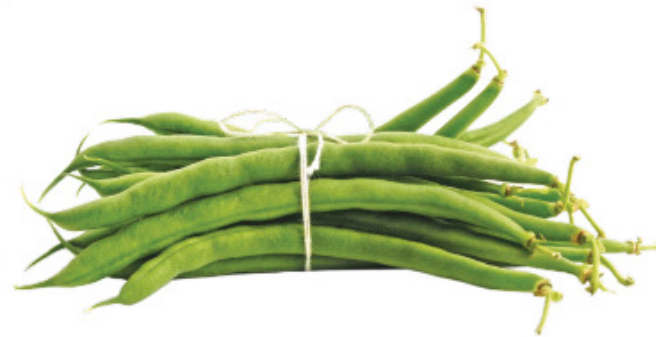


UHY Haines Norton Presents

How to Become Investor Ready



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Rowan Wallace

TODAY'S AGENDA

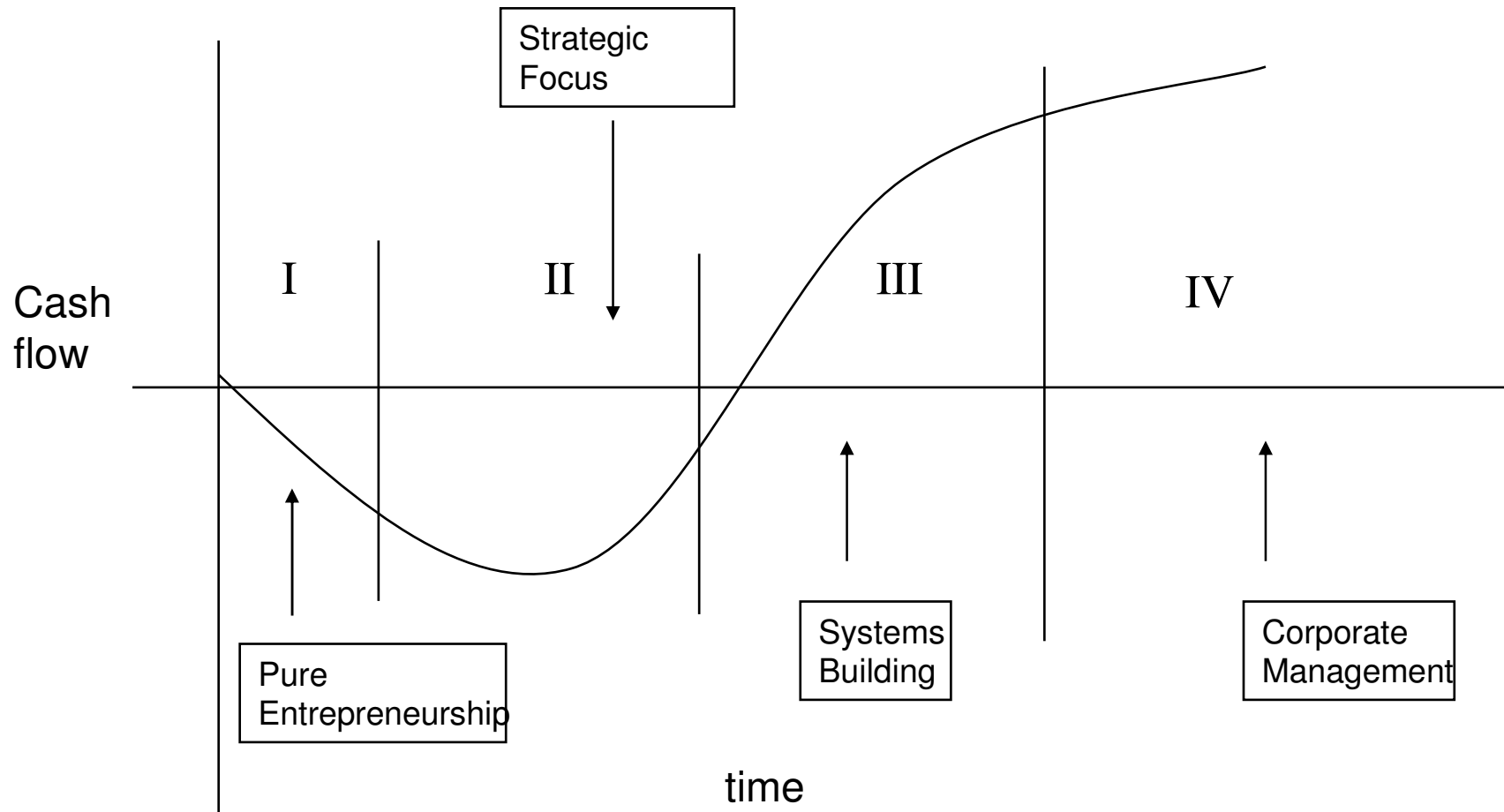
- Why become investor ready?
- What potential investors look for
- 10 Key Issues that are non-negotiable
- Your Action Plan
- The Payoff

WHY BECOME INVESTOR READY?

