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Technical Assistance for Turkey in Horizon 2020 Phase-II
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Investment Readiness Training for SMEs

Am I Investor Ready?

*Insights from Investors to Help you Stress Testing Your
Business Plan*

Gerry O'Brien, IDI - Istanbul July 17th 2019

This Presentation

- **Funding sources** for high growth start-ups and expanding SMEs and what you should be aware of when selecting an investor.
- What it means to be **“Investor Ready”**
- Flag some **common and avoidable errors** made by founders.
- **How an Investor thinks**, what they are looking for in a proposal.
- Up Next – Turning the Table **“Put Yourself in the Investor’s Shoes”**

Introduction - Gerry O'Brien



- Head of Advisory & Senior Consultant, International Development Ireland (IDI).
- Economic Development & SME Finance Specialist.
- Degree in Economics & Finance and Masters in Public Sector Policy.
- Previously worked for **13 years in Enterprise Ireland** – Irish National Development Agency.
- Experience in **design and management of Grant & Equity Funding Instruments** for High Potential Start-Ups & SMEs
- **Investment Adviser** and **Mentor** to Irish Start-Ups.

SME & Investment Background



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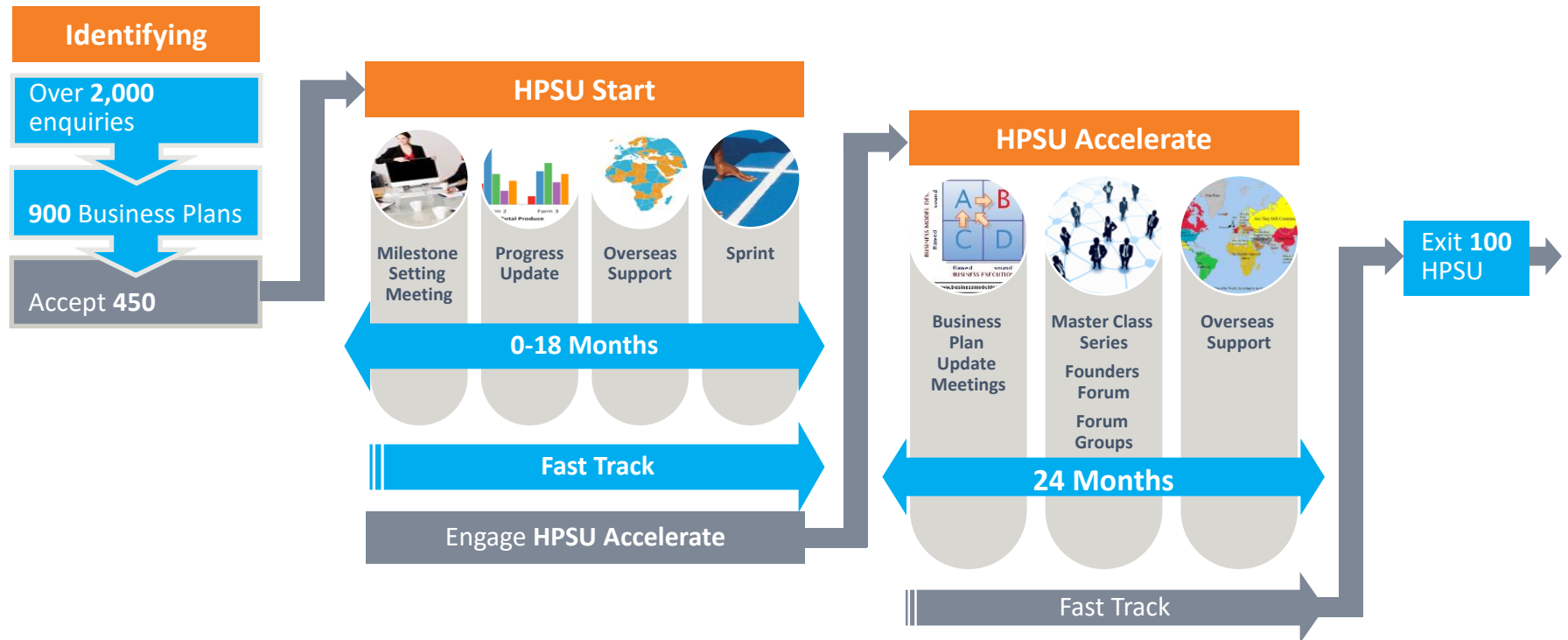
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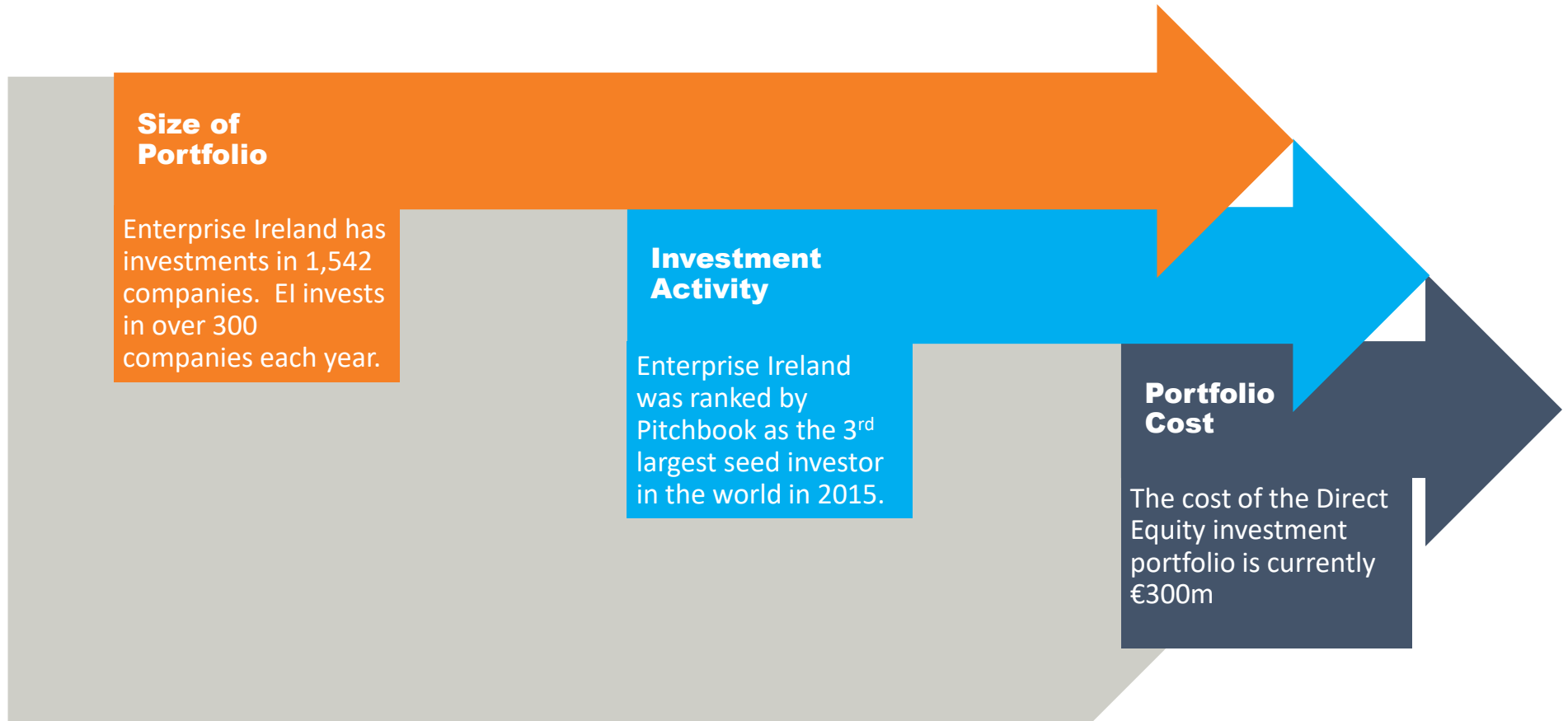
How Enterprise Ireland Works With Start-ups...

Enterprise Ireland needs to liaise with 2000 companies to identify 100 viable High Performance Start Ups



Direct Investment....

The make-up of EI Direct Equity Portfolio (DEPF):



