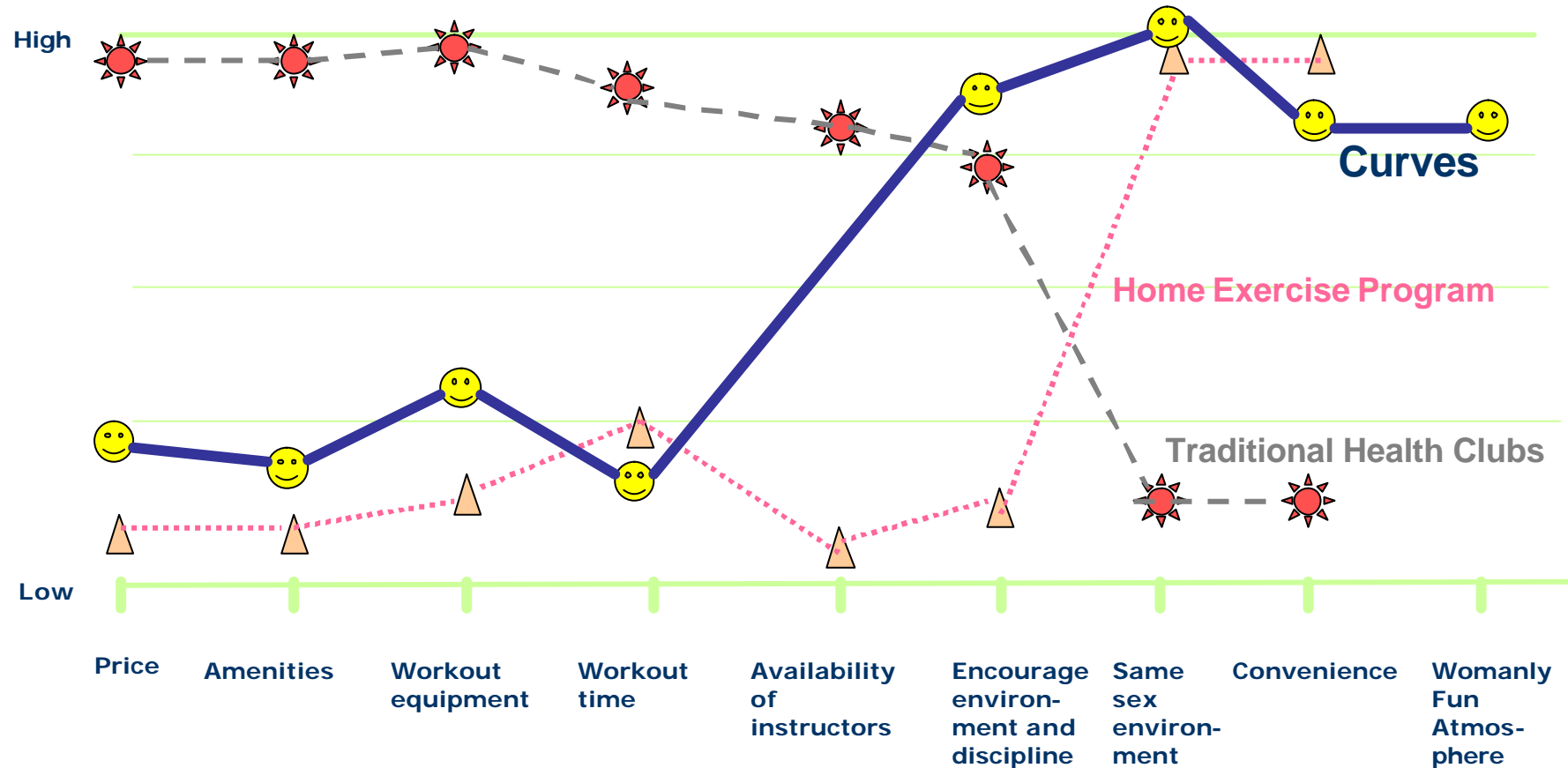


Source: Blue Ocean Strategy, Kim & Maubogne, 2005



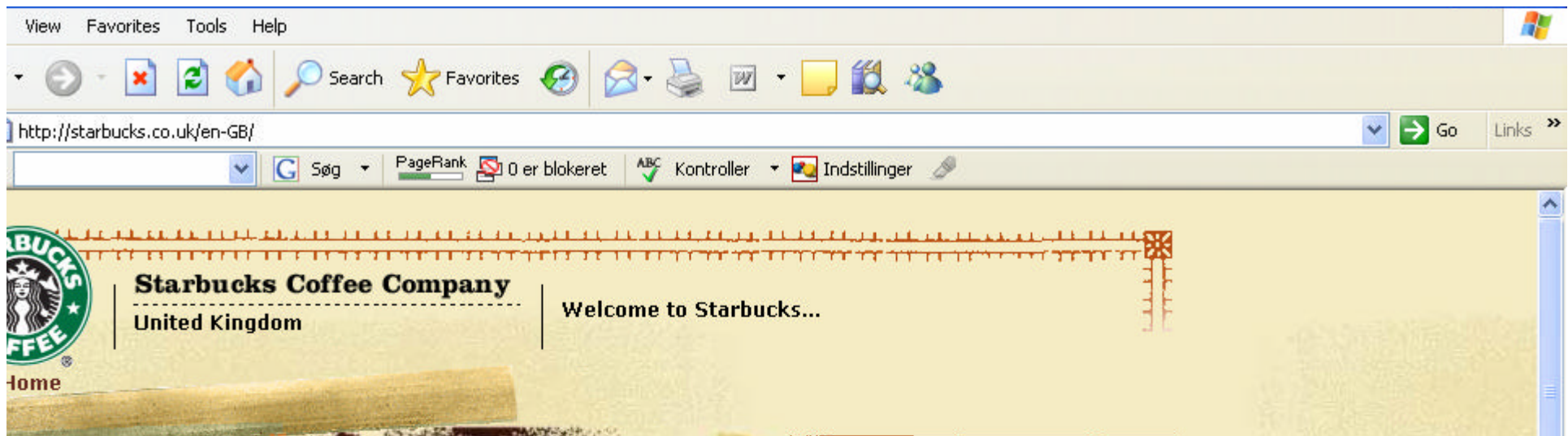


The “Curves” blue ocean strategy !



Source: Blue Ocean Strategy, Kim & Maubogne, 2005





The first Starbucks café opened in 1971 in Seattle's in Pike Place Market.

In 1987 there were 17 outlets and local investors provided funding for expansion.

In 1990 there were 89 outlets,

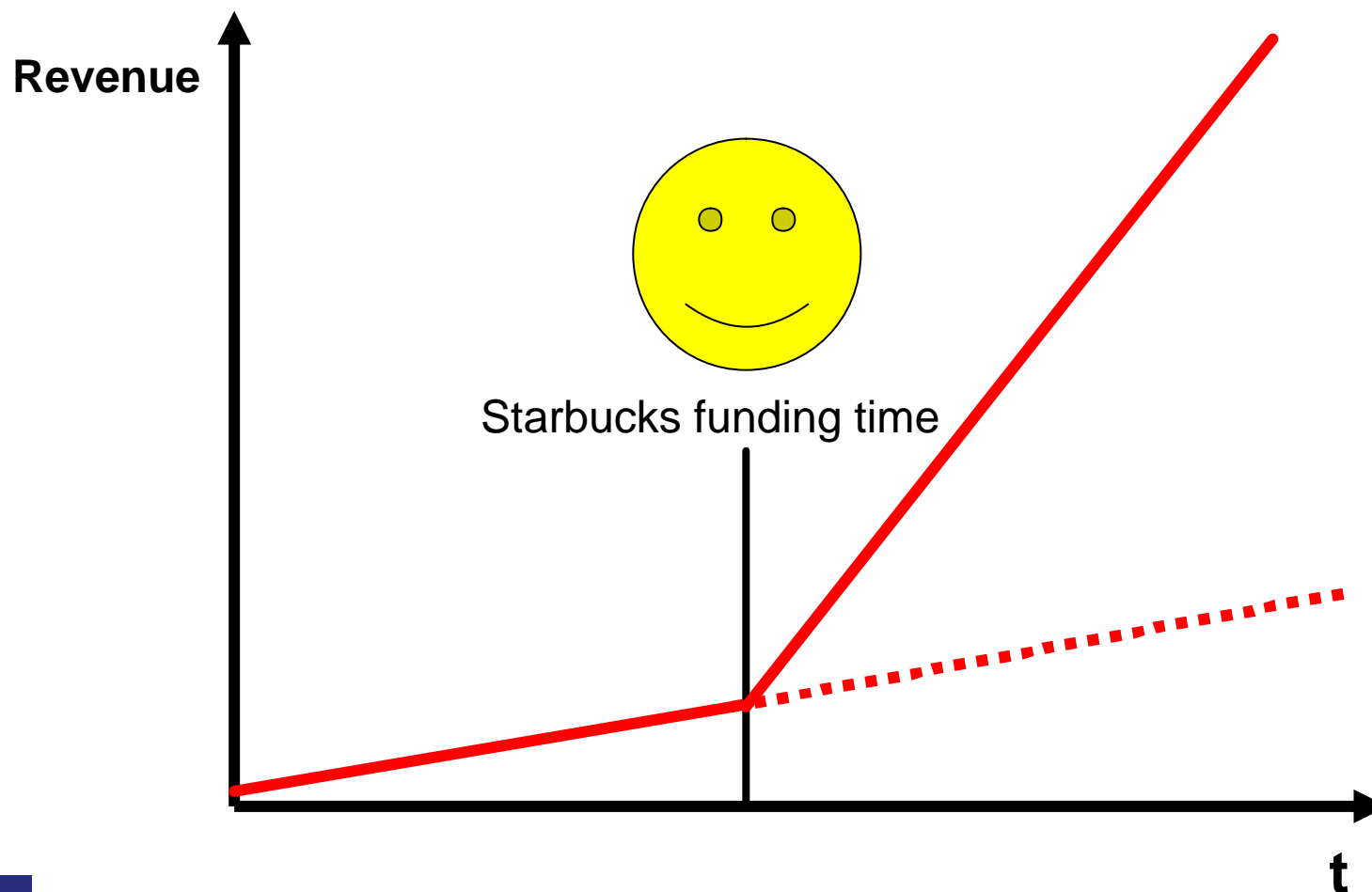
in 1992 there were 160 outlets

In 1995 there were 677 outlets

In 2000 the number of outlets amounted to 3.500.

Today there are more than 11.225 Starbucks café's scattered all over the world.

Slow start and then high growth potential ?



NABI discovered that the highest-cost element to municipalities was not the price of the bus per se, but rather the cost that came after the bus was purchased: **Maintenance of running the bus over its twelve-year life cycle.**

This made NABI create a bus unlikely any the industry has seen before. NABI adopted fiberglass in making its busses killing "five birds" with one stone:

- Fiberglass bodies are corrosive-free
- Body repair is faster, cheaper and easier
- Light weight (30-35% less than steel) cut fuel consumption
- Light weight allowed the use of lower-powered engines and
- fewer axles



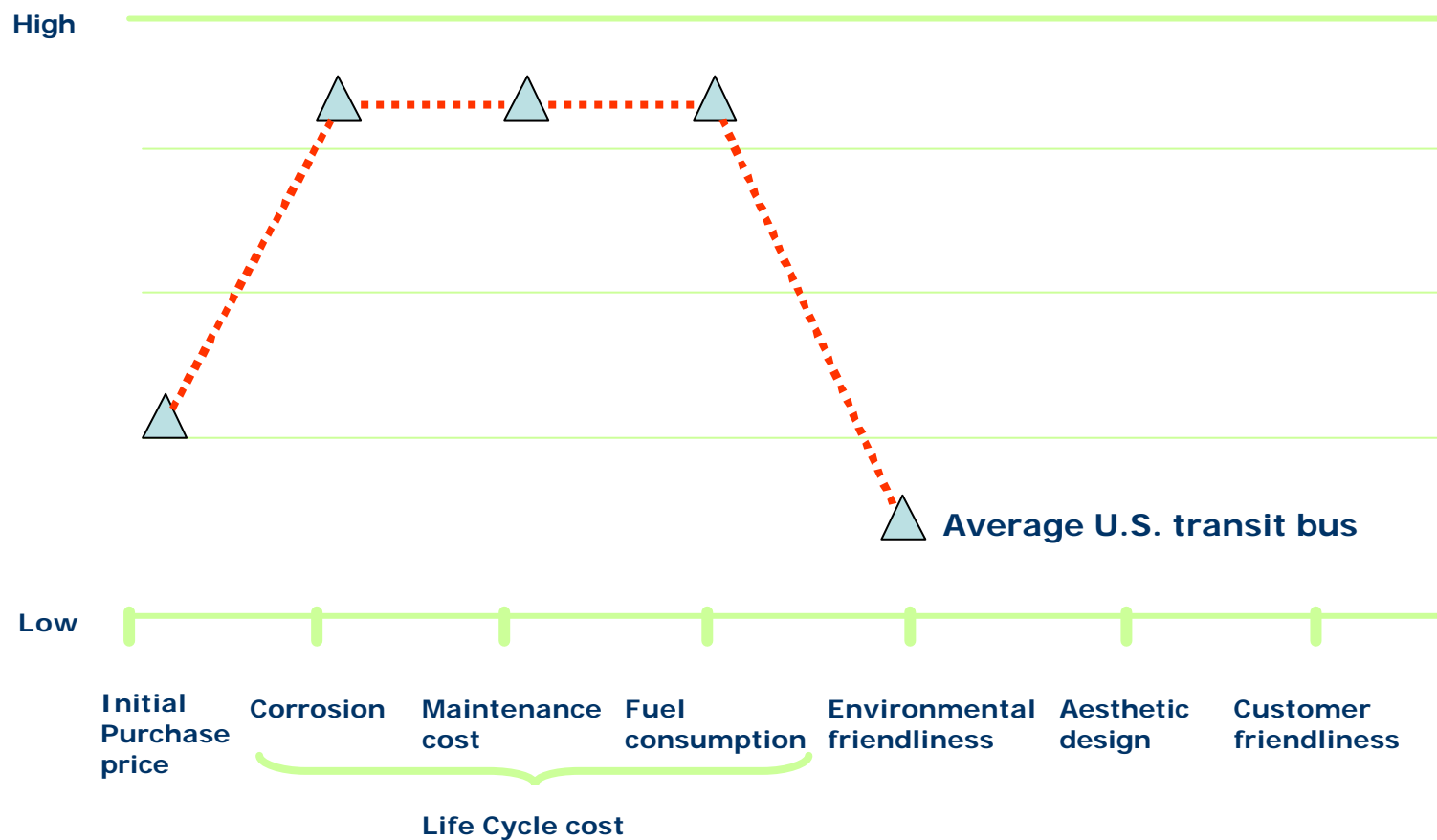
NABI welcomes comments and suggestions for improvement from the industry at e-mail: bussales@nabiusa.com.