- **Dissatisfaction**
- **To raise finance**
- **Sale**
- **Succession plan**
- **Enjoyment**
- **Profit**
- **Investor – unlock equity**
- **Joint Ventures**
- **Strategic Trading Alliances**

Business Growth Stages

Source: Haas Business School



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MAYFIELD'S FIVE QUESTIONS

Founded in 1969

“The Mayfield Fund is one of the oldest and most respected US VCs. They have invested in nearly 400 companies and taken more than 100 of them public.”

www.mayfield.com

Question #1: Is your product or service a vitamin or a painkiller?

Vitamins are nice to have.....

Painkillers are essential and usually addictive

- What are your unique insights into the problem?
- How does your technology provide a compelling solution?
- How big is the market?
- Can you be THE market leader?
- Will customers seek you out for your solution?

Source: The Mayfield Fund

Question #2: What is a day in the life of your user?

- Do you know who will use your product or service?
- How much time will they spend with it?
- What other products or services do they use?

Source: The Mayfield Fund

Question #3: Who are your competitors?

- Are they giants who are likely to trample you?
- Do they want to work with you?
- Is your success based on others' failure?
- Are there three other groups just like yourself ?

Source: The Mayfield Fund

Question #4: How far will this money take you?

- How much total money will you need?
- The better the team and the further along you are in proving the market, the cheaper the money
- You need a financing plan just like a development plan
- Raise a little more than you need to reach a financing milestone, and raise cheaper money
- What is the exit strategy?

Source: The Mayfield Fund

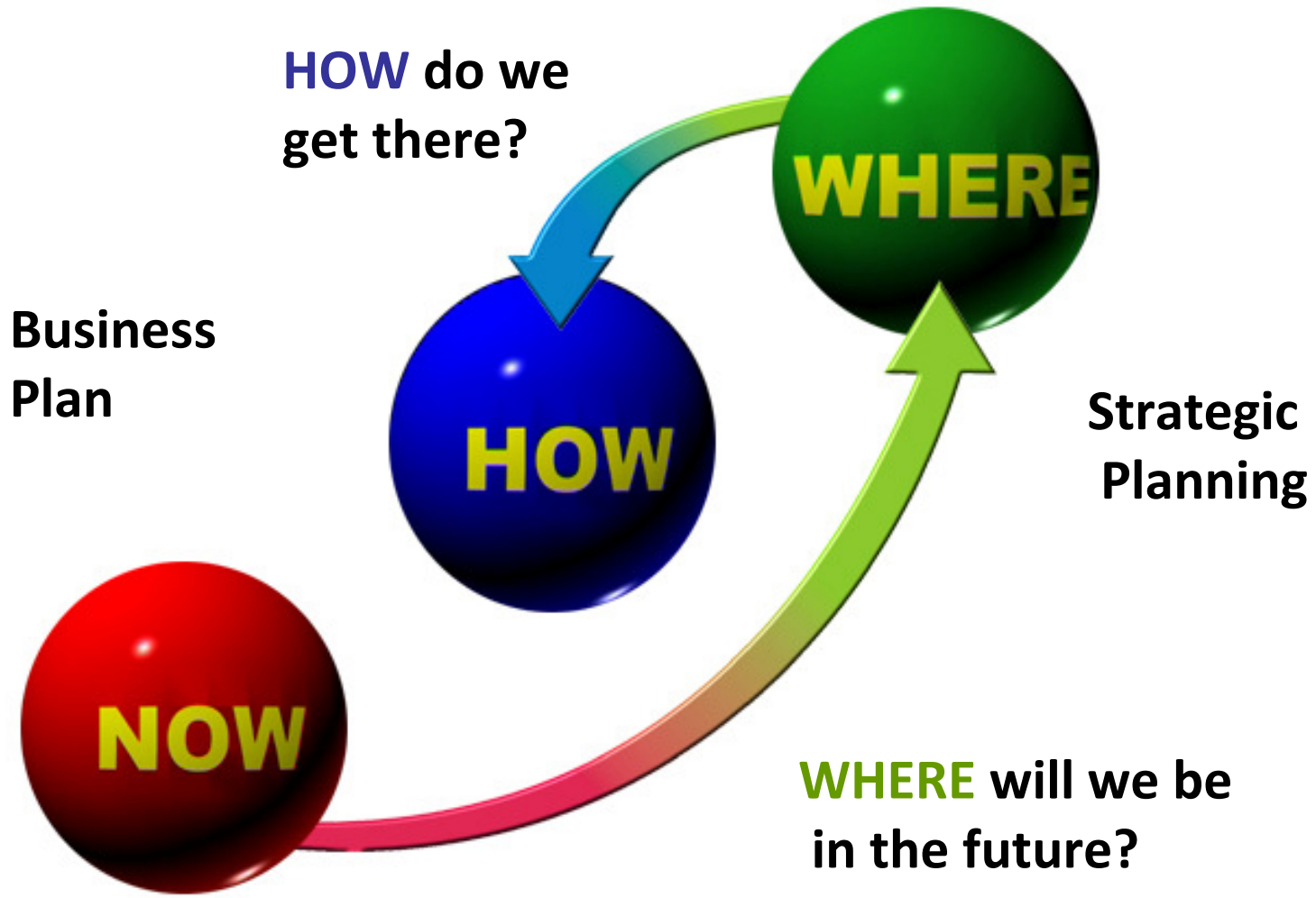
Question #5: What about the Management?