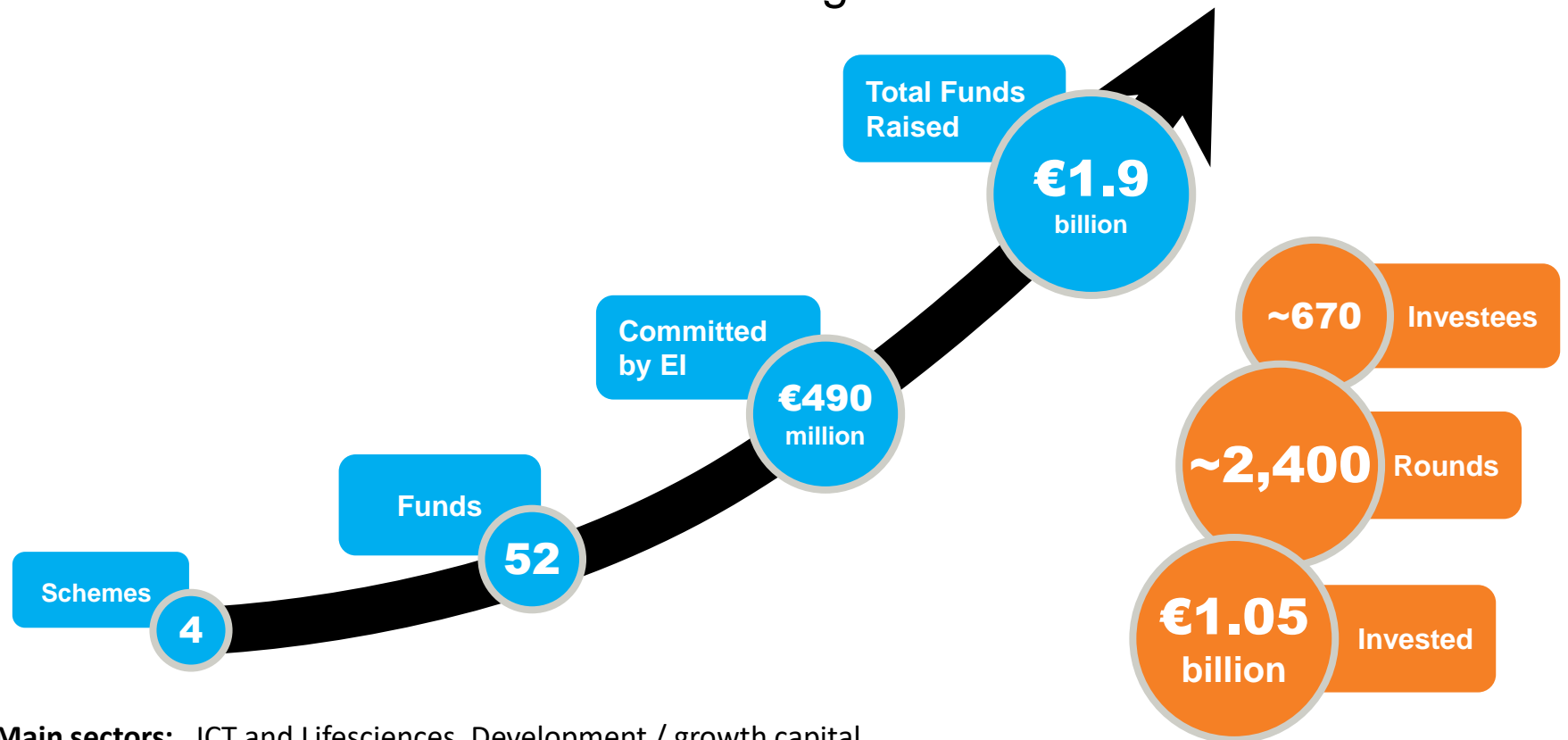
- **Due Diligence is done In-House**
 - Desk Research
 - Founder Background Checks
 - Technology Assessment
 - Market Assessment (Customer interviews)
 - Legal Assessment
 - Financial Assessment

- **Investments in Start-Ups are by way of Equity.**

- **Profits from Successful Investments are returned to Government.**

Enterprise Ireland Seed & Venture

Indirect Investment....Funding Schemes 1994 - 2018



Main sectors: ICT and Lifesciences. Development / growth capital across **domestic and foreign venture capital companies.**

Funding Strategy - Sources of Funding & What to Be Aware



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Funding Strategy

- In a ***perfect world***, an investor will provide all the funds needed in exchange for a modest stake..
- In the ***real world*** businesses are funded at value elevating milestones, where the next tranche of funding can be raised without giving too much of the equity away.
- What are the key questions you need to focus on?