Registered Company.





The NABI “blue ocean” strategy!

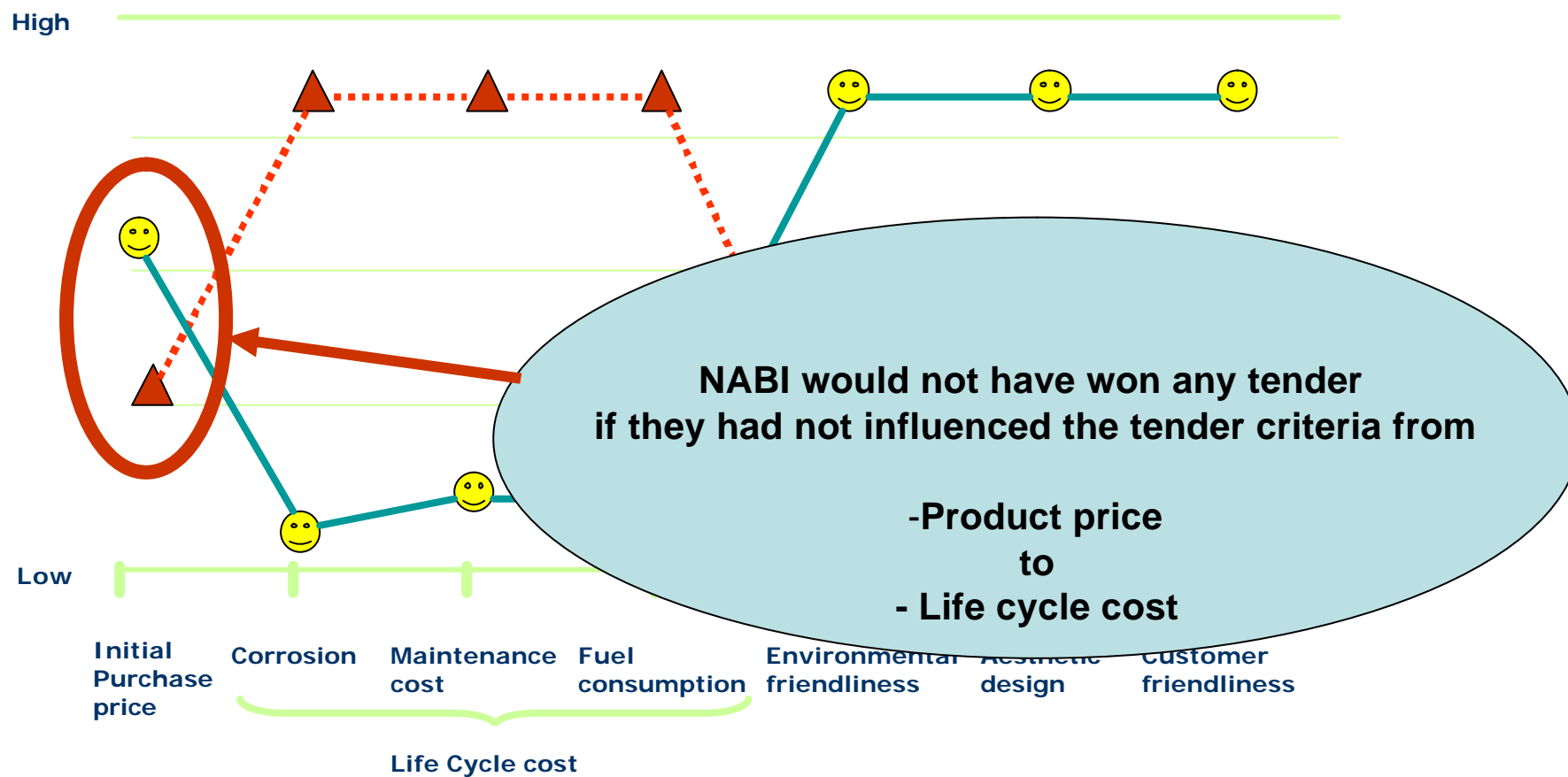


Source: Blue Ocean Strategy, Kim & Maubogne, 2005



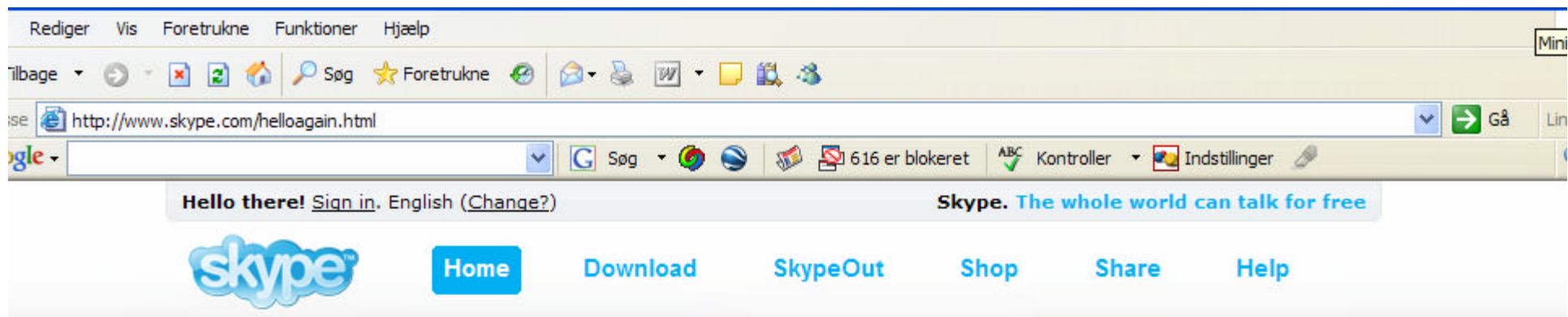


The NABI “blue ocean” strategy!



Source: Blue Ocean Strategy, Kim & Maubogne, 2005





•eBay Completes Acquisition of Skype

•San Jose, Calif., October 14, 2005 –

eBay acquired Skype for a total up-front consideration of approximately €2.1 billion, or approximately \$2.5 billion, plus potential performance-based consideration.

Say hello, smile or even wave to anyone, anywhere in the world.



Download now

Skype is free to download and easy to use

Brand new from Skype



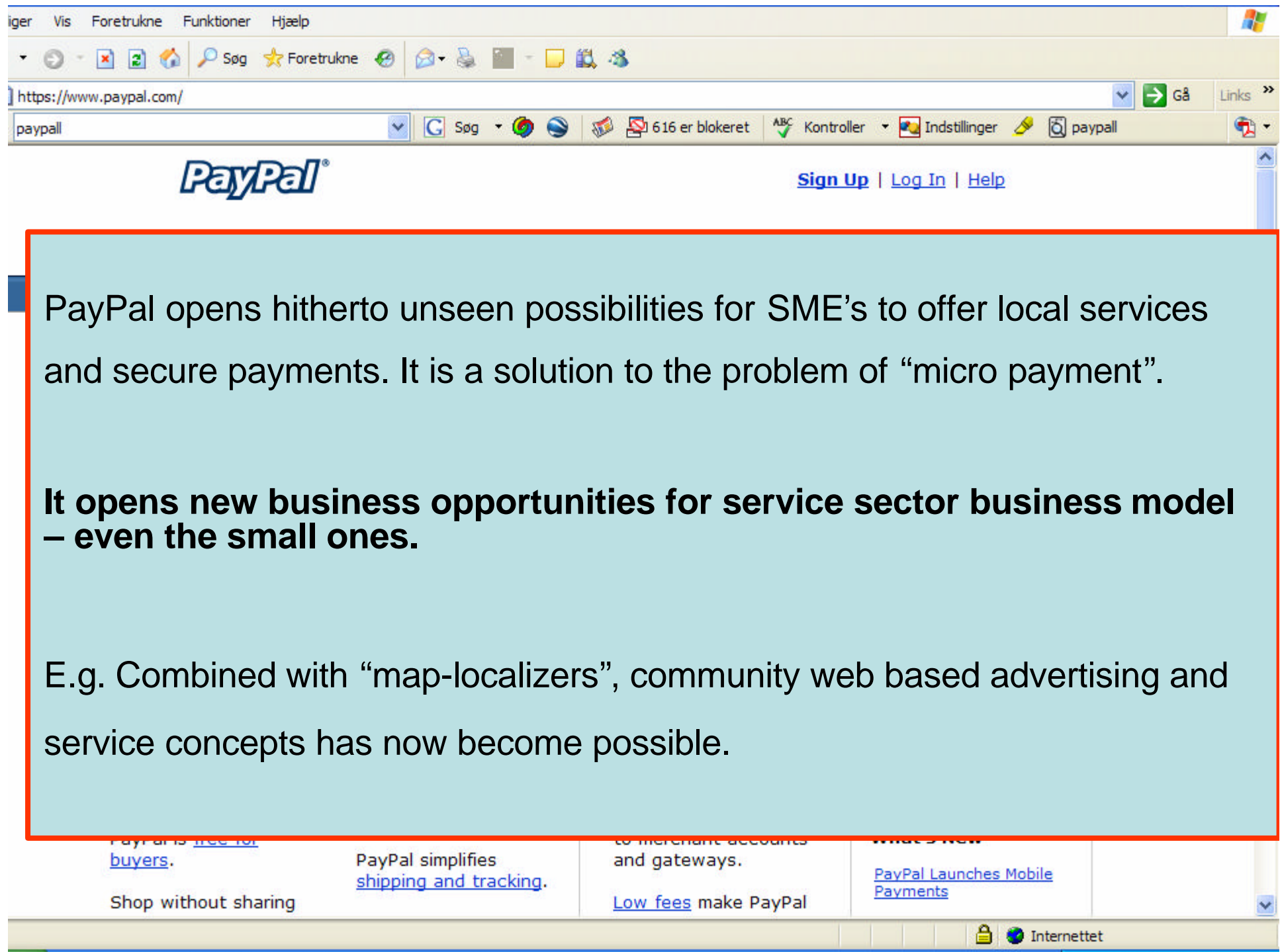
Skype 2.5 BETA

Download Skype 2.5 BETA and see what's



Football — love it or hate it?

The world has gone footy mad. Whilst it's



PayPal opens hitherto unseen possibilities for SME's to offer local services and secure payments. It is a solution to the problem of “micro payment”.

It opens new business opportunities for service sector business model – even the small ones.

E.g. Combined with “map-localizers”, community web based advertising and service concepts has now become possible.



The main differences !

- **“Red Ocean” Strategy**

- Compete in existing market space
- Beat competition
- Exploit existing demand
- Make the value-cost trade off
- Align the whole system of a firm's activities with its strategic choice of differentiation or low cost.

- **“Blue Ocean” Strategy**

- Create uncontested market space
- Make competition irrelevant
- Create and capture new demand
- Break the value-cost trade off
- Align the whole system of a firm's activities in pursuit of differentiation *and low cost.*





Question 3:

Is there a balance between the potential return of investment, the risk and my total cost to make this investment ?



Small investments versus large investments

- The cost of making an investment is more or less the same irrespective of deal size.
- The cost of monitoring an investment is more or less the same irrespective of deal size.
- The risk of small investments is often higher than the risk associated to larger investments.
- The cost of exiting from an investment is more or less the same irrespective of deals size.
- - Why make small investments?

Investment: 100.000€ or 1.000.000€
Transaction cost + monitoring: 50.000€

“money back 5 times”

100.000€ = 500.000€ – 10 % transaction cost

1.000.000€ = 5.000.000€ – 1% transaction cost

***I would rather make one 1.000.000€ investment
than ten 100.000€ investments!***



What troubles investors in general?