- What is your role?
- Who else do you need to make you successful?
- Share equity – somehow make the pie bigger
- “The Leader” really is critical in a change or growth environment

Source: The Mayfield Fund

- That's the VCs.....but
- What does that mean for your business?

Investor Ready



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Investor Ready Diagnostic



Version 1.01

Investor Ready Diagnostic

Below are a series of questions designed to assist you help identify your level of investor readiness. It assist in pin-pointing what 3 key areas you should focus on first to improve your organizations ability to attract outside investors and achieve the level of growth and profit you desire.

Client Name: XYZ PTY LTD

Date: 31/07/2009

30 Questions - How would you rate the following about yourself?

-5 to +5
scale

1	Our CRM system to support our sales process and assist with current / potential customer management?	Awful	-5
2	Our ability to have a common approach across the business to implementing strategy?	Average	0
3	Level to which the vision for the business is clearly understood and embraced by the entire senior team?	Average	0
4	Our knowledge of our costs, particularly the costs associated with producing our product or service?	Very Good	4
5	Level of motivation by owners / managers to achieve dramatic growth targets?	Good	3
6	The quality of our sales culture and sales team across the business?	Very Poor	-3
7	Level to which we work in project teams to solve issues and convert opportunities?	Reasonable	1
8	The control of waste and inefficiencies across the business?	Very Poor	-3
9	The size of the potential market place for this product or service is?	Good	3
10	Regularity of going through a structured and implementation focused strategic planning process?	Average	0
11	The morale of our staff?	Good	3
12	The quality of the documentation of our standard operating procedures?	Needs attention	-1
13	Level of positive response our product / service achieves from its target market?	Could be better	-2
14	Our ability to consistently apply a proven sales process to achieve (or exceed) our sales targets each month?	Average	0
15	Level of export potential for our product or service?	Very Good	4
16	The documentation of a clear vision and competitive advantage for the business within the last 12 months?	Average	0
17	Ability for our product or service to be seen as novel and innovative in the market place?	Good	3
18	Level to which your personal vision in 5-10 years time links with the business vision for 5-10 years time?	Needs attention	-1
19	Level of continuous Improvement of our internal processes?	Average	0
20	How do you rate your skills as a leader of the business?	Good	3
21	Our current financial management systems and ability to effectively manage cash / stock?	OK	2
22	Regularity that we work in teams to solve strategic issues / opportunities across the organization?	Could be better	-2
23	Level to which there is a clear competitive advantage of your product / service in the market place?	OK	2
24	Level of entrepreneurial drive that you possess?	Needs attention	-1

Below are the key areas that you must have under control in your business. We have specific Solutions containing tools and processes to improve your performance in each of these areas

Key Weakness of Business	
Needs close attention paid	
Key Strength of Business	

10 Key Success factors

Sales	-2.29
Dissatisfaction / Desire	0.71
Strategy	-0.57
Leadership	2.71
Vision	1.29
Continuous Improvement	-0.11
Product / Service	1.14
Market	1.11
Connections / Status	0.40
Profitability	1.00

Investor Readiness summary score

0.66

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10 Key Success Factors

1. VISION
2. STRATEGY
3. LEADERSHIP
4. DISSATISFACTION / DESIRE

5. MARKET
6. SALES
7. PRODUCT / SERVICE

8. PROFITABILITY
9. CONTINUOUS IMPROVEMENT
10. CORPORATE GOVERNANCE

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1. Vision

What do you want to achieve?