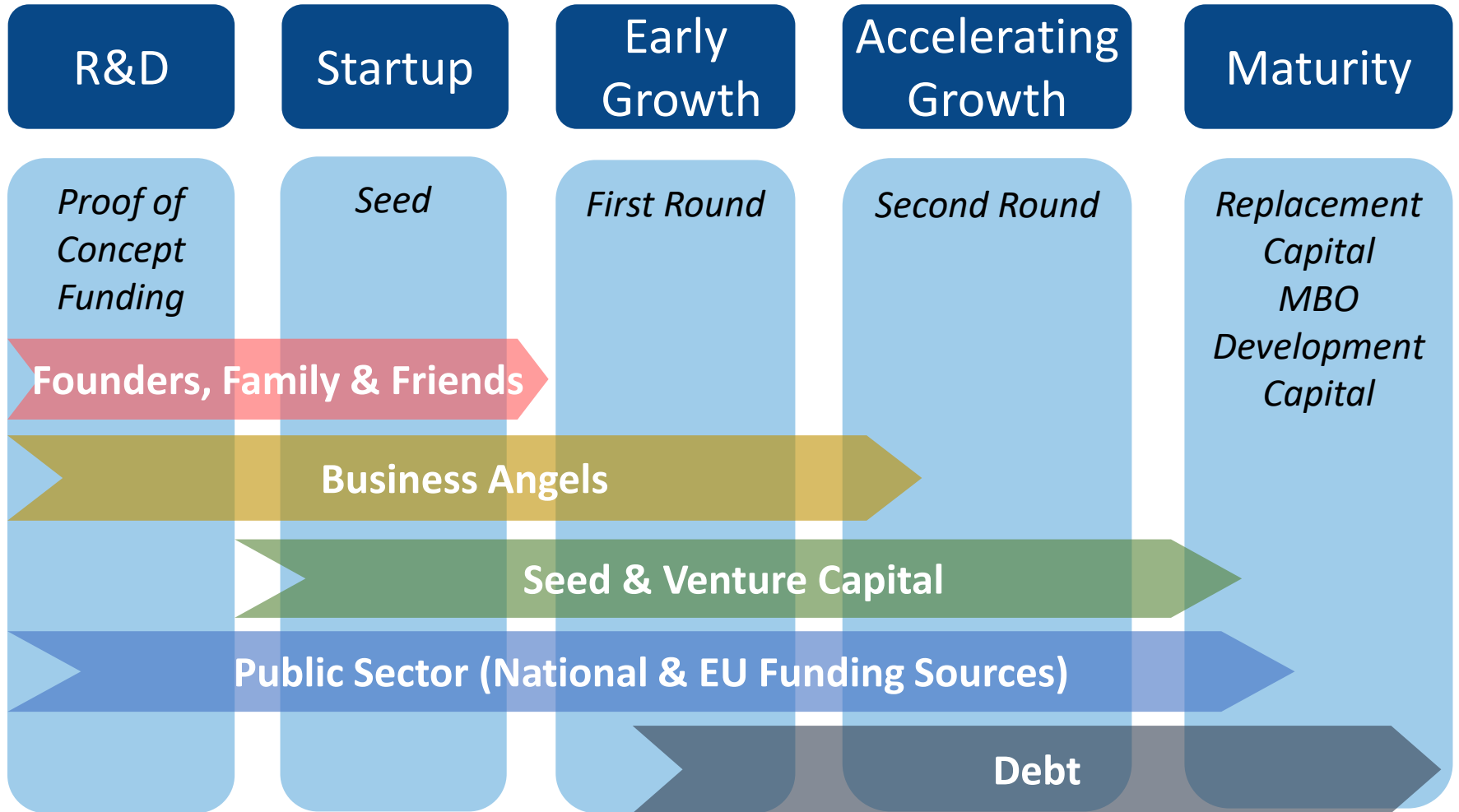


Funding Strategy

- What is the total funding needed?
- What are the sensible funding milestones that the business needs and investors buy into?
- What type of investor to choose at the different stages of development?
- Can I Tranche Funding? - Don't give too much equity away