- **Transaction cost!**
 - Due diligence.
 - Negotiation, contracts and legal stuff.
 - Monitoring investment until exit.
- **Investment size too small**
 - Potential capital gain does not justify transaction cost.
 - IRR criteria to be replaced by NPV criteria
- **Many rounds of financing planned.**
 - More Rounds of financing increases uncertainty
 - Risk of dilution is increased
- **Risk**
 - No previous experience from investing in this type of companies
- **No clear exit route or exit possibilities “far out!”**
 - Entrepreneur build the company for himself – not for the investor!
 - “money 5 times back” in 4 years = IRR 50 %
 - “money 5 times back” in 6 years = IRR 30 %



Question 4:

Can the management make it ?

What is important for investors?

The most important	France	UK	Spain
The Entrepreneur	53 %	38 %	59 %
The Team	37 %	48 %	23 %
The Product	8 %	3 %	4 %
The Market	2 %	8 %	10 %
Financial outlook	0 %	1 %	9 %
Break-even point	0 %	1 %	0 %

Source: Key decision factors for investors
(Cranfield, ESADE Barcelona, ESC Lyon)

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What is PAEI ?

- **P – The role as “producer” in a management team.**
 - The “P” can create results and produce products and services better than competitors.
- **A - The role as “administrator” in a management team.**
 - The “A” shall be able to plan, coordinate, control establish procedures for the organization
- **E – The role as “strategy creator” and visionary in the management team.**
 - The “E” is the person who develops the strategy for business development and the development of new products and services. He adapt products and services to new market challenges and identify hither unseen opportunities.
- **I - The role as “integrator” in the management team.**
 - The “I” shall be able to create harmony in the organization and secure that the whole organization is moving in the same – and right direction.

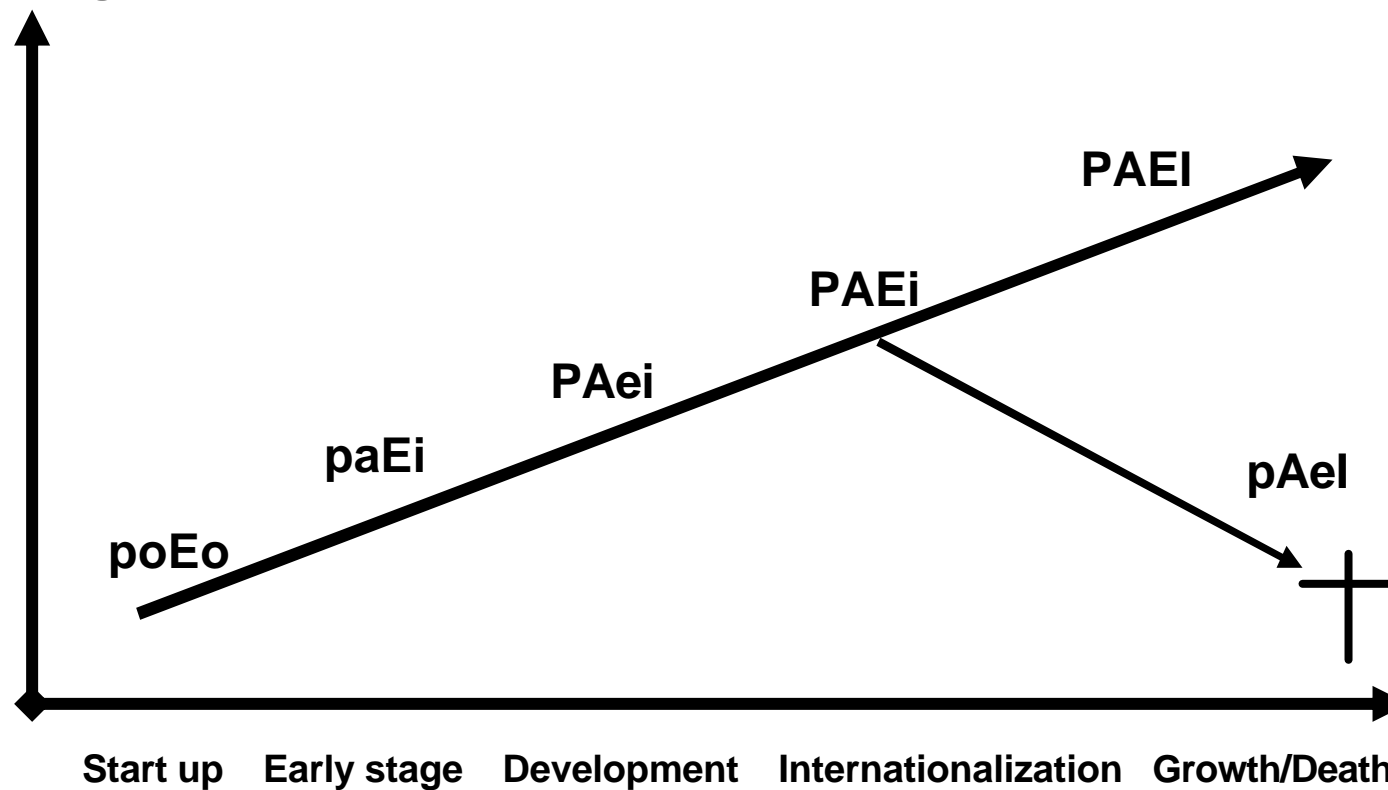


Type of Management teams

- Pooo: “the lonely wolf team”
- oAoo: “the bureaucratic team”
- ooEo: “the arson team”
- oool: “let’s feel good team”
- oooo: “why are we here?”
- PAEI: “the text book team”
- ?????: “**your team ?**”

Different Phases requires different management style!

Size of organization



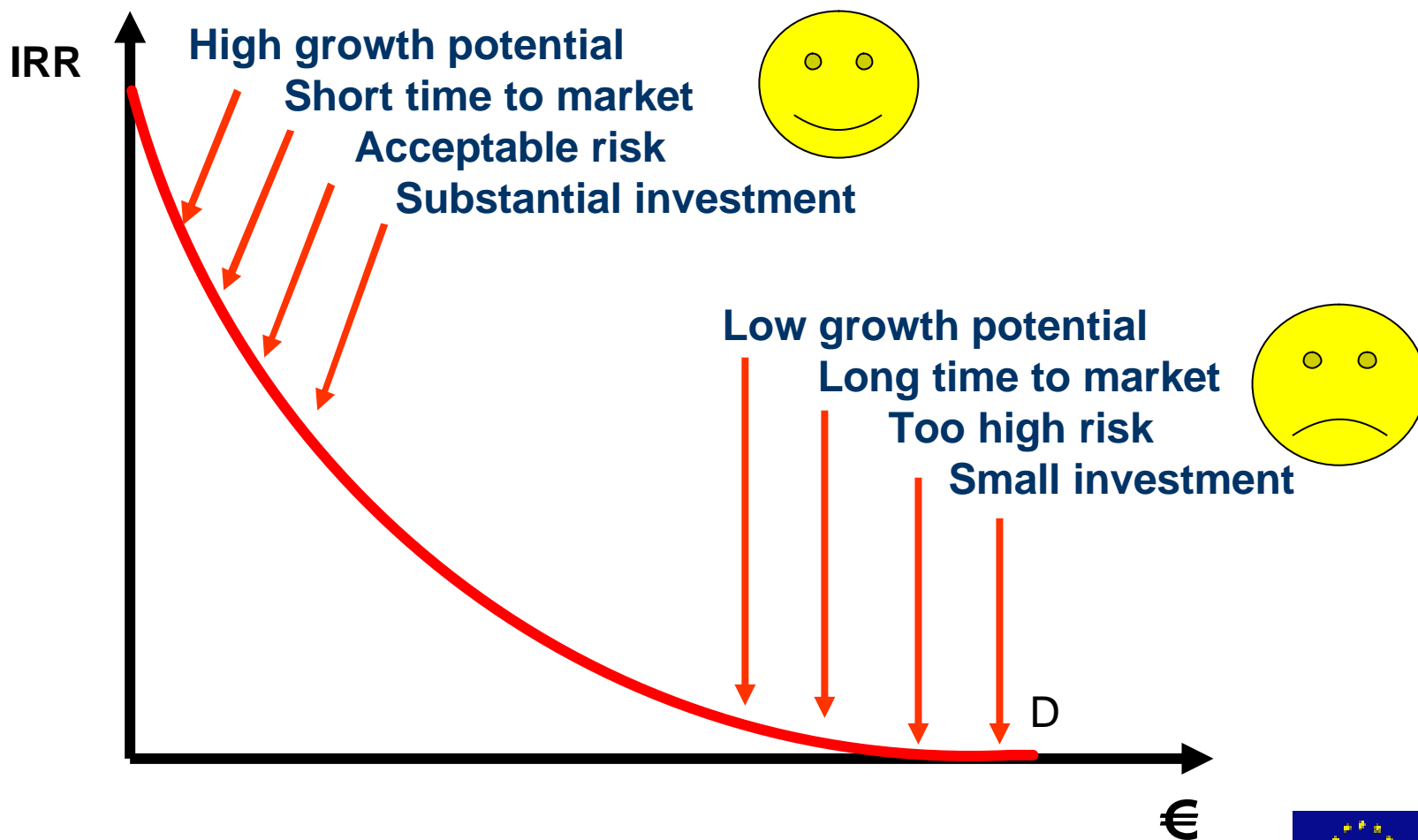


What makes them invest ?

- The strength and competence of the management team.
- The possibility to “protect” the business concept and the growth potential.
- Substantial capital gain possibilities.
- Clear and realistic exit possibilities.



Demand for capital and perceived IRR offered!





RISK !



If you do not know better then the risk is:

	acc.	risk
– Technological risk	50,00 %	50 %



If you do not know better then the risk is:

	acc.	risk
– Technological risk	50,00 %	50 %
– Market and price risk	75,00 %	50 %



If you do not know better then the risk is:

	acc.	risk
– Technological risk	50,00 %	50 %
– Market and price risk	75,00 %	50 %
– Financial risk	87,50 %	50 %



If you do not know better then the risk is:

	acc.	risk
– Technological risk	50,00 %	50 %
– Market and price risk	75,00 %	50 %
– Financial risk	87,50 %	50 %
– Management risk	<u>93,75 %</u>	<u>50 %</u>



If you do not know better then the **total** risk is:

	acc.	risk
– Technological risk	50,00 %	50 %
– Market and price risk	75,00 %	50 %
– Financial risk	87,50 %	50 %
– Management risk	<u>93,75 %</u>	<u>50 %</u>
– <u>Total risk percieved by the VC</u>	<u>93,75 %</u>	
– <u>Or chance of success</u>	<u>6,25 %</u>	



If you eliminate the management risk, then risk is:

	acc.	risk
– Technological risk	50,00 %	50 %
– Market and price risk	75,00 %	50 %
– Financial risk	87,50 %	50 %
– Management risk	<u>93,75 %</u>	<u>50 %</u>
– <u>Total risk percieved by the VC</u>	<u>87,50%</u>	
– <u>Or chance of success increases from 6,25 % to 12,5 %</u>		

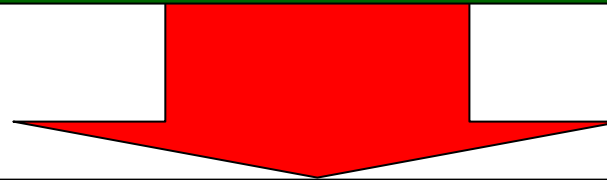


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Flow of capital

Your savings



Investors

- Pension Funds
- Insurance companies
- Banks
- Corporations
- Private wealthy people
- Others



