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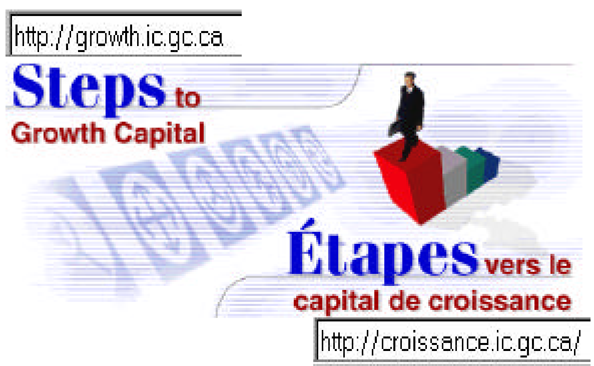
Fast Track to Growth Capital



Canada

Fast Track to Growth Capital
Executive Summary

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Introduction

"Be patient; plan, plan, plan; pull together the background data and information to support your case; develop and use your communication skills; and get out there and make contact." That's the advice of Chris Griffiths of Griffiths Guitars International*, a Canadian small-business entrepreneur who successfully found investors for his company.

If your company is the kind that interests investors, then Steps to Growth Capital can help you find equity investment for your company.

Finding Growth Capital: A Critical Path

Determine your financial needs.	• Develop your business plan. • Determine how much money you need to pursue the plan.
Consider alternate sources of financing.	• Review the types of financing available. • Build a financing package to suit your needs.
Show your investment potential.	• Find ways to convey to investors your potential for growth and profit.
Demonstrate management capabilities.	• Show that your management team can successfully manage the firm and pursue the opportunity. • Prove that your team is well balanced and that it can make the investment a real success.
Build an investment proposal.	• Write and structure an investment proposal that attracts investors. • Communicate your vision, your passion and your potential for growth.
Identify potential investors.	• Find investors you might approach.
Meet likely investors.	• Develop a strategy for approaching investors. • Contact, follow up and meet with potential investors.
Negotiate the deal.	• Develop your negotiating strategy. • Find a solution that satisfies both parties.

⬇

Close the deal.	• Bring the agreement to a successful completion. • Undertake and pass due diligence process.

Tip
Businesses That Attract Growth Capital

Investors are interested in companies that have:	✓
• a high potential for growth (through competitive advantage such as a new business model, new technology, or market leadership in an expanding market);	☐
• a strategic vision and solid business plan;	☐
• a strong management team;	☐
• an exceptionally high potential rate of return;	☐
• a way for investors to get their money out; and	☐
• a willingness to share ownership and control of the company with investors.	☐

If you have these things, then you're ready to pursue growth capital, and this Fast Track and our self-study guide can help. If you don't have these things, but still want access to growth capital, then read on to discover how to become more appealing to investors.

Take a Closer Look
Success in Attracting Growth Capital: Chris Griffiths

"Gaining access to private investment has not only given me the capital I needed to grow my business but has also brought along invaluable expertise to help me forge new directions for the future. While it was hard letting go of part of my company, **the growth we've realized since that time is far beyond what I could have achieved on my own**."*

When Chris Griffiths, owner of Griffiths Guitars International of St. John's, Newfoundland, invented a process for improving the manufacture of acoustic guitars, he went looking for venture capital. Chris shared his experience of the process of pursuing and getting venture capital with us, and we've included some of his suggestions and insights.

Previously Chris had built a one-man guitar repair shop into the largest custom guitar shop in Atlantic Canada with sales doubling annually and a full-time staff of 10. When he started on his new venture, he developed his new manufacturing process, prepared a business plan and began approaching investors. His company successfully obtained start-up financing and has continued to grow since then.

* All quotations used with permission of Chris Griffiths, Griffiths Guitars International, St. John's, Newfoundland, Canada.

Take a Closer Look

Advisors and Entrepreneurs

"**Don't feel you have to handle it alone.** Get your lawyer and advisors involved... [But] my main advice is 'know your plan.' You don't want to rely on someone else to put together the proposal and answer the questions."*

- **You'll need professional support.** People with specialized skills, such as lawyers, accountants, business valuation experts and financial advisors will play important roles in the investment process.
- **You, the entrepreneur, must be the key player or catalyst.** You should be prepared to spend a considerable amount of time at each stage of the investment process. You don't want investors to think that you don't know your stuff or aren't in control.
- **You can save money by using professionals as advisors or coaches.** You can benefit from the knowledge and ability of your advisors and control your costs if you use advisors as "coaches" throughout the process, consulting on issues only when required.