What are you deeply passionate about?

Can you be the best in your market?

What is non-negotiable?

Questions

VISION

1. Level to which your personal vision in 5-10 years time links with the business vision for 5-10 years time?
2. Level to which the vision for the business is clearly understood and embraced by the entire senior team?
3. The documentation of a clear vision and competitive advantage for the business within the last 12 months?

2. Strategy



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Questions

STRATEGY

1. Our ability to have a common approach across the business to implementing strategy?
2. Regularity of going through a structured and implementation focused strategic planning process


3. Leadership

You can accomplish anything in life, provided that you do not mind who gets the credit.

-Harry S. Truman

Separation of what is good for the person from what is good for the business.

3. Leadership

- 
- ✓ LEVEL 5 - Level 5 Executive
 - ✓ LEVEL 4 - Effective Leader
 - ✓ LEVEL 3 - Competent Manager
 - ✓ LEVEL 2 - Contributing Team Member
 - ✓ LEVEL 1 - Highly Capable Individual

"Jim Collins Good to Great"

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Questions

LEADERSHIP

1. The quality and frequency of the feedback we provide our staff on their performance?
2. The level of cooperation and trust between departments?
3. The ability to attract and retain high quality staff?
4. Are there clear roles & responsibilities?
5. Is there accountability?
6. Is the business reliant on a team leader?

4. Dissatisfaction / Desire

D **x** **V** **x** **P**

Dissatisfaction
WHY?

Vision
WHAT??

Plan
HOW?

Example:

$$\begin{array}{ccccc} 5/10 & \mathbf{x} & 2/10 & \mathbf{x} & 1/10 \\ & & = & 10/1000 & = 1\% \end{array}$$

Questions

DISSATISFACTION / DESIRE

1. Level of motivation by owners / managers to achieve dramatic growth & Profit targets?
2. Level of energy drain from business activities?
3. Level of satisfaction from current business results?

Exercise: Spend 10 minutes completing the Investor Ready workbook questions for:

- Vision
- Strategy
- Leadership
- Dissatisfaction / Desire

For each question score your business as it is now from 0-10.

Then score where you would like your business to be from 0-10.

When you have finished discuss your scores with the person next to you.



5. Markets

WHAT IS BROUGHT?

Products and services

Geographic spread

Outlets and Distribution

Pricing and Price Points

WHO DOES THE BUYING?

Demographics

Brand Loyalty

Socioeconomic Groups

Buyer Profiles

WHY DO THEY BUY?

Benefits

Needs

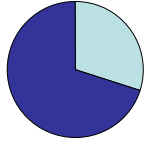
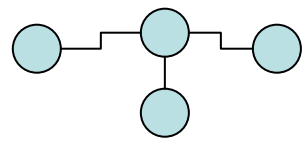
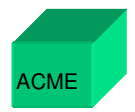

Perception

Preferences

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5. Markets – Growth Strategy

MARKET PENETRATION	
EXISTING PRODUCTS – EXISTING MARKETS	
<p><u>WORDS</u></p> <p>Increase market share by holding price and increasing value each year</p>	<p><u>VISION</u></p> <p>The Rest  ← Us 30 %</p>
MARKET EXPANSION	
EXISTING PRODUCTS – NEW MARKETS	
<p><u>WORDS</u></p> <p>Open three international markets Appoint local consultants Select market developments coordinator</p>	<p><u>VISION</u></p> 
PRODUCT EXPANSION	
NEW PRODUCTS – EXISTING MARKETS	
<p><u>WORDS</u></p> <p>Alliances Develop phase 2 products Research</p>	<p><u>VISION</u></p> 
DIVERSIFICATION	
NEW PRODUCTS – NEW MARKETS	
<p><u>WORDS</u></p> <p>High risk Need high profit Timing?</p>	<p><u>VISION</u></p> 

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Questions

MARKETS

1. Level to which there is a clear competitive advantage of your product / service in the market place?
2. The size of the potential market place for this product or service is?
3. Quality of a documented marketing plan that has been created for any planned expansion of the product or service?
4. Level of positive response our product / service achieves from its target market?