Real estate



Bonds



Quoted stocks



Private equity



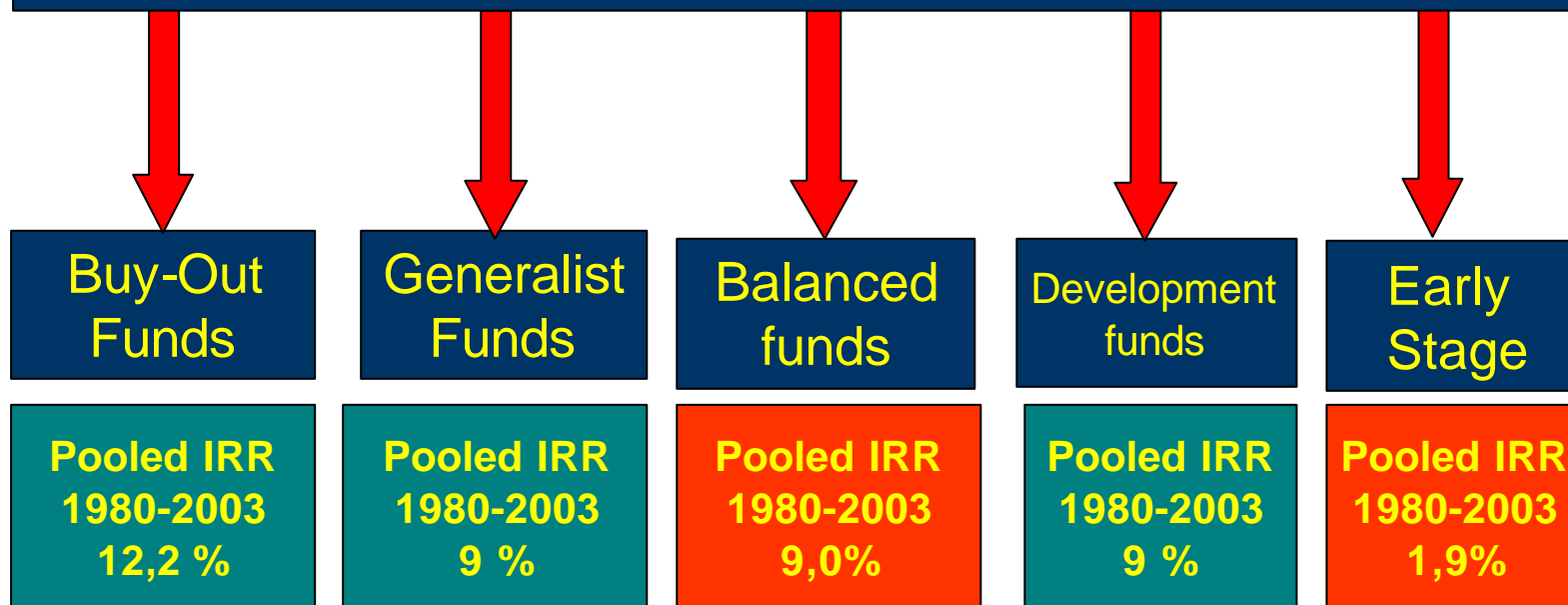
VC funds





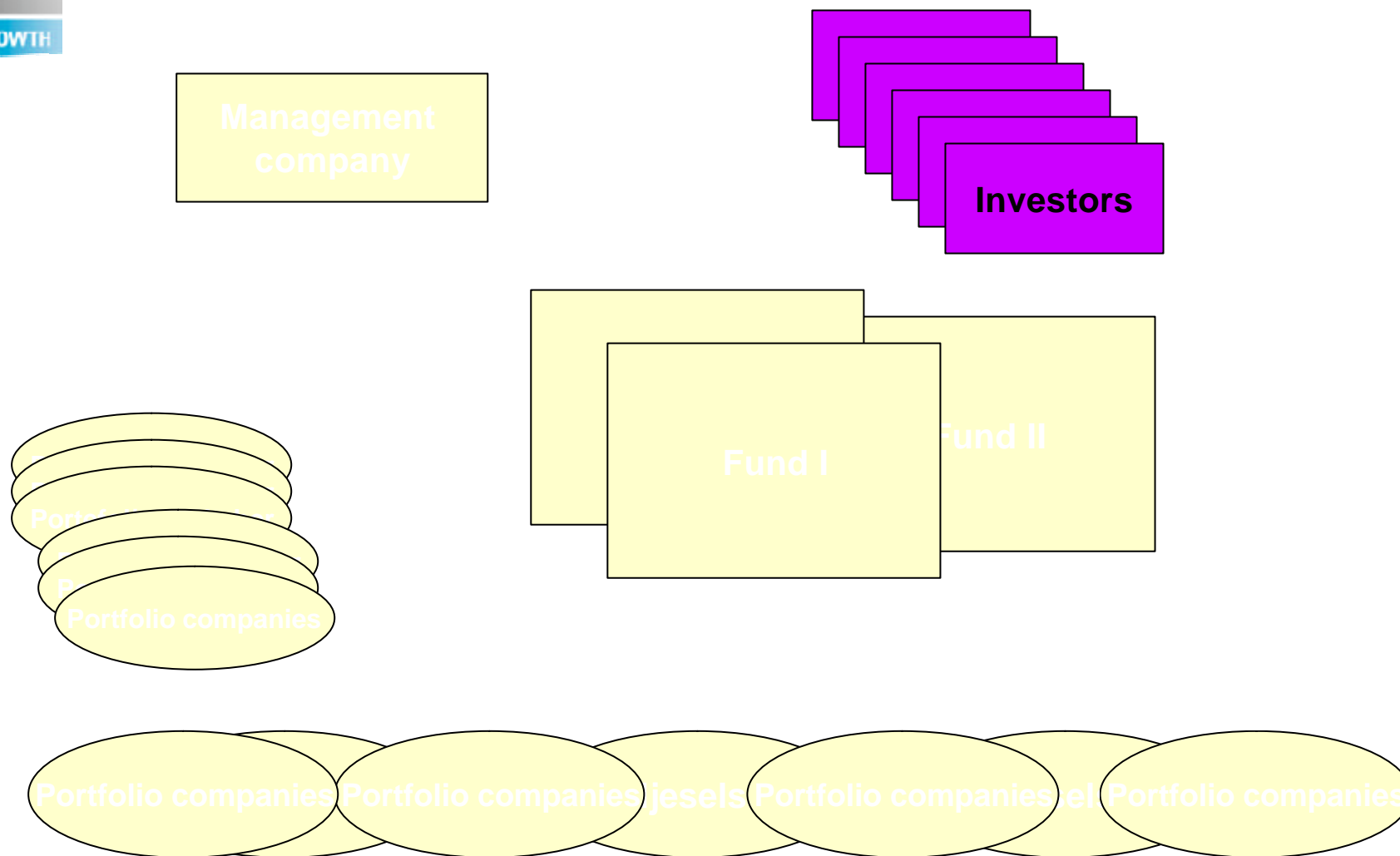
The Venture Capital segment.