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Financial Needs and Performance

"**You can't just ask for a million dollars....** Writing a business plan is tough...it's very time consuming but it's critical. You simply won't get any further if you don't have an effective plan. It forces you to write your needs down exactly."*

Begin with a thorough, strategic business plan that projects your financial needs and performance into the future and answers these key investor questions:

- Where will you be in five years?
- How will you get there?

Preparing your plan, and accompanying financial data, can be time consuming. And it requires some special skills. Management and external advisors may be able to help in putting it together.

Forecasting

"I built a plan that required $3.5 million. People asked me if I could do it for less. So I needed the arguments to justify it."*

Investors will look very closely at your company's plan and projected financial statements to see if your business will generate an adequate return in a reasonable amount of time.
Your plan and financial projections must show, in detail, how you'll use the funds you get and how your company will perform over the next five years.

Determining Financial Needs

"**You need to identify ALL your costs.** It can be boring but I wanted to know my costs exactly. I interviewed employers to find out what salaries would cost, got the costs of phone lines and office equipment, checked out expected rent...."*

To finance your growth initiative, you'll need to know how much of each of these types of funds you'll need:

- working capital (for day-to-day, month-to-month operating costs);
- fixed costs (for equipment, buildings, etc.);
- special marketing costs (for advertising, promotions, etc.); and
- a financing cushion.

Projecting Performance

"You've got to justify the size of the market that you expect — and **investors are going to be very skeptical** about that."*

Investors will want evidence that you can really achieve the gains that you forecast. They'll be looking closely to see if:

- your analysis of expected future market conditions is convincing;
- the working capital needs, production capacity and personnel requirements you predict are consistent with the level of growth you forecast;
- the growth rate you forecast is reasonable for the market you're in; and
- your projections hold up under different economic and market conditions.
- Your investment proposal should include:
- annual projections for a period ranging from one to five years;
- a detailed monthly cash flow budget for the first year; and
- sensitivity analyses of your projections under different scenarios.

Action Items

See in the Appendix, the *Financial Needs Checklist* for help assessing what has to be done to determine financial needs.

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Financing Options

"**We remained very flexible about sources of financing**. Of course we looked at bank financing, angels and other venture capitalists. But we also looked to suppliers for terms that would help... **it's all financing**."*

Your business expansion will likely tap into all three major sources of financing:

- conventional external lenders (e.g. mortgages, operating lines of credit);
- internal sources of working capital (e.g. improved cash flow, reduced inventory, better terms from suppliers); and
- external risk capital investors.

External risk capital investors, who will invest by purchasing equity shares, include:

- angel investors;
- venture capital firms;
- institutional investors;
- labour-sponsored venture funds; and
- some government corporations.

Cost, Control and Risk

"Of course, I want to hold on to as much of the company as I can, but I'm willing to sell shares...I'd rather have 60% of a very large company than 100% of a small one."*

Risk capital sources will finance businesses that conventional sources won't touch. Risk capitalists will assume some of the risk of growth. But they'll only do so for a price — in financial return and in control.

When you consider different types of financing, the key questions are:

- How much will it cost?
- How much control will I have to give up?
- How much risk will I be exposed to?

Cost

Risk capital equity investment is:

- **more expensive** for the entrepreneur than debt financing (because the investor expects a high rate of return), but
- generally has a **low cash cost** for the company (because the investor will usually hold the equity for a number of years and then sell the shares in the marketplace).

Control

Equity financing involves a loss of control since equity investors will:

- be buying a portion of the company when they purchase shares;
- likely demand a presence on the board of directors; and
- probably want to be involved in management and decision making.

Not all entrepreneurs are ready to dilute their ownership — are you? Before you answer, consider that in many cases the investor's active involvement can be an important resource, providing management experience, industry contacts and other benefits.

Risk

When you take on debt, you're adding risk because you're committed to scheduled interest and principal payments. On the other hand, if you accept equity investment, the investor assumes some of your financial risk. At the same time, you assume another type of risk — the risk of losing too much control (e.g. selling too large a percentage of the company shares).

Action Items

See in the Appendix, our *Financing Options Checklist* to help you see how well you're doing in this area.

Investment Potential

Investors are looking for three things. You've got to show them how your opportunity will deliver all three:

- excellent growth potential;
- exceptional return on investment (up to 25% to 40%); and
- a way to get their money out.

Proving Growth Potential

Investors will look for evidence that you can really produce the growth you project. One effective way to show them what you can do is to provide a **situation analysis** of your company. Analyse your company's:

- external business environment — showing the threats and opportunities; and
- internal business operations — covering the strengths and weaknesses of all key business functions.