6. Sales

- Increase in Sales and Market share is one of the key challenges facing businesses today.

The following key relationships must be clearly identified before any successful increase in sales will occur.

- » Product analysis
- » Competitive analysis
- » Pricing Factor
- » Selling Skills

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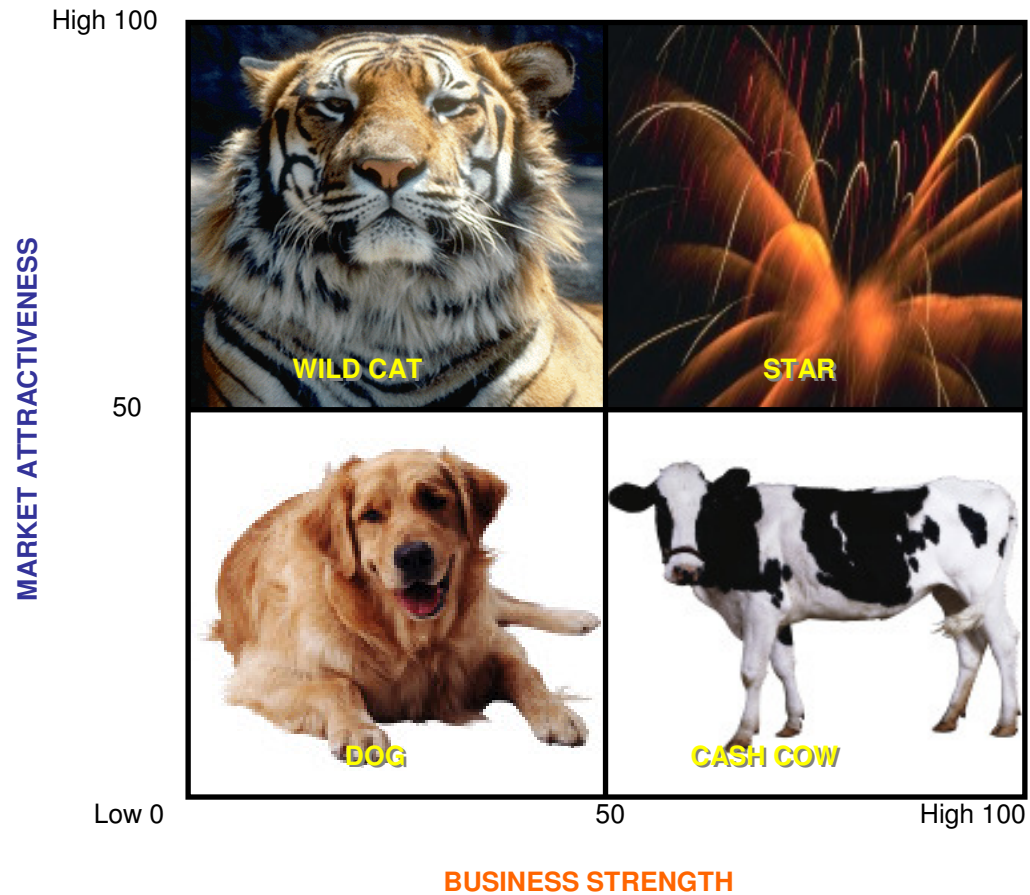
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Questions

SALES

1. The quality of our sales culture and sales team across the business?
2. Our CRM System to support our sales process and assist with current / potential customer management?
3. Our ability to consistently apply a proven sales process to achieve (or exceed) our sales targets each month?

7. Product / Service - Product Portfolio Analysis



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Questions

PRODUCT / SERVICE

1. Level of market attractiveness for our products / services
2. Level of business strengths in relation to our products / services
3. Development & documentation of product / service strategy
4. Level of export potential for our product or service?

Exercise: Spend 10 minutes completing the Investor Ready workbook questions for:

- Markets
- Sales
- Product & Service

For each question score your business as it is now from 0-10.

Then score where you would like your business to be from 0-10.

When you have finished discuss your scores with the person next to you.