Investor's choice in the VC industry





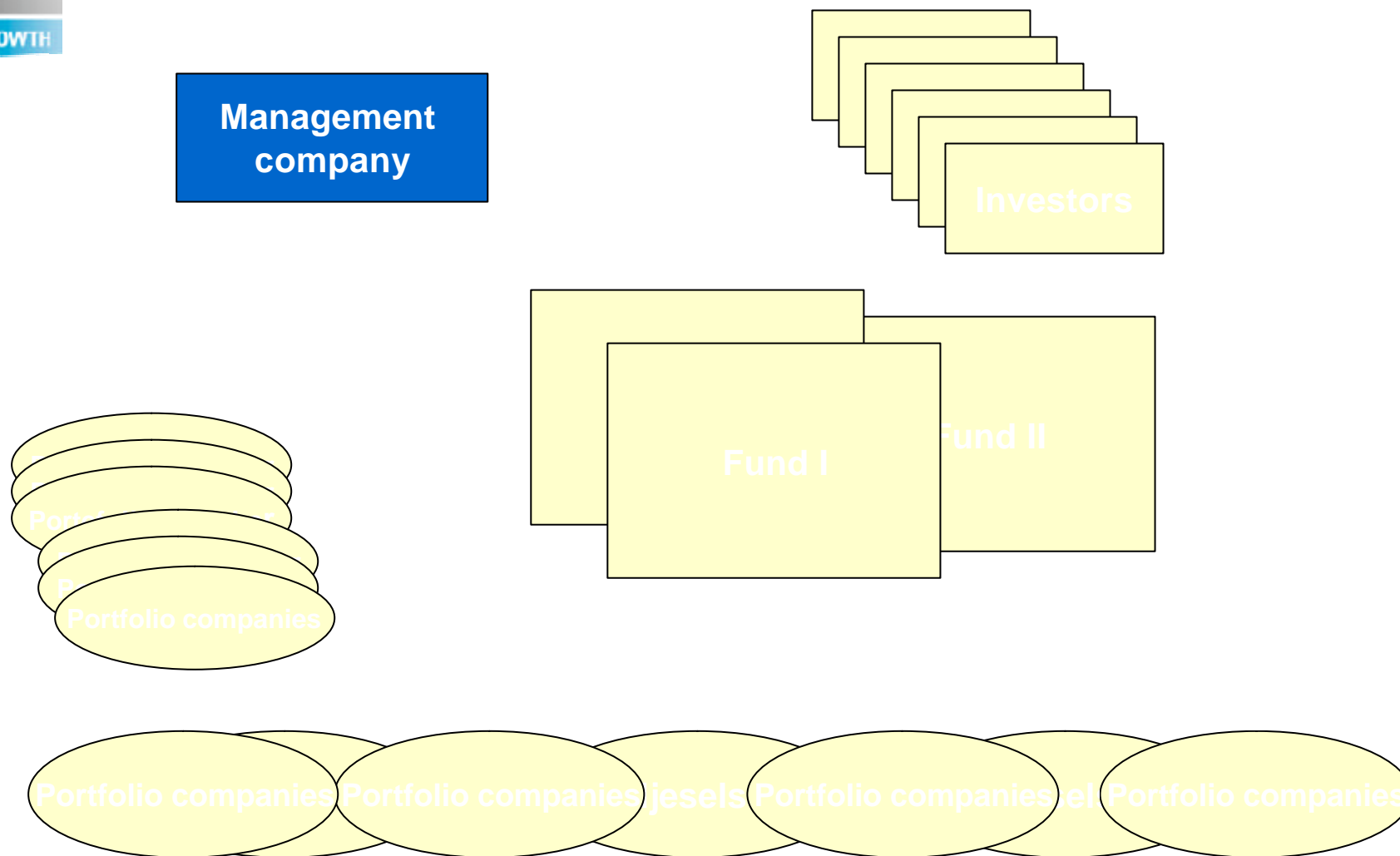
Traditional structure of a VC fund

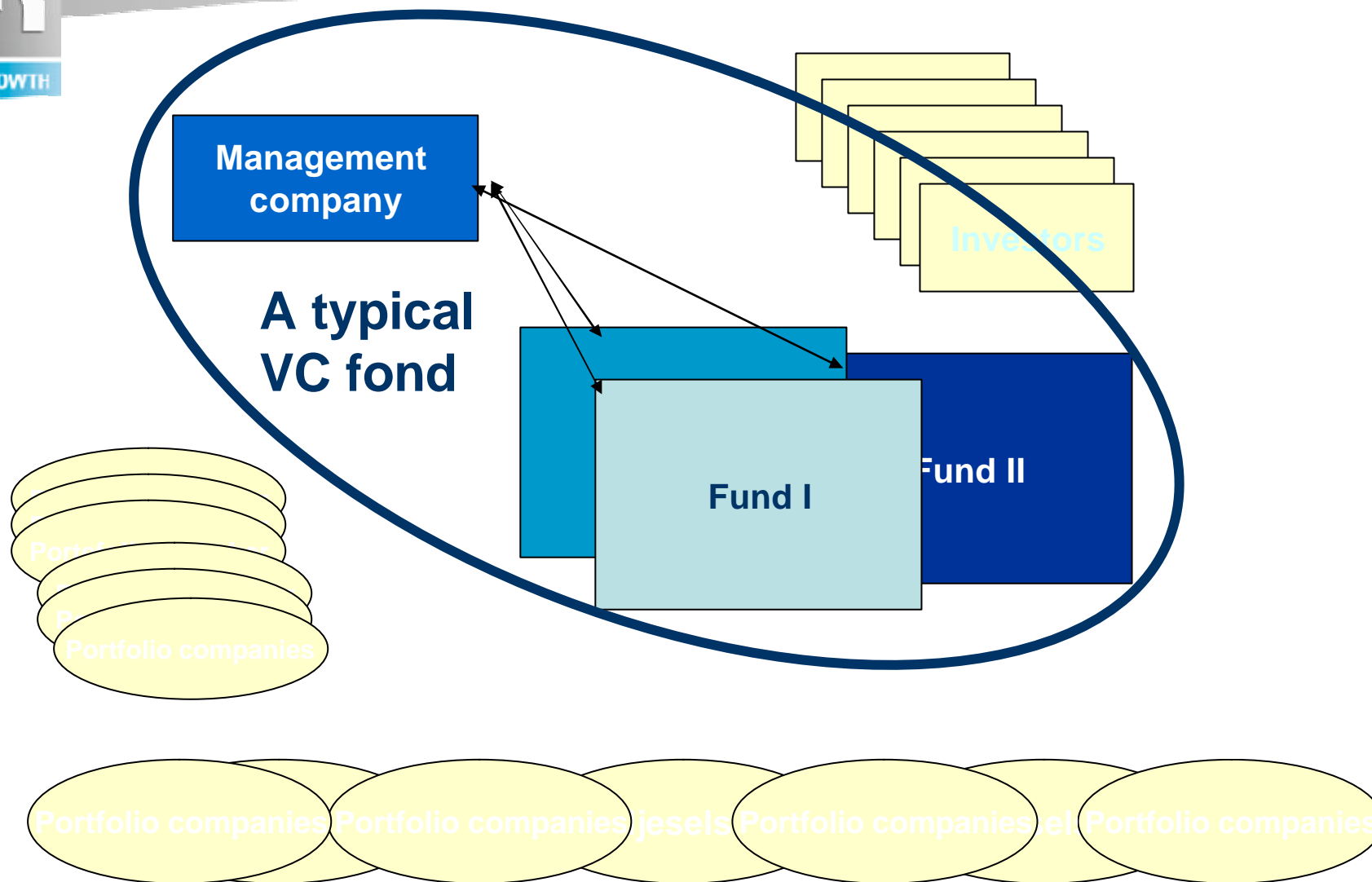


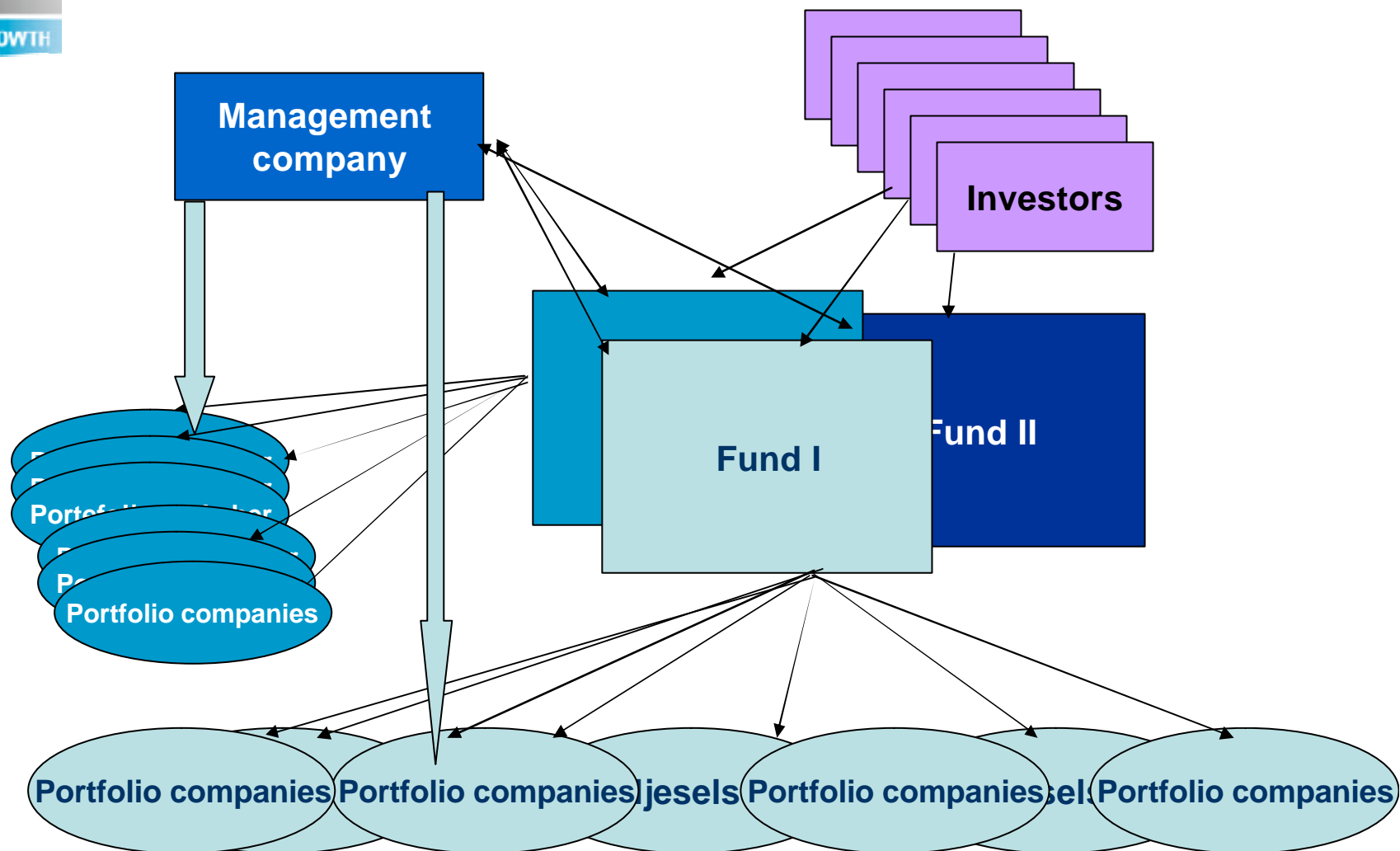


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Need 2 % to manage and will request 10 – 20 % carried interest

Management company

Investors request not less than Euribor + 9 - 10 %

Investors

VC Fund I

Fund II

Each Fund shall receive 15 % IRR

Portfolio companies

Portfolio companies

Portfolio companies

Portfolio companies

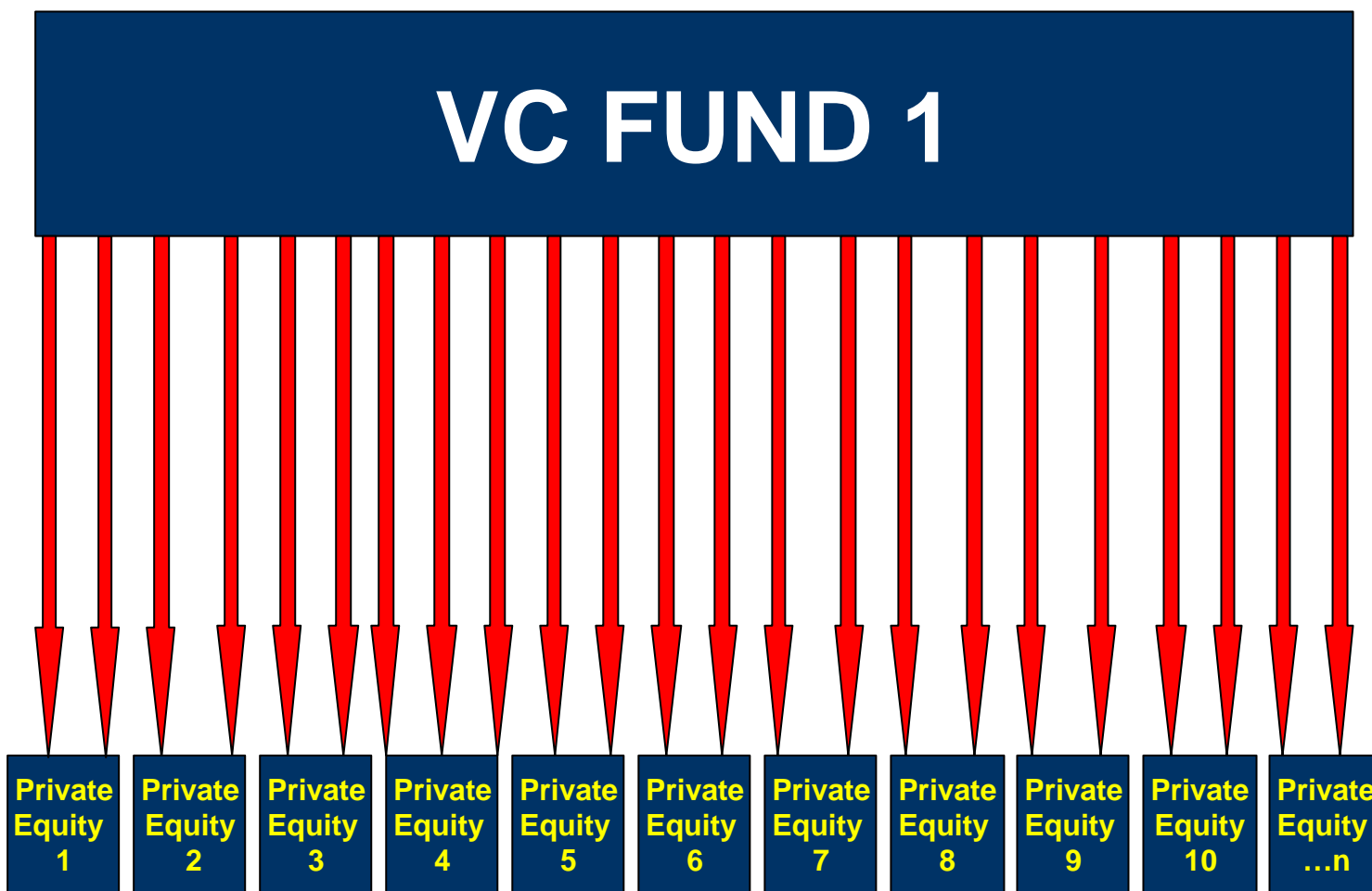
Portfolio companies

Portfolio companies

If risk is 50 %, then each Portfolio co. shall have the potential to generate 30+ % IRR



VC company/fund

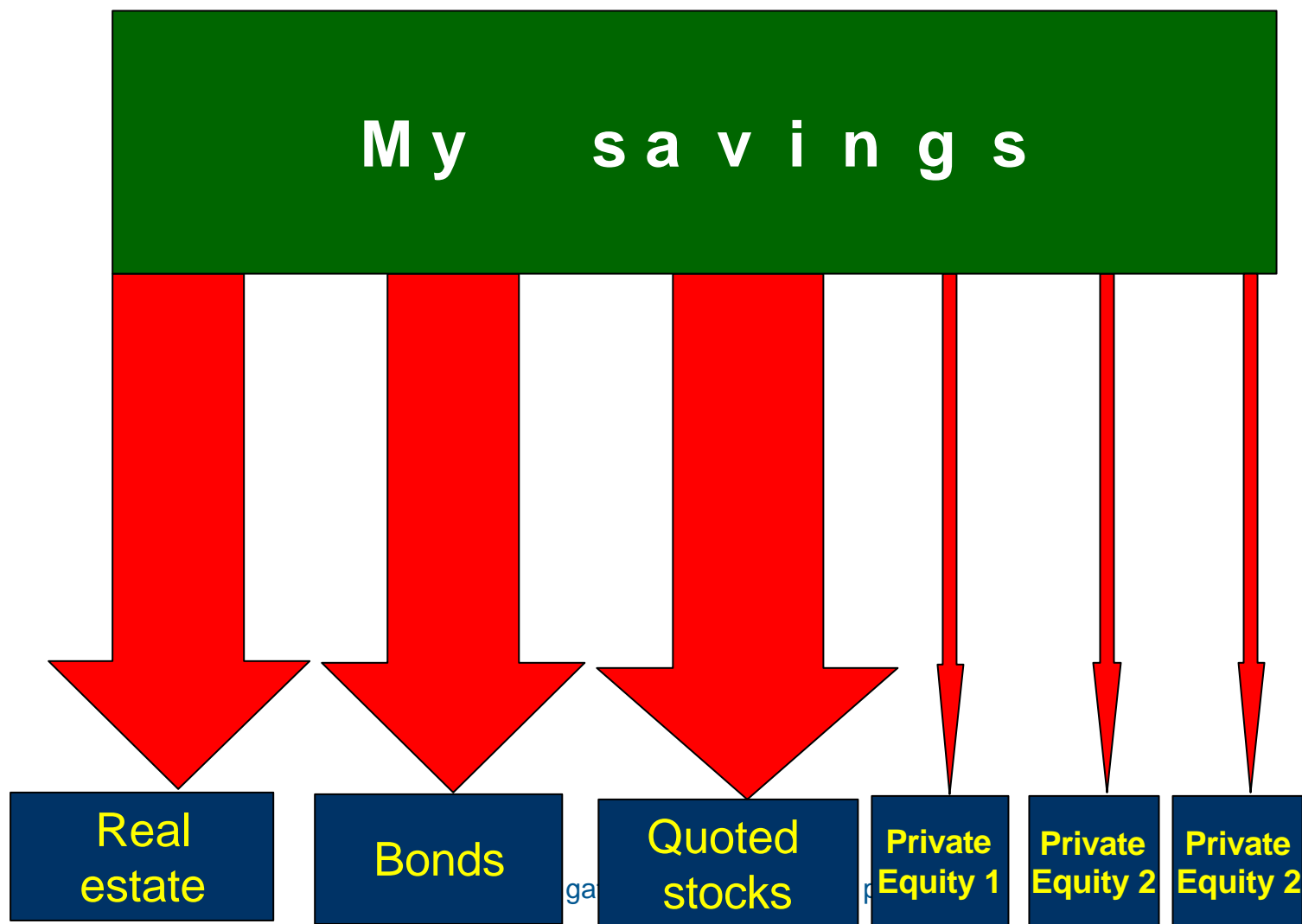




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Business Angel (HNI)

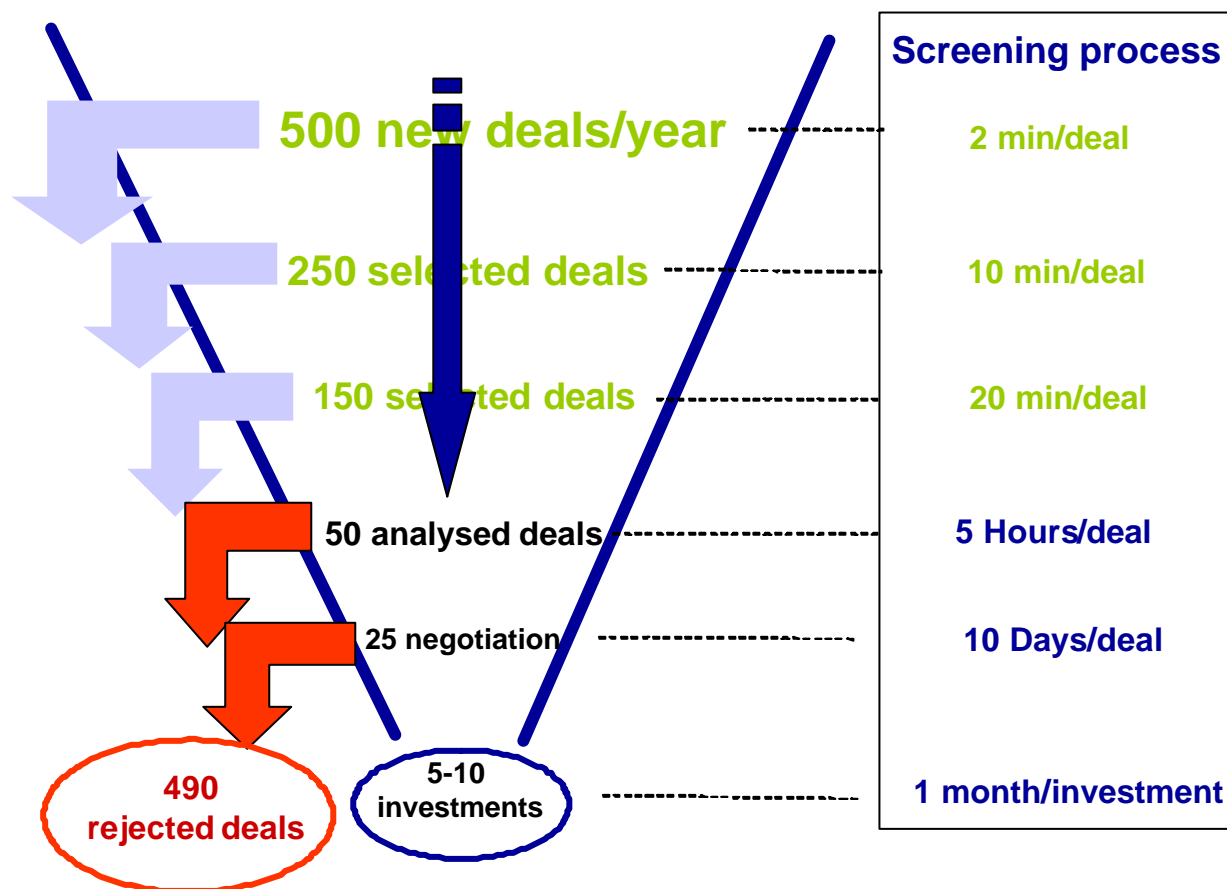




The investment process



Solicited deals are often taken serious!