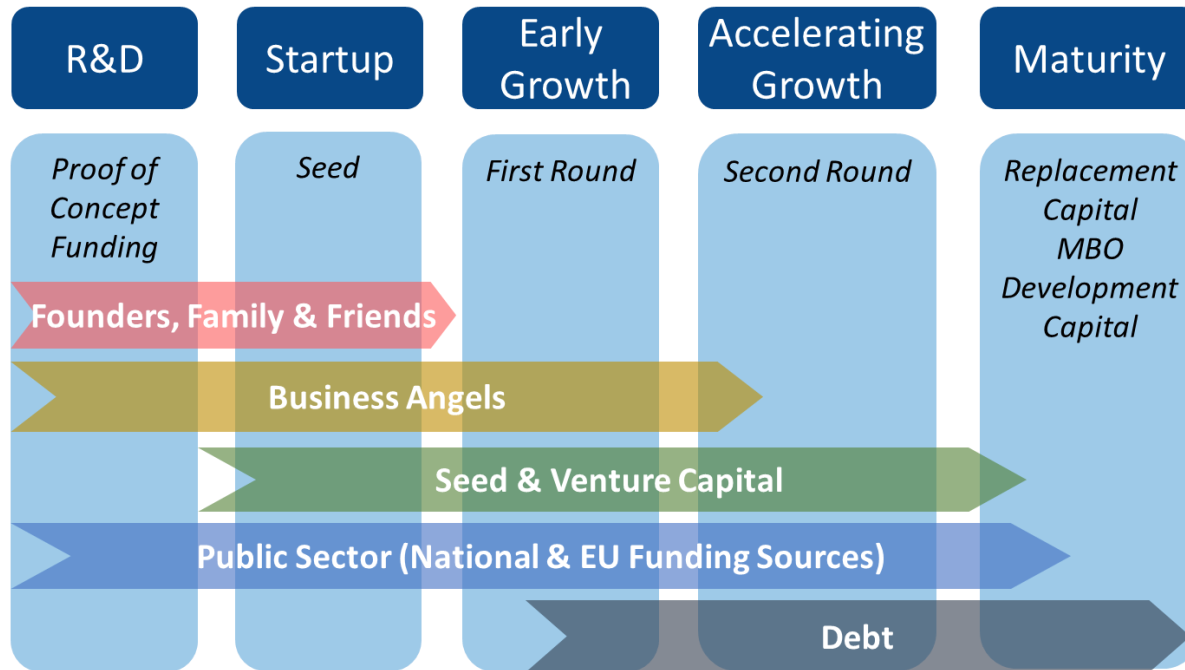
The Funding Journey



Sources of Funding

Different Funders have different objectives and requirements.

- “so what is the right source of funding for my business at this stage?”



The Correct Investor for you Depends

On the Nature of the Project/Company

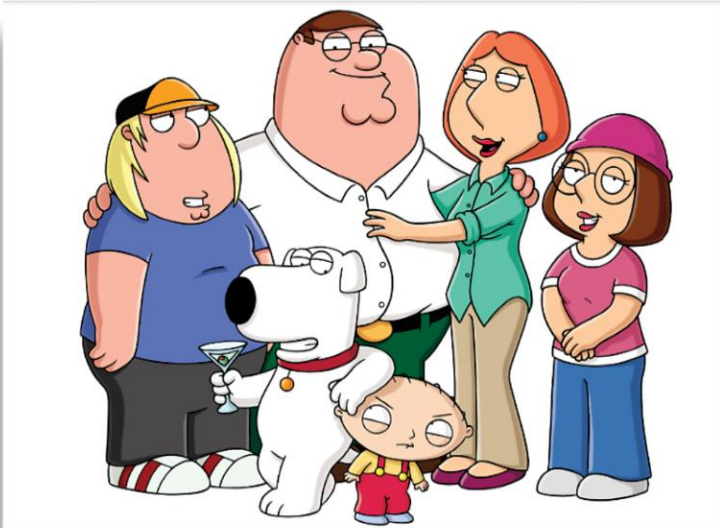
- **level of funding** - required
- **type of funding** - Grant, Debt, Equity, Quasi-Equity)
- **stage of development** - of the business,
- **growth potential** - of the business
- **time frame to scale** - the business
- **Innovativeness** - of Product/Service
- **Sector** - as often sector focused funds

AND OF COURSE ON YOU

- **Your required ownership and control of the business**
- **Your assessment of the investor(s) value and track record.**
- **Your relationship with the investor**



Family, Founders & Friends (3 F's)



- First capital normally from founders. Having **“Skin in the Game”**
- Family and Friend investors normally invest in the person – not the idea or the business.



- Be sure to have a clear record of money invested.
- **Set Up the Company** – it is not your money.
- Ensure family and friends **understand the risks.**
- A lot of small family and friend investors **can make it difficult to negotiate later funding rounds.**



Business Angels



- High net worth individuals actively looking for investment opportunities and often want to **want to get involved in the business.**
- Increasingly Business Angels form investment syndicates. Pooling funds and spreading risk.



- Find a business angel that understands your business.
- Not just about Money – Find an angel who is strong where you are weak.
- Clarify the Business Angels time frame for exit.