8. Profitability – GPS Profit Diagnostic

Microsoft Excel - gps uk

File Edit View Insert Format Tools Data Window Help

Type a question for help

H5

Version 1.03

Mindshop Growth and Profit Diagnostic

Client Name: ACME MANUFACTURING Date:

25 Questions - How would you rate the following in your business? -5 to +5 scale

Q	Question	Rating	Score
1	The level of satisfaction and loyalty of our Customers?	Very Good	3
2	Our knowledge of our costs, particularly our product costs?	Reasonable	1
3	The reward system we use for our sales team?	Good	2
4	The contact program we have for Customers and Prospects?	Reasonable	1
5	Our understanding of our cash at bank, debtors and creditors?	Reasonable	1
6	The morale of our staff?	Good	2
7	Our sales and marketing documentation (brochures, web sites)?	Needs attention	-1
8	The quality and frequency of the feedback we provide our staff on their performance?	Good	2
9	The level of cooperation and trust between "departments"?	Very Good	3
10	The documentation and understanding of our sales process?	Good	2
11	The quality of the documentation of our standard operating procedures?	Reasonable	1
12	Our processes for setting and maintaining our prices?	Needs attention	-1
13	Our ability to grow the business through existing Customers?	Could be better	-2
14	The control of waste in our business?	Needs attention	-1
15	Our ability to check at any time profit, sales, expenses and cash flow?	Reasonable	1
16	Our understanding of the needs and perceptions of our Customers?	Good	2
17	Our database of customers and prospects?	Could be better	-2
18	The amount and quality of training we provide for our staff?	Good	2
19	Our ability to deliver on time, on budget and with specified quality?	Reasonable	1
20	Our documentation of a clear vision and competitive advantage for the business?	Good	2
21	Our mechanism for benchmarking our systems against best practice?	Terrible	-3
22	Our ability to record our sales per product, per market segment?	OK	0
23	Our continuous improvement of our internal processes?	Good	2

Below are the key areas that you must have under control in your business. We have specific Mindshop Solutions containing tools and processes to improve your performance in each of these areas

Indicates a problem	Red
Means Caution	Yellow
No problems	Green

10 Key Success factors

Business Planning	1.54
Leadership	1.29
Profit	0.83
Marketing	0.13
Personal Development	1.82
Continuous Improvement	0.71
Sales	0.06
Morale	2.00
Waste Reduction	0.21
Customer Service	1.21

Select the factor below to see which questions relate to your result

Instructions Growth and Profit Life Balance Mindshop GPS Workings

Ready CAPS

Questions

PROFITABILITY

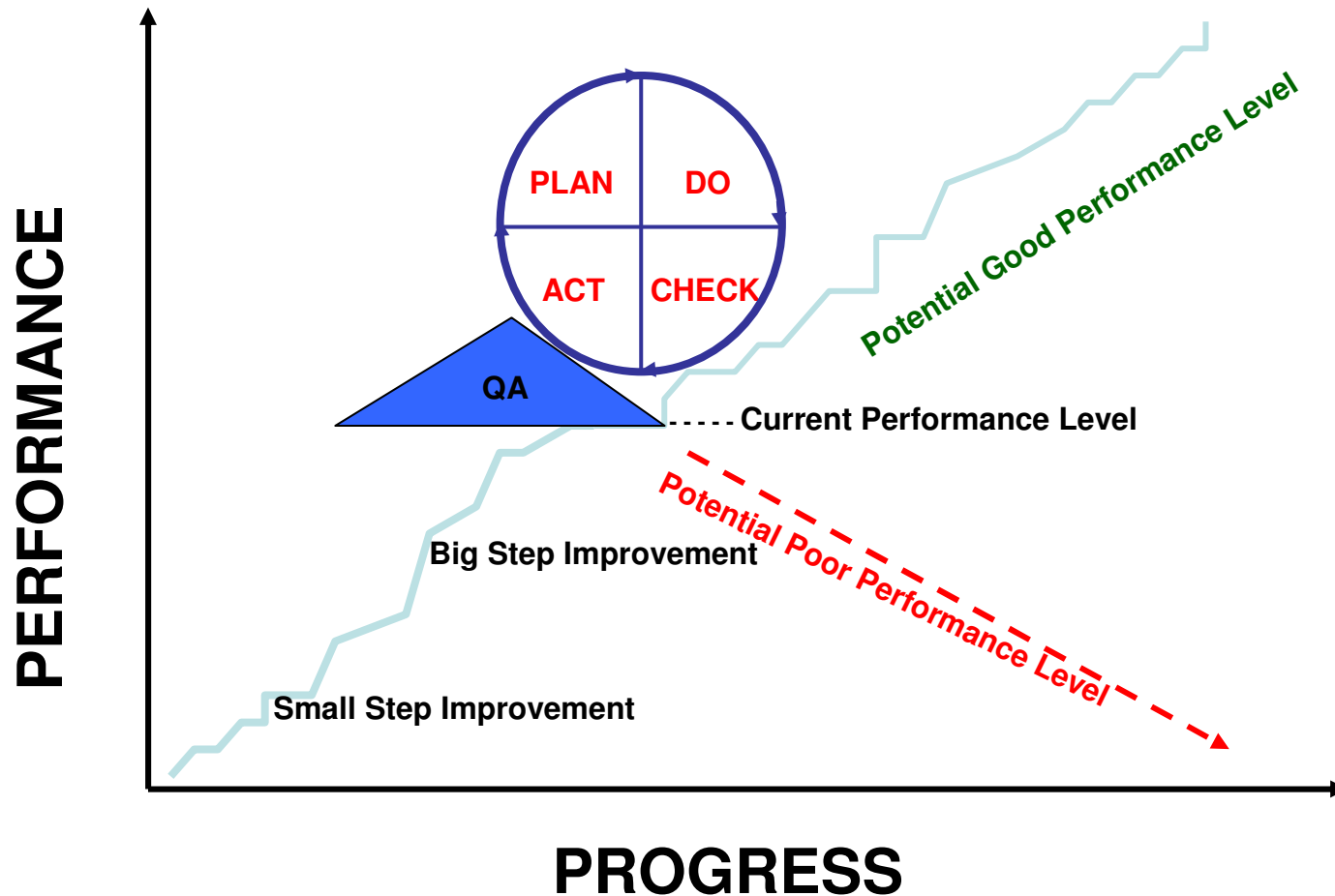
1. Level of profitability of the business today?
2. Our knowledge of costs, particularly the costs associated with producing our product or service?
3. Our current financial management systems and ability to effectively manage cash / stock?
4. Our process for setting and maintaining prices?
5. The control of waste and inefficiencies across the business?
6. Our ability to check at any time profit, sales, expenses & cash flow?
7. Our knowledge of all aspects of the business cycle?