How to get through the “eye of the needle”

- The business concept shall be easy to understand!
- It shall be easy to understand how an investment can generate substantial profit – **to the investor !**
- The growth potential shall be evident, and the risk well described !
- The management team shall be convincing!
- The business concept or the technology shall be “cutting edge”.



From deal-flow to exit

Investment Decision phases



Project monitoring phases



Exit phases





Investment Decision phases



Investors are only considering deals which fit their investment preferences.

Tip: Get to know what the Investor preferences are, e.g by employing an advisor with this knowledge.



Investment Decision phases



Investors have many deals to chose among – yours is only one of many!

Tip: Go to investors where you think that your project/company will be considered “first in its class”!



Investment Decision phases



When an investor is interested, then be ready to answer his questions NOW and not “tomorrow”! Too many deals “go south” because the entrepreneur is not ready to supply the investor with requested information at short notice.

TIP: Make servicing the potential investor requirement a priority for the whole organization. Treat the investor like you treat your most valuable customer!



Investment Decision phases



During this phase agreement shall not only be reached about the size of investment, but also about all the other type of conditions.

TIP: Get to know the typical documents and issues which will be part of the negotiation

- Pre-money valuation
- Term sheet structure and content
- Shareholder agreement



Investment Decision phases



Too many deals “go south” because of unrealistic “pre-money” valuation of the investment target!

TIP: Be realistic about the share price you will offer! If the investor do not think he can make a lot of money from the ownership you are offering – why should he invest?




Tools to test investor readiness developed under the Gate2Growth project

- Business plan self assessment tool SAT-Pro
 - The completeness of a business plan can be tested.
 - Special “sector versions” will shortly be available.

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the Pan-European Gateway to Business & Innovation Financing

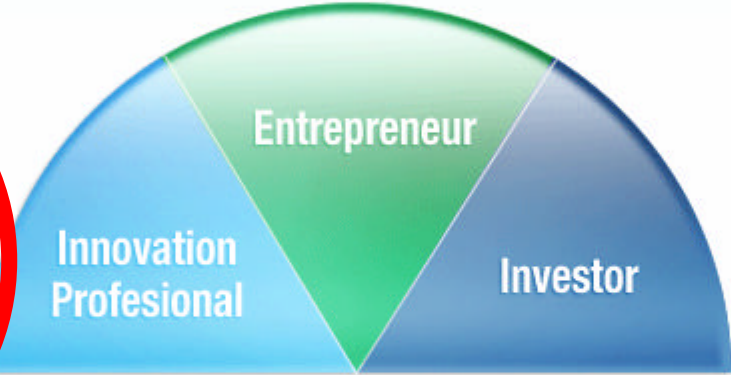
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Validate your Businessplan

Validate Now

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Select your Profile



Entrepreneur

Innovation Profesional

Investor

Access to Finance

Get Access

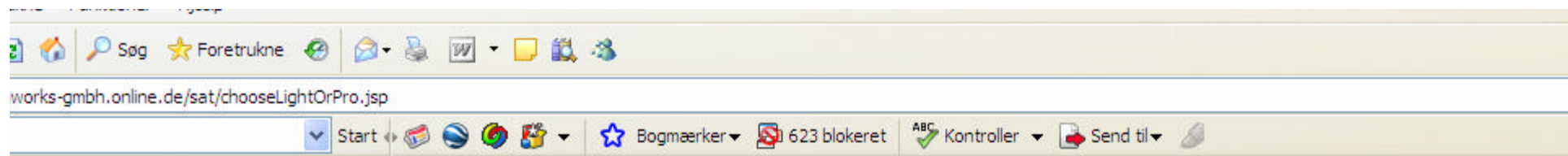
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Incubator Forum	ProRETT
ProTon Europe	Europe INNOVA
Academic Network	Gate2Growth manual

Interr



Is your business plan ready for investors?

Only good and complete business plans catch the interest of investors!



*How
about
your
business plan?*

Avoid that your business plan is thrown in the waste bin!



SAT-Pro gives you an expert opinion on the completeness of the business plan and allows you to see how the investment opportunity look through the eyes of an investor. The test can be completed in 30 – 50 minutes. The test results are provided immediately after completion of the test. It includes a completeness scoring, a full text feed back and a comprehensive financial conclusion. SAT-Pro also provide the opportunity to make financial sensitivity analysis. The SAT-pro test only cost 25 € incl. VAT. Payment via PayPal or via Credit card. You may also ask for a "Free access code" from InvestorNet etc@gate2growth.com

To access SAT-Pro [Click here](#) ►►



SAT-Light is the quick test which challenges the completeness of your business plan through a series of questions of the same type as the ones investors will ask. It does not include financial analysis. The test takes between 10 – 15 minutes to complete. A "completeness scoring" and a text feed back is provided at the end of test. SAT-light is currently available in English, German, Danish, Estonian and Latvian.

Using SAT-light is free of charge.

To access SAT-Light [Click here](#) ►►

SAT-Light and SAT-Pro has been developed under the Gate2Growth initiative by InvestorNet with the support of the European Commission.

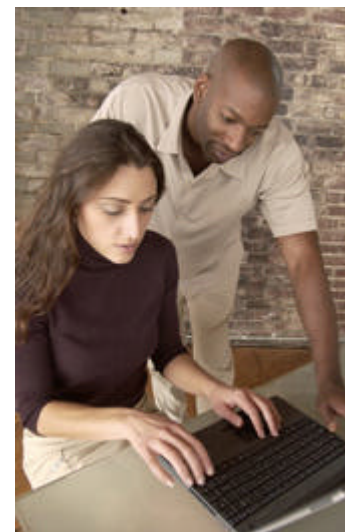


Two ways of taking the test !

- Do it your self all alone!



- Do it with a friend.





Competitors ?(competitors_01)

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Does the business plan include a description of the competitive environment the company is/will be facing in the target market(s)? (q39)

Yes	No	Not yet fully completed	Does not apply	Do not know
<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Does the business plan provide an overview of the major competitors operating in the target market(s)? (q40)

Yes	No	Does not apply	Do not know
<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

How many competitors are actively operating in the target markets of the company? (q41) ?

1	2 - 5	5 - 10	10 - 20	> 20	Do not know	Not described
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

When reading the business plan do you get a clear overview of the quality and price of competing products/services? (q42)

Yes	No	Not fully completed	Do not know	Does not apply
<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

- ☒ General
- ☒ The Business plan
- ☐ Product and Services
- ☐ Technology
- ☐ IPR
- ☐ Price and Customer
- ☐ The market
- ☒ **Competitors**
- ☐ Sales & Marketing
- ☐ The company
- ☐ Management team
- ☐ Financials
- ☐ Funding
- ☐ Investors
- ☐ Perceptions on time & uncertainty

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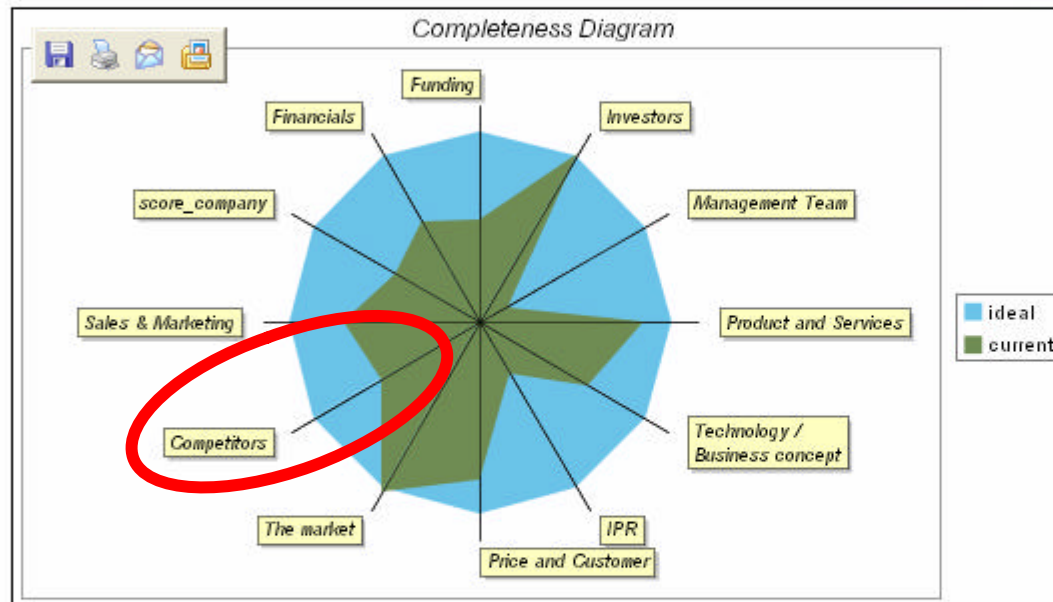
You have now finished the self assessment! Below you can see the result of the answers you have given. The scoring and the Feed Back is entirely based on the input you have provided and the questions you have answered.

Result

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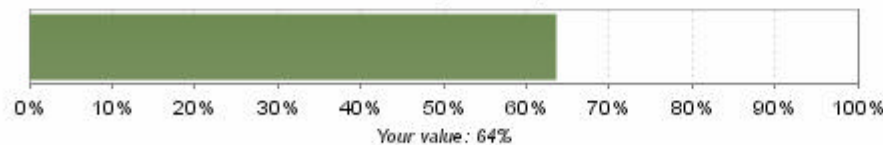


back as a structured backbone for such a discussion.



- ☒ General
- ☒ The Business plan
- ☒ Product and Services
- ☒ Technology / Business concept
- ☒ IPR
- ☒ Price and Customer
- ☒ The market
- ☒ Competitors
- ☒ Sales & Marketing
- ☒ The company
- ☒ Financials
- ☒ Funding
- ☒ Perceptions on time & uncertainty
- ☒ Investors
- ☒ Management team
- ☒ Result

Overall Business plan completeness



Summary of financial observations

PRINT

SEND

RESTART

TELL A FRIEND

PEAKER

- 1: Réseau électrique
- 2: Poste électrique
- 3: Moteur
- 4: Compresseurs
- 5: Sphères de stockage d'air comprimé
- 6: Turbine étagée
- 7: Apport thermique : pertes production biomasse ou solaire
- 8: Echangeur
- 9: Alternateur/Régulateur

- **Electricité**
- **Air**
- **Eau chaude**
- **Eau froide**

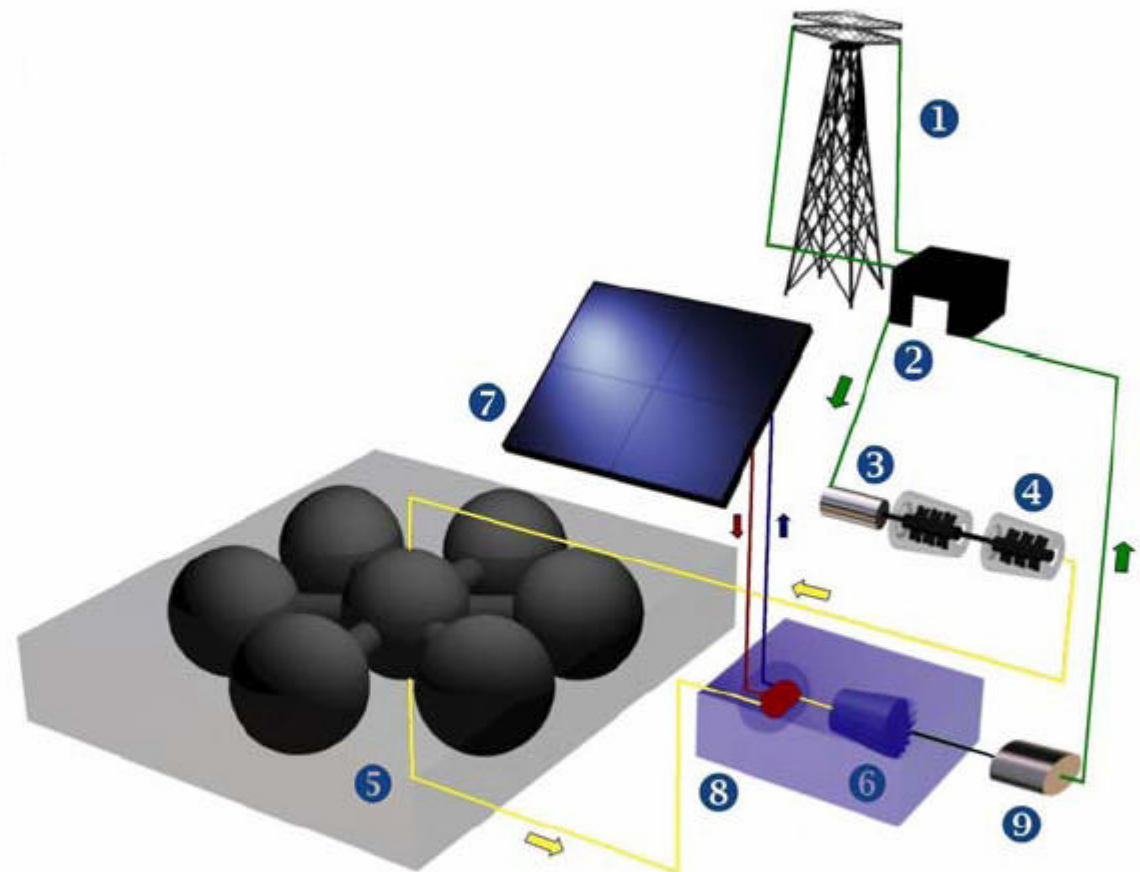


Figure 1

Un PEAKER comprend :



You can also do the “competence check”.