Measuring Return on Investment

To show investors what return they'll earn on their investment, you need to show them what your company is worth today — and what it will be worth in the future. The reason is, equity investors make their money based on the change in the value of the company. If the company's value increases, their investment value increases.

Measuring a company's value — called "**valuation**" — is a complex but critical process. You'll probably need the professional assistance of a financial advisor or business valuation expert to determine the company value.
Because the investor won't see any money until some years in the future, the best valuation method is one that assigns a present value to future earnings. The valuation method used most often for purposes of growth capital investing is called the **discounted cash flow method**. It determines a value by taking revenue forecasts and adjusting them to account for the risk the investor is exposed to and for the opportunity cost of using the money.

The specifics of your deal all hinge on the **valuation** of your company. The amount the company is worth will determine:

- how much investors will invest;
- how large a share they will get in exchange; and
- how much they are expected to make from the investment.

Getting the Investor's Money Out

Investors will be looking for assurance that they'll be able to get their money out of your company. You've got to include such an "**exit strategy**" in your proposal to show them how they can realize their investment. The exit strategy also affects how the valuation is calculated. Exit strategies for equity investment include:

- initial public offerings;
- sale of all the shares of the company;
- purchase of the investor's shares by a third party; and
- buyback of the investor's shares by the company.

Action Items

See in the Appendix, our *Show Your Investment Potential Checklist* to help you build a convincing case for your investment proposal.

Management Capabilities

"This is very critical...you need an exceptional management team to attract financing."*

Investors will look to see if your management team can implement your business plan and realize the investment potential.

They are *not* looking for an operation dominated by one person. Instead, they want to see a talented team with:

- a range of appropriate skills and experience;
- a solid track record in all key business functions;
- an effective structure;
- good communication, decision-making and consensus-building skills; and

- the ability to grow.

Assess Your Team

One of the key criteria for investors is that your team is able to take on the new challenges of growth. Assess your team's abilities and readiness for growth by comparing available skills to needed skills. You can do this using tools such as:

- management audits; and
- report cards of key management functions.

(For examples of these tools, see Step 4 – Demonstrate Your Management Capabilities in our self-study guide.)

Prepare for Investors

You'll have to provide investors with evidence of your team's readiness and competitive advantage. Be ready for tough, specific questions about each management function:

- marketing/distribution;
- production/operations;
- accounting/finance;
- human resources; and
- research and development.

"I built the proposal based on two things: first, that the people I want will come when the investment arrives; and second, that investors believe that if the people I want don't come, I'll be able attract the people I need."*

Strengthen Your Team

If your team is weak in some areas, start planning to improve it now. You can strengthen your team by:

- upgrading your managers' skills;
- hiring new people;
- modifying team structures and roles; and
- bringing in outside directors and advisors.

"It's challenging at first. There's a catch 22, especially for start-up companies, because you need an exceptional management team to attract financing, but you can't get them together without money."

"I courted people on one side while I was building my business plan and making contact with investors. But I was honest with them; I explained that I wasn't in a position to make a concrete offer. So it was challenging, for me and for them."*

Action Items

See in the Appendix, our *Management Capabilities Checklist* to help you assess your team, identify your competitive advantages and weaknesses, and prepare for investors.

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Investment Proposal

> "If I can't be creative in building my business plan and proposal, then I can't convince investors that I'll be creative in building the company."*

You need a concise and compelling proposal because it's what you'll use to grab the investor's attention.

The proposal is not the same as your business plan. The business plan is designed for an internal audience (namely your managers), to guide their work; the proposal is designed for an external audience, to sell your idea and raise the funds you need.

Investors want the proposal to give them an immediate understanding of:

- the terms of the deal;
- what makes the deal or opportunity unique;
- the balance sheet;
- the calibre of the people involved; and
- the characteristics of the company and the industry.

The Executive Summary

> "The executive summary does most of the selling."*

The executive summary must be brief and complete in itself. If it's successful it will encourage investors to read more. It needs to show them:

- how much they can expect to earn from the deal;
- evidence that your team has the skills to execute the plan;
- how they can protect their interest; and
- how they can realize their investment.

Getting the Investors' Attention

> "**I kept the needs of the investor in mind**, and I included graphics to explain the process because investors are not experts."*

The proposal needs to capture the investors' interest by providing them with the information they need in an attractive and easily understandable style. Pay close attention to the writing and visual presentation:

- Keep the writing clear and concise.
- Avoid jargon and explain technical information.
- Use graphics and formatting to help convey your message.
- Package the proposal so it's easy to read.