Questions

For example – Debtors

- **Credit Approval**
- **Trading Terms**
- **Credit Limits**
- **Stop Credit**
- **Collection Policy**

9. Continuous Improvement



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Questions

CONTINUOUS IMPROVEMENT

1. Level of continuous improvement of our internal processes?
2. Level to which we work in project teams to solve issues and convert opportunities?
3. Is there a culture of continuous improvement
4. Are all our systems documented?
5. Do we have a human resources policy?
6. Do we use KPI's?

10. Corporate Governance

“Corporate Governance is the system by which companies are directed and managed.

It influences how the objectives of the company are set and achieved, how risk is monitored and how performance is optimised”

ASX Principles of Good Corporate Governance

Questions

CORPORATE GOVERNANCE

1. Frequency of review of financial results?
2. Level of understanding of financial statements and analysis?
3. Frequency of board meetings?
4. Do you have a risk management strategy?

Exercise: Spend 10 minutes completing the Investor Ready workbook questions for:

- Profitability
- Continuous Improvement
- Corporate Governance

For each question score your business as it is now from 0-10.

Then score where you would like your business to be from 0-10.

When you have finished discuss your scores with the person next to you.



Diagnostic Results

- Identify your specific top 3 issues arising from the Diagnostic

(your issues may be the biggest Gap issues, but it doesn't have to be)

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ONE PAGE PLAN

NOW	<p align="center">SMITH & JONES SALES PLAN</p> <p align="center">Date Revised: 21 October 2006</p>		WHERE	
<ul style="list-style-type: none"> • Sales \$1 million • No sales person • Order taking culture • Average sales \$10k 			<ul style="list-style-type: none"> • Sales \$3 million • One full time sales person • Sales Culture • Average Sales \$25k 	
STRATEGIES	ACTION PLANS		TIMING - Who & When By	
SALES TRAINING	<ol style="list-style-type: none"> 1. Purchase SAN for each employee 2. 4 day SPIN course for staff 			
KEY ACCOUNT	<ol style="list-style-type: none"> 3. 1 Page Plan top 20% clients 4. Alliances Plan 			
COMPETITORS	<ol style="list-style-type: none"> 5. Target exposed Clients 6. Regional selling events 			
BROCHURES	<ol style="list-style-type: none"> 7. Produce benefits/problems brochure all Products 8. Coaching website 			

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The Payoff

The payoff will be different things for different people but can include;

- improved sale price
- improved operating profits / cashflow
- improved life balance
- reduced risk
- ability to attract investor / purchaser
- easier exit strategy
- better retirement!