- Entrepreneur “competence check”
 - It test if the entrepreneur/the team has a convincing reaction and answers to the questions from SAT-Pro.
 - It **simulates** the first meeting with an investor.

This check shall be taken with an experienced advisor.





Entrepreneur personality check (personality_check1)

Price and customer (pc_price_and_customer)

- ☐ Low : Demonstrated lack of practical experience about pricing policy and customer relations
- ☐ Medium : Demonstrated limited practical experience on pricing policy and customer relations
- ☐ High : Demonstrated creative attitude and good knowledge about pricing policy and customer relations
- ☐ Excellent : Demonstrated excellent and creative attitude and excellent knowledge about pricing policy and customer relations

The market (pc_market)

- ☐ Low : Only fragmented knowledge about market type, size and growth
- ☐ Medium : Knowledge about market type, limited knowledge about size and growth
- ☐ High : Knowledge about market type, good knowledge about size and growth
- ☐ Excellent : Excellent knowledge about market type, excellent knowledge about size and growth

Competitors (pc_competitors)

- ☐ Low : Very fragmented and unrealistic and limited knowledge about competitors
- ☐ Medium : Some knowledge about competitors but no knowledge or understanding of need to know competitors products and business models
- ☐ High : Good knowledge about competitors and some knowledge and understanding of competitors products and business models
- ☐ Excellent : Excellent knowledge about competitors and in-dept knowledge and understanding of competitors products and business models

NEXT ►

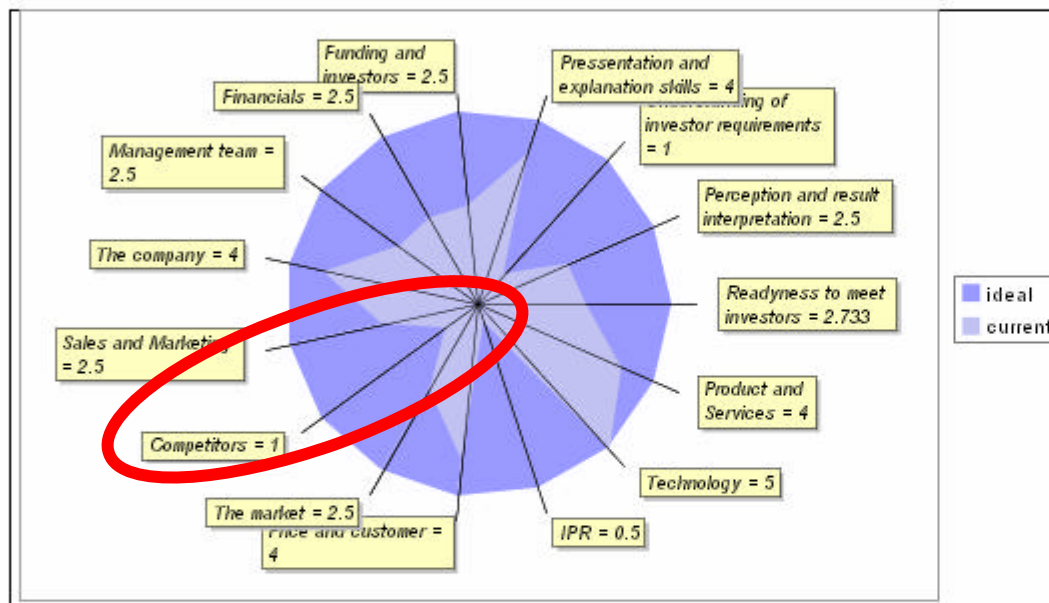
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Entrepreneur personality check (personality_result)



BACK

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Readiness to meet investors :

Product and Services :	Good explanation of product and product advantages
Technology :	Excellent and brief explanation of technology and technology advantages
IPR :	Elementary knowledge about company IPR issues, little about general IPR issues
Price and customer :	Demonstrated creative attitude and good knowledge about pricing policy and customer relations





Result

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You have now finished the self assessment! Below you can see the result of the answers you have given. The scoring and the Feed Back is entirely based on the input you have provided and the questions you have answered.

Investor(s) view

It is also possible to look at the anticipated result of the investment seen from the side of the investor.

If the investor(s) can realise a full exit from the investment in the company under the conditions indicated above, then the IRR and capital gain for the investor(s) will be as indicated below, of course depending on which valuation principle is applied when determining the exit value.

The Internal Rate of Return (IRR)

	The exit value calculated based on net assets and NPV of remaining EBIT	The exit value calculated based on the PE principle	The average of the two calculations
Realised IRR for the investor(s):	22.5%	19.1%	20.8%

Offering a smaller return on the investor's investment than you have expressed would satisfy you (taking uncertainty in to account) is not a good basis for negotiations. Maybe you are lucky that the investor(s) do not see the same uncertainties as you see! If the IRR offered to an investor is below your personal time preference rate, it will be difficult for you to sound trustworthy and convincing! You should consider if the IRR your project is offering to the investor(s) is below the often used 20.0% IRR requested by many investors in order to capture the risk they are taking.

**The project offers only a 20 % IRR if I get a 40 % ownership.
How much shall they offer me to provide a 30 % IRR ?**

the investment, then you will get the "pay back" factor. In this case the payback factor is 3.0 - (The NPV is calculated using 30% as discount factor).

	Investor part of the exit value calculated based on net assets in the year of exit and NPV of remaining Net Result	Investor part of the exit value calculated based on the PE principle in the year of exit	The average of the two calculations
Investor capital gain (cash to cash) from			

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RESTART

TELL A FRIEND

- ☒ General
- ☒ The Business plan
- ☒ Product and Services
- ☒ Technology / Business concept
- ☒ IPR
- ☒ Price and Customer
- ☒ The market
- ☒ Competitors
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- ☒ The company
- ☒ Financials
- ☒ Funding
- ☒ Perceptions on time & uncertainty



Result

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You have now finished the self assessment! Below you can see the result of the answers you have given. The scoring and the Feed Back is entirely based on the input you have provided and the questions you have answered.

Comparing Net Present Value

The investor(s) will also be looking at the "net present value" of the exit value in order to compare it with the investment. Most investors will for this calculation use a rather high discount rate. In this case the calculation has been done by using the discount rate that is shown below:

For illustrative purpose the discounted net result has been calculated using a "required" investor IRR of: (Why?)	30.0%
Net present value of the investor(s) share of exit value using the "required" IRR as the discount rate (in 1000€):	€ 11,819
Investors investment in year 1 (in 1000 €)	€ 12,000
The net result as the investor(s) will see it (in 1000 €):	€ -181

The negative result is not a good sign. Remember that the calculation is based on an exit value which is the average between two often used principles for calculating the value of a company. Many investors might find it easy to identify other investment opportunities which will give a positive net result when using these principles. One solution to attract investor's interest in your case would be to offer the investor a larger "piece of the cake", or make a careful reconsider

The business you offer to of your company as indicated below.

They need to offer me a 60 % ownership to achieve the 30 % IRR benchmark – but I do not want to be a majority shareholder!

	The exit value calculated based on net assets and NPV of remaining EBIT	The exit value calculated based on the PE principle	The ownership requested by the investor(s) from this round of financing might therefore be something in between the two estimates, or something like:
If the investor is looking for a return measured as an IRR of 30.0% the % ownership of the company should be	53.8%	61.9%	57.8%
Corresponding pre-money valuation (in 1000 €)	€ 10,315	€ 7,392	€ 8,654

- ☒ General
- ☒ The Business plan
- ☒ Product and Services
- ☒ Technology / Business concept
- ☒ IPR
- ☒ Price and Customer
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- ☒ Sales & Marketing
- ☒ The company
- ☒ Financials

- ☒ Investors
- ☒ Management team
- ☒ Result

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RESTART

TELL A FRIEND



Entrepreneur personality check (personality_check3)

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Financials (pc_financials)

- ☐ Low : Limited understanding of basic financial terms
- ☐ Medium : Basic understanding of basic financial terms
- ☒ High : Good understanding of most financial terms
- ☐ Excellent : Excelent understanding of all financial terms

Funding and investors (pc_funding_and_investors)

- ☒ Low : Limited understanding of funding requirements and for what purpose funding is sought
- ☐ Medium : Limited understanding of funding requirements and for what purpose funding is sought
- ☐ High : Good understanding of funding requirements and for what purpose funding is sought
- ☐ Excellent : Excellent understanding of funding requirements and for what purpose funding is sought, including investor requirements.

Understanding of investor requirements (pc_investor_requirements)

- ☒ Low : Limited and unrealistic understanding of investor requirements
- ☐ Medium : Acceptable and realistic understanding of investor requirements
- ☐ High : Very good and realistic understanding of investor requirements
- ☐ Excellent : Real excellent understanding of investor requirements and probably also good negotiation skills.

NEXT ►

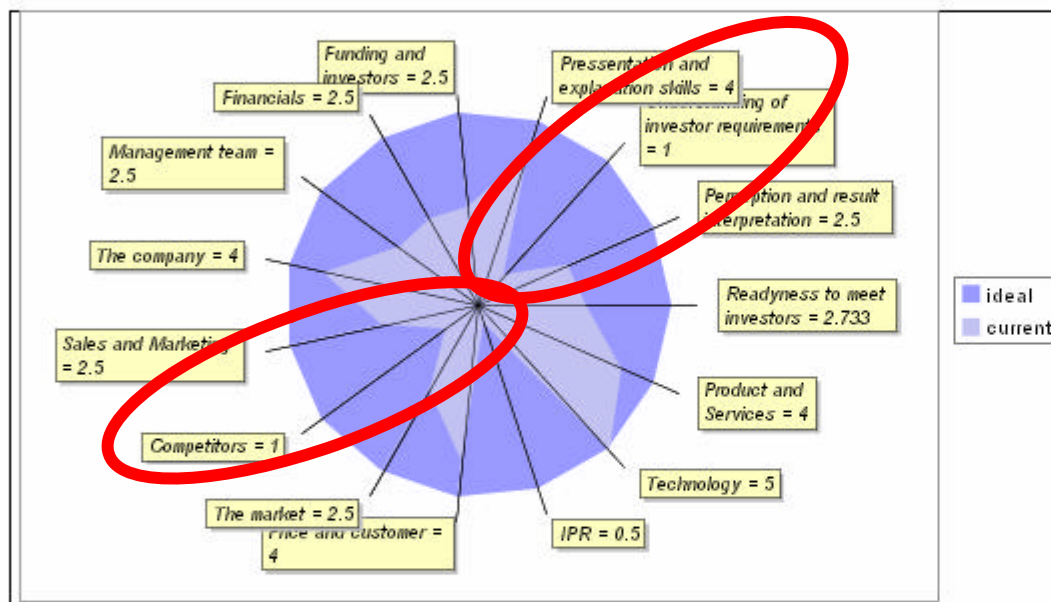
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Entrepreneur personality check (personality_result)



BACK

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Readiness to meet investors :

Product and Services :	Good explanation of product and product advantages
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IPR :	Elementary knowledge about company IPR issues, little about general IPR issues
Price and customer :	Demonstrated creative attitude and good knowledge about pricing policy and customer relations