Crowdfunding



- Becoming a recognized way to raise early funding
- Get early revenue and market validation
- Kickstarter, Indygogo, crowdfon.com, fongogo.com, fonlabeni.com



- Very uncertain, many campaigns fail
- Mainly consumer products, creative projects
- Often Pre-sale, not equity.
- You still have to deliver the product. If you don't negative reviews on-line



Seed & Venture Capital Funds



- A major source of funding for fast growth, technology-based companies.
- Require business that can scale.
- Need significant return on their investment – not *“Lifestyle”* businesses.
- Generally “Tranche” investment. It’s important to achieve planned milestones.



- Seed & VC funds are not always keen to invest early.
- Funds will seek to exit after 5-7 years
- They are tough negotiators. Build the business proposition to a point where you have stronger negotiating position.
- research funds to understand their track record – speak to other investee companies.
- Ensure fund has ability to “Follow its Money”



Public Sector Funding Sources (National/EU)



- Make maximum use of national and EU funding [the cheapest money in the room].
- Private investors will expect you to leverage public sector funds **prior and during their investments.**



- Be prepared for the paperwork.
- Treat Public funders with the same respect as private investors.
- Do your homework and research the objective and eligibility criteria [e.g. social impact, collaboration etc.]
- Keep up to date with fund closing dates



Corporate Venturing



- Many Multi-Nationals also act as venture capital investors.
- This source of funding is often forgotten about by entrepreneurs.
- They have the same approach as traditional VC funds however can bring significant value and credibility.



- You need to be careful that the Corporate Venture Funds does not limit your market potential.

Debt Finance



- By far the main source of finance for SMEs.
- Can support operations (working capital) and expansion funding.
- Is a relatively low cost form of finance as no equity stake provided.
- EU introduced term “Bankability”.



- Limited appetite for risk.
- Not suitable to companies at early stage – no collateral, no revenue to repay loans.
- Repayments must be made regardless of company performance.
- Do not recommend entrepreneurs securing loans on the basis of personal assets.



 **THE 34 MOST ACTIVE CVCS IN 2018**

1-17	18-34
Google Ventures	GE Ventures
Salesforce Ventures	Daiwa Corporate Investment
Intel Capital	Johnson & Johnson Innovation
Baidu Ventures	Cisco Investments
Legend Capital	Nissay Capital
SBI Investment	Samsung NEXT
Alexandria Venture Investments	YJ Capital
Kakao Ventures	Monex Ventures
Mitsubishi UFJ Capital	GREE Ventures
Fosun RZ Capital	NTT DoCoMo Ventures
Qualcomm Ventures	CreditEase Fintech Investment Fund
M12	Shell Ventures
Comcast Ventures	Novo Ventures
Samsung Ventures	Novartis Venture Funds
Bertelsmann Asia Investments	LINE Ventures
Amazon Alexa Fund	KB Investment
Dell Technologies Capital	Citi Ventures

Is my Business “Investor Ready”



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Is my Business Investor Ready?

- Convincing Family & Friends not too difficult.
- However when raising funds from Public & Private Funding sources you need to give yourself the best chance of success.
- Key question; Are you “Investor Ready”



Pitching V's Business Plan



- Many workshops and Training Sessions focus building a Value Proposition for Investors and the Importance of Pitching to investors.
- While Pitch is important it is not enough.
- Must have a credible business plan.