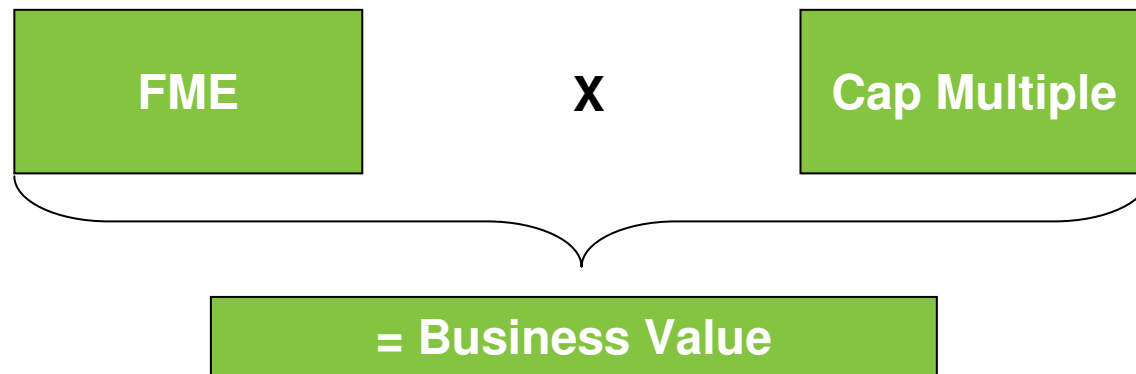
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Payoff

For many the ultimate payoff of being “investor ready” will be an increase in the overall value of the business.

Most common business valuation methodology =
Capitalisation of Future Maintainable Earnings



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FME

Increased FME

\$300,000

X

X

X

Cap Multiple

Increased Cap Multiple

3

=

=

=

= Business Value

= Increased Business Value

= \$900,000

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Now

\$300,000

X

3

=

= \$900,000

Increased Profits

\$400,000

X

3

=

**= 1,200,000
(Up \$300,000)**

+ Increased Multiple

\$400,000

X

4

=

**= \$1,600,000
(Up \$700,000)**

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Increasing Capitalisation Multiple

Factors impacting the capitalisation multiple (represents required return on investment):

- risk free rate of return
- rates of alternative investment opportunities
- growth prospects
- risk factors
- reliance on key suppliers/employees/owners
- economic conditions
- strengths and weaknesses of a business
- time value of money

Increasing Capitalisation Multiple

- strength of systems and procedures
- level of corporate governance
- mix of clients
- stability of earnings
- level of competition
- quality of plant and facilities
- general marketability
- industry considerations

Increasing Capitalisation Multiple

Higher the risk that the business will not be able to maintain the same profits each year the lower the multiple and the lower the value placed on the business.

Higher the growth prospects for the business, the higher the multiple and the greater the value of the business.

“Investor Ready” Payoff

All of the factors that increase the capitalisation multiple are a result of being “investor ready”.

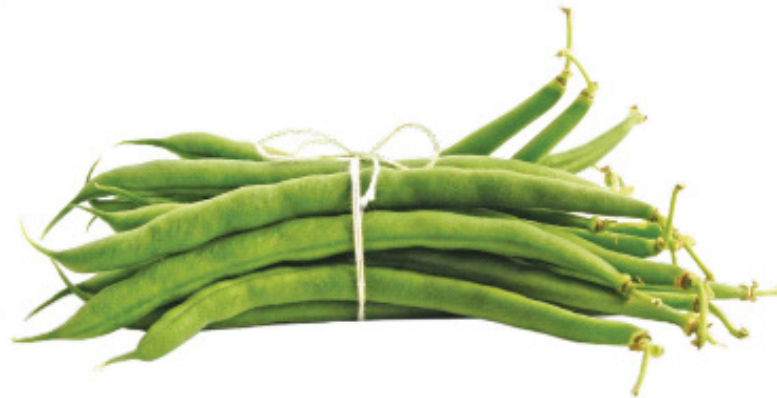
If you are “investor ready” you have a better business.

If you have a better business, people will be willing to pay more for your business or your business is easier to run.

Disclaimer

- **Please do not rely on the information or calculations within this presentation without first seeking specialist advice based on your specific circumstances.**
- **Many assumptions have been made within the calculations that are not detailed within this document.**
- **It is important that the principles detailed within this presentation are applied to your specific circumstances before they can be relied on.**
- **We accept no responsibility for any loss suffered as a result of relying on the information within this presentation.**

UHY Haines Norton
Chartered Accountants



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