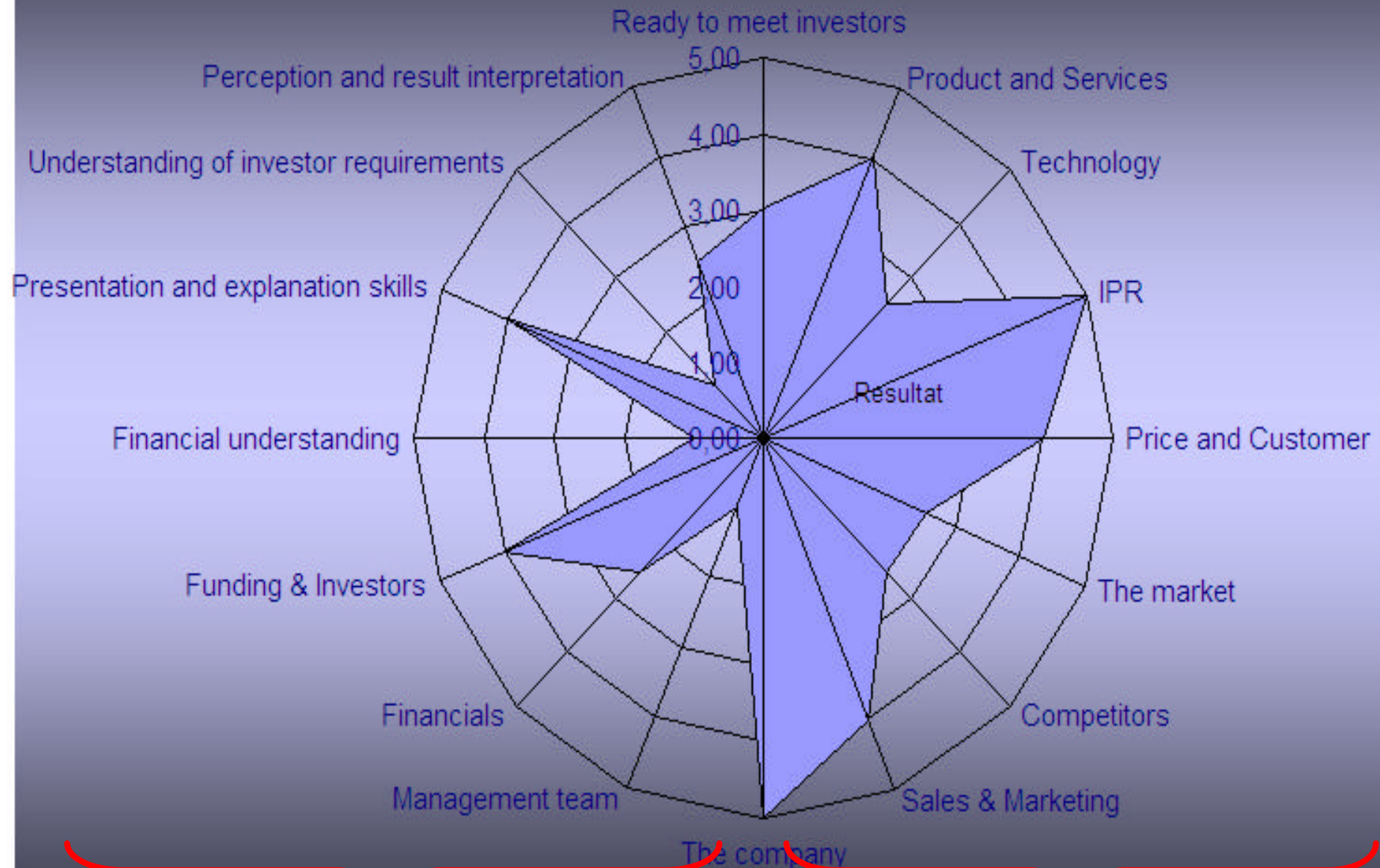




The Competence test

- The “InvestorNet Competence Test” combines testing
 - the completeness of a business plan
 - the strength and weakness of the arguments and knowhow of the entrepreneur.
- The observation is complied in a model and presented as a structured feed back pinpointing the strength, the weakness, the arguments or professional skills, measured against investor expectations.

Readiness to meet investors



Managerial skills/personal performance

Project related performance



Investment Decision phases



If a new professional investor invest in your company then he will want to have a strong board position.

TIP: You should appoint your own board representatives so they match the ones appointed by the investor. Sound Board decisions are made through argumentation, not through majority vote!!



Project monitoring phases



The first 6 month after the investment is done is the “trust building phase”.

TIP:
Make sure that you can deliver promised results, at least during this first phase.



Project monitoring phases



During the daily routine you risk to forget to cater for the investor information needs, including those which has not been asked for!

TIP: Make sure to establish good and accurate reporting and develop your investor relations



Project monitoring phases



Disappointment and crisis will come, and there will be a need for adjustments to the business plan.

TIP:
Disappointments should never come as a surprise to the investor!



Project monitoring phases



If a crisis occur and there is a need for structural or organizational changes, the investors priority is to safeguard his investment – not your interest!

TIP:

Be ahead of the situation, and be the one who propose the actions which will re-establish confidence.



Project monitoring phases



In many cases there is a need for additional financing or merger or acquisitions in order to secure the growth or survival of the company.

TIP:

Be proactive for such initiatives, if you resist, the decision will be taken even against your own will!



Exit phases



There may be more exit possibilities than the ones preferred by the investor.

TIP:

Consider already from the start of the investment process how you would like the exit to take place – and plan for it!

Exit phases



Investors first priority is to exit from the investment as early as possible and at the highest possible price.

TIP:

Be proactive and support the exit process – if not, you get the investor against you – not a good idea!



Exit phases



The exit process (if not IPO) might create uncertainty in your organization.

TIP:

Make sure that not only you and the investor makes a profit from the exit process. Distribute the gains to your organization also!



Exit phases



Remember an exit is not completed before the money is in the bank!

TIP:

Have a strategy ready if the chosen exit route is a “dead end”. Be open and discuss alternatives with the investor up front!



Essential investment documents

- Term Sheet
- Shareholder Agreement
- Subscription Agreement
- Articles of Association
- Rules of Procedure



The nightmare of early investors !



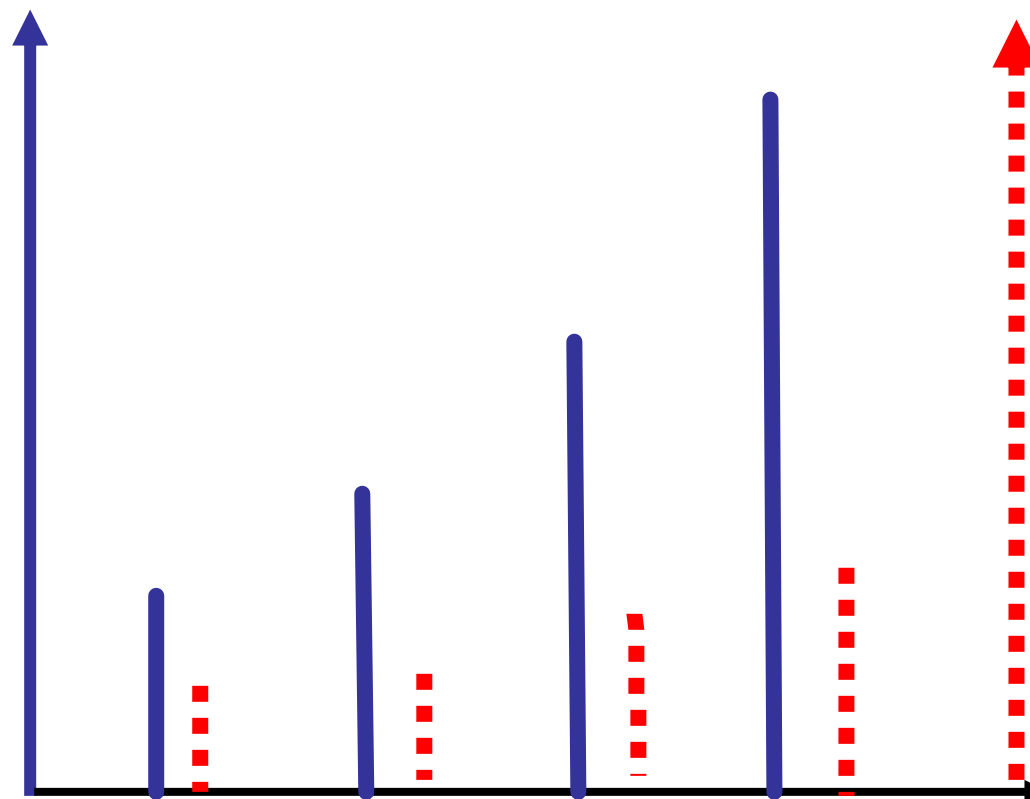
The dilution dilemma !



Increase in valuation

Pre-money valuation

Amount invested



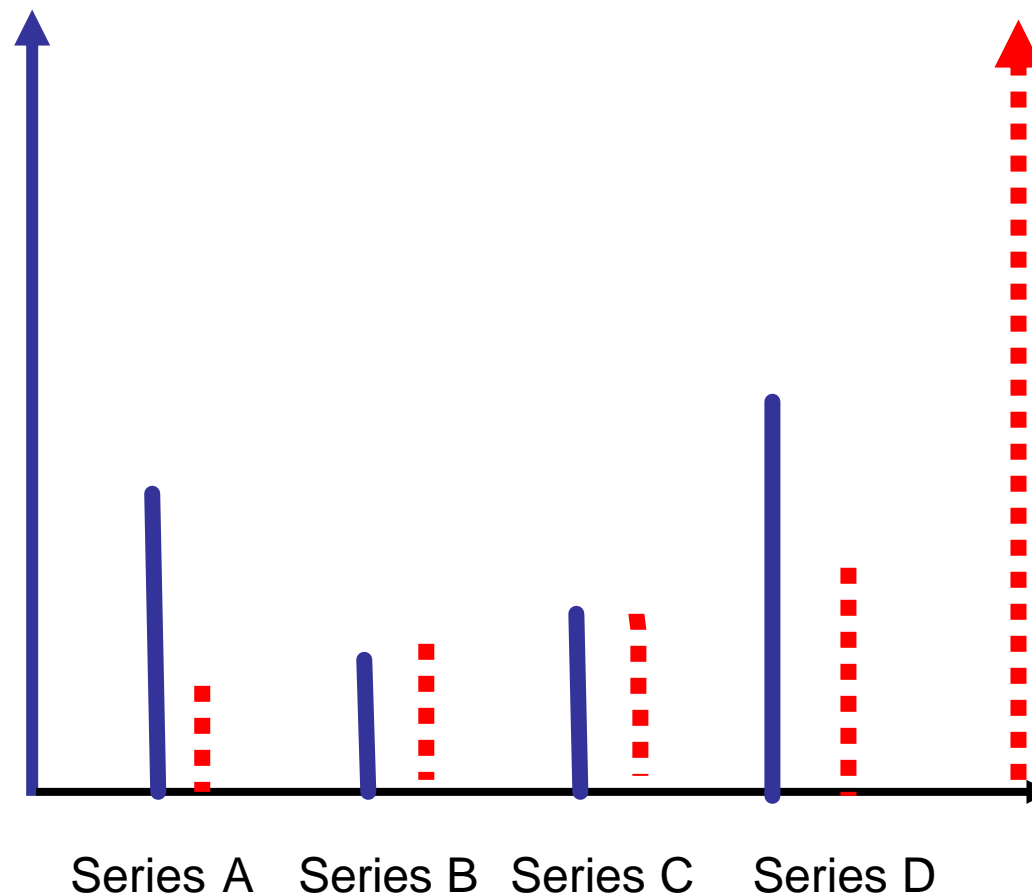
Series A Series B Series C Series D



Drop in valuation

Pre-money valuation

Amount invested





The two different price scenarios.

Exit Price				10.000.000	
Round number	1	2	3	4	exit
Year	2000	2001	2004	2006	2007
Price / share	40,00	50,00	60,00	70,00	92,92

Exit Price				10.000.000	
Round number	1	2	3	4	exit
Year	2000	2001	2004	2006	2007
Price / share	40,00	40,00	10,00	25,00	29,54

Total investment	201.000	500.000	2.000.000	2.400.000	5.101.000
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Total investment	201.000	500.000	2.000.000	2.400.000	5.101.000
------------------	---------	---------	-----------	-----------	-----------



Increase in
share price

Investor	IRR	Accumulated investment
Entrepreneur	594,24%	1.000
BA 1	23,46%	200.000
BA 2	22,95%	500.000
VC 1	25,06%	1.200.000
VC 2	25,06%	1.200.000
VC 3	32,74%	1.000.000
VC 4	32,74%	1.000.000

Decrease in
share price
No follow up

Investor	IRR	Accumulated investment
Entrepreneur	421,31%	1.000
BA 1	-7,30%	200.000
BA 2	-9,61%	500.000
VC 1	68,90%	1.200.000
VC 2	68,90%	1.200.000
VC 3	18,17%	1.000.000
VC 4	18,17%	1.000.000

Decrease in
share price
Follow up

Investor	IRR	Accumulated investment
Entrepreneur	421,31%	1.000
BA 1	17,26%	725.000
BA 2	19,16%	875.000
VC 1	68,09%	975.000
VC 2	68,09%	975.000
VC 3	18,17%	775.000
VC 4	18,17%	775.000



InvestorNet can offer:

- **Services**
 - **Screening of projects**
 - Checking investor readiness
 - **Investor search**
 - Identifying and attracting investors
 - **Deal structuring**
- **Training and education**
 - **Master Classes for entrepreneurs and innovation professionals**
 - One day Master Class on “how to attract investors”.
 - **“Competence test” training for innovation professionals**
 - Two days workshop on the use of SAT-Pro and InvestorNet competence check.
- **Tools**
 - **SAT-Pro (sector versions: Energy, Medical Device, Food)**
 - **SAT-Light (different language versions)**
 - **InvestorNet Competence test (for innovation professionals)**



InvestorNet

- Partner in the Gate2Growth initiative supported by the European Commission

Thanks for your patience !





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