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De-Mystifying Equity Financing

Date: November 13, 2017

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Attracting Smart Money (1/4)

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SWIFT NETWORKS

JUMIA

Is your company the next?

MTN

Attracting Smart Money (2/4)

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- What is smart money?
  - Money invested by people with expert knowledge
  - Looks out for businesses with significant revenue growth potential and/or -strong cash flows
  - Addresses a wide range of business needs:
    - Growth/expansion
    - Product launch
    - Working capital
    - Asset acquisition

Attracting Smart Money (3/4)

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- The 5 C's:
  - **Cash flow**: show the upside for cash invested
  - **Capital**: Your skin (N, £, $,) in the game
  - **Character**: do you separate business funds from personal funds?
  - **Capacity**: can the cash flows from the business service debts
  - **Collateral**: what assets are you willing to pledge? (for loans)
- Experience
  - Subject matter expertise
  - Ability to innovate profitably

Attracting Smart Money (4/4)

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- Sound Operations
  - **Financial Records**: financial accounts, bank statements
  - **Legal**: registered entity, contracts
  - **Governance Structures:** Value-adding Board, Strong Management team, Good business and financial controls
  - **Compliance**: Regulations, tax filings
- Others
  - Customer service
  - High growth potential
  - Market positioning

Why seek Equity Financing?

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- Equity Financing
  - Is the process of raising money in exchange for ownership shares in a business
  - grants long term funds to the business
  - Provides access to investors who can provide invaluable business advice and contacts *(SMART MONEY)*
  - Eliminates the need to personal guarantees or collateral needed for loans
  - frees up cash to reinvest in the business because no monthly loan repayments required

Types of Equity Investors (1/2)

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- **Incubators/Accelerators:** provide office space, on-site mentoring and other support services to help new businesses become commercially viable

- **Angel investors:** high-net-worth individuals who invest some of their personal funds in young entrepreneurs and also offer valuable advice and guidance. This is often in exchange for a small ownership stake in the company

Types of Equity Investors (2/2)

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- **Venture Capital:** often a Fund raised specifically to invest in businesses with high potential returns. Amounts invested can be up to $1m in exchange for a sizeable ownership stake and seats on the company's board

- **Private Equity:** Similar to Venture Capital but invests larger amounts in companies with proven business models

- **Strategic Investors**: Individuals or businesses that have a vested interest in the success of your business. For example, a coffee shop might have a bean roaster as a strategic investor

Getting Ready For Equity Financing (1/3)

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- Become an Incorporated Business:
  - Limits the liability of the founders
  - grants legal protection to both founders and investors
  - Communicates a shareholding structure
  - Builds history for the company
- Be willing to give up equity
  - Does not necessarily mean giving up control
  - Shares the risk with your investors
  - Potential to create a larger company than organic growth

Getting Ready For Equity Financing (2/3)

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- Create a Comprehensive Business plan with 5 year projections
  - Executive Summary
  - Business Description
  - Competitor Analysis
  - Organisational Structure & Key Management
  - Sales Strategy
  - Funding Needs
  - 5-year Financial Projection

(For more details visit “How to write a business plan” on our website)

Getting Ready For Equity Financing (3/3)

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- If an existing company also provide:
    - Historical audited or management accounts
    - Bank records to match revenues
    - Regulatory approvals (If required)
    - Corporate governance structure

Stages in Equity Financing (1/3)

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- Financing Stages
  - Seed Stage
    - Proof of concept, assemble a talented team, get the firm ready to commence operations
    - Funds come from: the entrepreneur's personal savings, a severance package from a prior job, an angel investor, or cash raised from friends and family

Stages in Equity Financing (2/3)

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- Series A round (Start-up Financing)
  - Financing is needed for continuous development, hire top talent, achieve value-creating milestones
  - Usually the first institutional financing (Venture Capital)
- Series B round (Second stage)
  - Early revenue streams may be taking shape, larger financing needed for building scale, further product development, revenue traction
  - Funded by Venture Capital or Private Equity

Stages in Equity Financing (3/3)

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- Series C and later rounds
  - The company often has predictable (stable) revenues
  - Capital is injected to ramp up existing operations and move the company into a significant position in the industry
  - Private Equity investors fund this growth stage

Exit Strategies

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- Venture Capital invests for a limited time and can exit via:

- Management Buyout;
  - We can assist owners to raise funds from a bank to buy back our stake in the business
- Secondary Buyouts;
  - Sale to another Venture Capital or Private Equity Firm
- Listing; or
  - Offer for Sale on NSE or ASEM
- Trade Sale
  - Merger or Acquisition by a strategic buyer

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