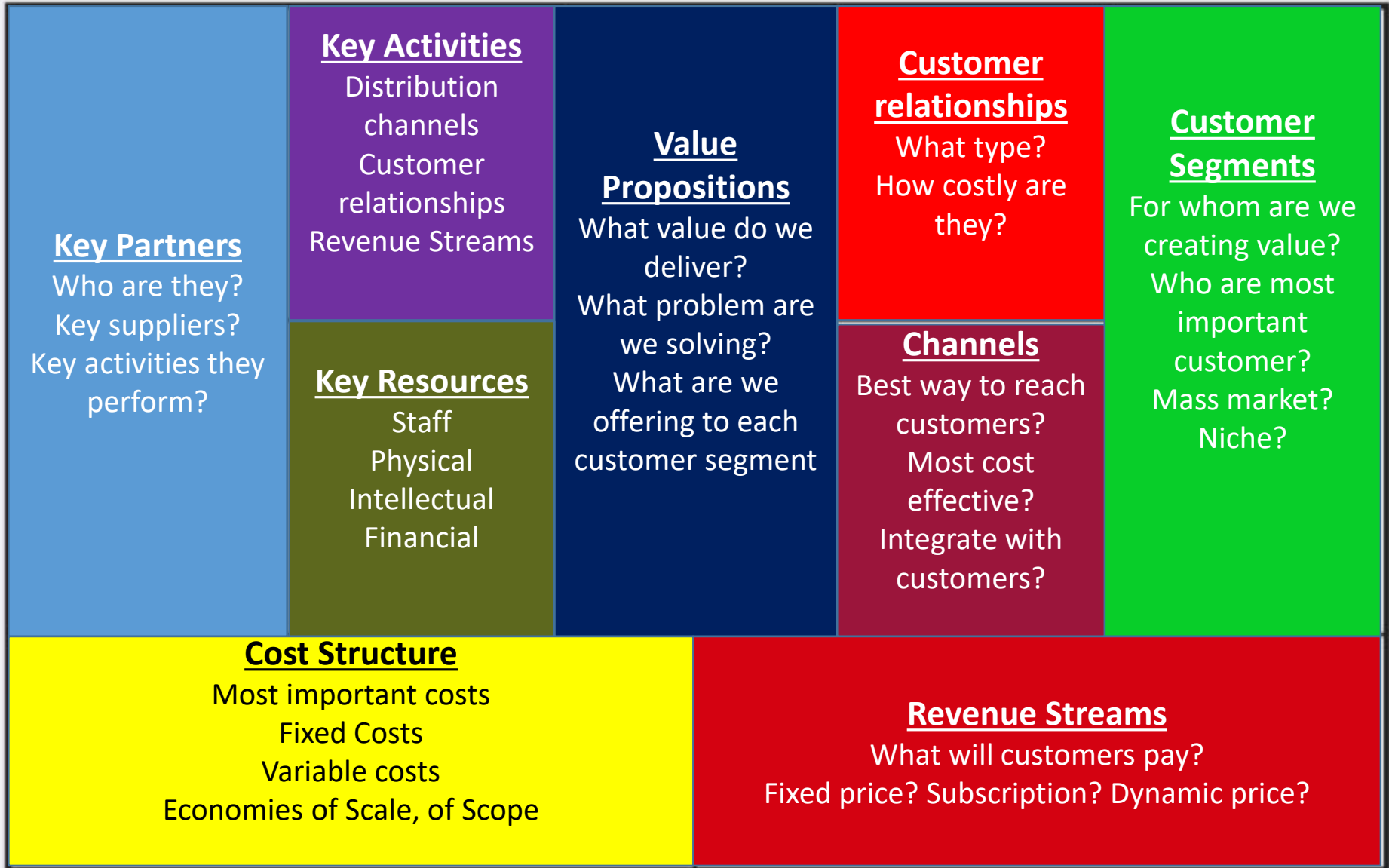
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



- <http://www.bing.com/videos/search?q=youtube+the+business+model+canvas&view=detail&mid=EBA1A2C994B2D98C541DEBA1A2C994B2D98C541D&FORM=VIRE>

Is my Business Investor Ready?

Remember the Investor looks at your business plan to learn about your business

But

is also looking to assess your understanding of the Market.



5 Pillars of Investor Ready Business Plan

- Many different business plan templates
- Range of business model tools and templates available online.
- Public and private investors have different templates and application forms that require you to provide information in the format they require.
- But the core information requirements I look for can be set out under 5 Pillars.



5 Pillars of Investor Ready Business Plan

1. The Offering – (Product or Service) – What are you Selling

2. The Team – Who are you, what is your experience in this market, who else is involved?

3. The Go to Market Strategy - Channels to Market

4. The Market Research – Who will buy?

5. The Financials – How much do you need, what are the milestones/tranches and how will you spend it?



1. The Offering – (Product or Service) – What are you Selling

- **Exactly what you are selling.** IP, Product, Service?
- **Value proposition - the Problem, the Solution**
- Stage of development; Prototype, Beta, Market Ready.
- Intellectual Property owned or needed.
Is the IP in your company?
- How will the product/service be made/delivered – manufactured, outsourced etc.

2. The Team – Who are you, what is your experience in this market, who else is involved?

Many Investors back the Jockey not the Horse.

An excellent Team and an average product will always do better than a weak team and an excellent product



3. The Go to Market Strategy - Channels to Market

- Are you a B2B or B2C ?
- Show you understand how the market works.
- Operational issues;
 - Localization,
 - Logistics,
 - Licensing,
 - Currency etc



4. The Market Research – Who will buy?

- What proof have you that customers will buy?
- Investors want to see that you have engaged the market and prospective customers/channel partners.
- Paying Customers add most credibility.
- If no customers yet, you need to
 - Speak with target users, target buyers, competitors



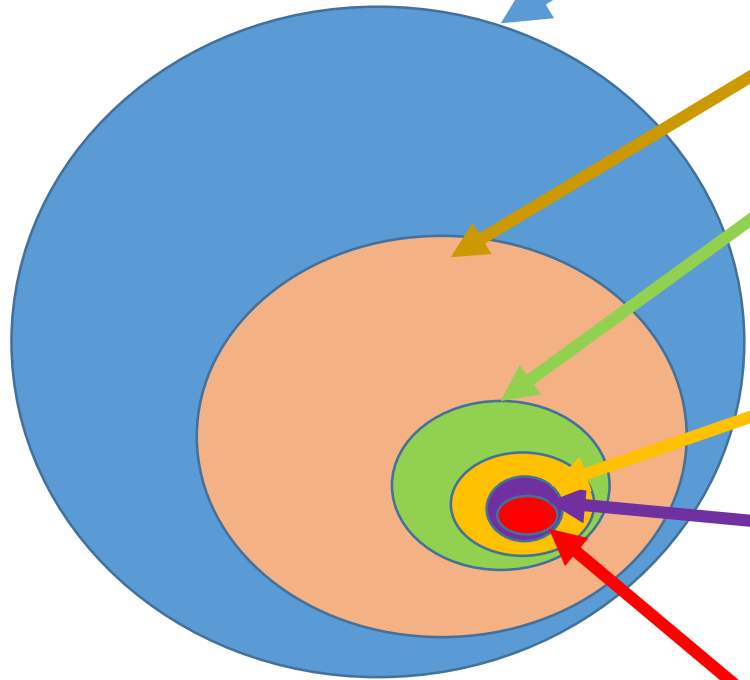
Be Clear on your Sales Projections

7 Levels of Market Research

Be Clear on your Sales Projections

Most early stage Business Plans focus on the first 2 or 3 levels

"We plan to win 2% of this 3 Billion Euro Market"



THE MARKET – Overall Global Market

Gartner, Frost & Sullivan etc, Estimates based on Number of Potential Users etc.

YOUR TARGET MARKET

The portion of the market that you will be focusing on to win business

YOUR ADDRESSABLE MARKET

The portion of your target market that you can get access to – based on plans, resources', etc.

TARGET CUSTOMERS

Names, contact details??

VALIDATED CUSTOMER PIPELINE

Who have you spoken to – what is their interest?

CUSTOMERS and Finally RECURRING CUSTOMERS

Investors want to see that you have actually spoken with and validated your target customers.

5. The Financials – How much do you need, what are the milestones/tranches and how will you spend it?

- **Understand the Financials**
 - Revenue Model – Pricing Strategies
 - Company set up and running costs – “Burn Rate”
 - Validated Sales Pipeline (if possible)
 - Salary for founders
 - Other investors, directors loans (subordinated)
- **Projections** - Typically 3 year sales projections.
- **Spend** - Cash flow / cash burn is key issue for first years
- **Funding Plan** – how much is needed and when.
- **Key Milestones** - Time and cost to get to first sales, then time and cost to get to breakeven.



Common & Avoidable Errors



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10 Common & Avoidable Errors

- 1. Approaching Investor too early (for money).
- 2. Not clearly explaining what you are selling.
- 3. Focusing only on the Technology/Product.
- 4. Not Speaking with Target Customers/strategic partners or Speaking to the wrong Customers
- 5. Poor competitor analysis [***Customer Decision not to buy is competition***]



10 Common & Avoidable Errors

- 6. Part-Time Entrepreneurs.
- 7. Preparing for a Pitch instead of Due Diligence.
- 8. “x% of Market”
- 9. IP not assigned to the company.
- 10. Not realistic about “giving away” equity.
 - *51% of a successful company is better than 100% of an unsuccessful company.*





Turning the Tables

Putting Yourself in the Investor's Shoes

Campus Ltd – Case Study



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EACH GROUP IS AN INVESTOR CONSORTIUM

- Review the brief two-page investment proposition (15 minutes).



- 4 Question

1. What is your view on our proposition?
2. What are the main questions that you have?
3. Is this project Investment-ready?
4. Give feedback to the founder



Contact:

Office Address

*Turkey in Horizon 2020 Project
And Sokak 8/12 Akasya Apt. 06680 Çankaya/Ankara
06520 Çankaya/Ankara, Turkey
Tel: +90 312 467 61 40*

<http://www.turkeyinh2020.eu/>
info@TurkeyinH2020.eu



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