> "I know they'll read the first three pages and make a decision whether to continue, but by packaging the proposal creatively, I'd already made an impact."*

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A typical proposal contains the following sections:

- Executive Summary;
- Company and Ownership;
- External Environment;
- Product and Services;
- Management Team;
- Financial Plan;
- Financial Structure and Valuation;
- Operational Plans; and
- Appendixes.

Action Items

See in the Appendix, our *Investment Proposal Checklist* to guide your proposal preparation.

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Finding Potential Investors

Who are Potential Investors?

There are many different types of risk capital investors. Each one has different characteristics.

- **Love Money —** Family and friends are important sources of capital in the early stages of business development.
- **Angel Investors —** These individual investors may want to be silent partners, or they may want to be actively involved in the business by contributing their experience and know-how.
- **Venture Capital Firms —** These companies are managed by professional venture capitalists and typically have particular investment strategies or preferences.

- **Institutional Investors** — Pension funds, life insurance companies, banks and other institutions also provide risk financing.
- **Government-Backed Corporations** — The Business Development Bank of Canada and others provide equity financing as well as counselling, training and mentoring to small businesses.
- **Corporate Strategic Investors** — Major corporations sometimes invest in smaller companies when they're looking for strategic partnerships.

How Do You Find Them?

"I had already started contacting people while I was working on my business plan. I'd done years of networking."*

Networking

Let people know what you're looking for. Look for introductions or referrals from:

- business and personal acquaintances;
- professionals who serve your business; and/or
- a financial advisor with expertise in venture capital.

Valuable contacts can be made through:

- trade shows, conferences and investor forums;
- local Chambers of Commerce;
- industry associations;
- local and regional business development organizations; and
- investor associations.

"**The first time I saw our lead investor was at a meeting with 150 people**. When I heard he was going to be speaking, I registered for the seminar. Afterwards I introduced myself — **you can't be passive and wait at the back of the room** — I told him what I was doing and gave him my card. He probably doesn't remember it, but he was pleasant about it."

Media and Associations

Other possible sources include:

- the Internet;
- news articles on investment deals;
- professional and industry directories and listings; and
- local entrepreneurship centres or economic development units.

"When I contacted potential investors **I tried hard to get to know them**. I just stated my case in a very casual manner, I didn't try to pitch them. I tried to ask intelligent questions and get to know about them. That helps later on. Then I'd ask permission to forward my business plan in the future."*

Who Should You Target?

Find investors whose criteria match your situation. These are the key areas to look for common ground:

Stage of Development	Does your business's stage of development match the investor's criteria?
Capital Required	Does the amount you need fall within the investor's limits?
Industry	Does the investor have a preference for specific industries?
Geography	Is the investor located close to you?
Leadership	If you're looking to syndicate your deal, will the investor consider taking a leadership position?

Action Items

See in the Appendix, our *Finding Potential Investors Checklist* to help you find investors that are right for you.

Consult the Sources of Financing web site to identify possible contacts. (http://strategis.ic.gc.ca/sc_mangb/sources/engdoc/homepage.html)

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Investor Meetings

"You've got to anticipate their questions and put yourself in their shoes."*

The first meeting with your targeted investor is the opportunity for you to make your investment proposal come alive. During the meeting, the investor will be looking for your belief in yourself and in your product or service. And he or she will be trying to judge your credibility and integrity. It's also an opportunity for you to learn about your potential investor.

The Agenda

Usually only a small group of people — you and your advisors, your potential investor and the investor's advisors — attends this first meeting. The 30 to 60-minute meeting might include:

- your formal presentation;
- a question and answer period;
- preliminary decisions as to the next steps, if applicable; and
- a tour of the facilities, if the meeting is held at your location.

Preparing for the Meeting

"My main advice is **know your plan**. You don't want to rely on someone else to put together the proposal and answer the questions. I knew I needed to be able to answer questions about current ratios, supplier terms and exit strategies. So I educated myself, and because I wrote the business plan I knew the three key parts very well: marketing, production and financing."

The first meeting is not a casual affair. You've got to plan the meeting and your strategy very carefully. To help prepare:

- Send the investor your proposal before the meeting.
- Ask in advance what the investor's needs are.
- Consider the details: meeting room, equipment, dress.
- Rehearse your presentation.

"I spoke for 20 minutes and then **they asked some really brutal questions**. They asked me if I had run a company of this size before. And then they asked me what I would do if I couldn't run it well. Those are pretty tough questions."*

The Investor's Questions

Be prepared for tough questions. In fact, intense questioning can be a sign of stronger interest. The investor will be looking for answers to questions like these:

- Who are you?
- What's your track record?
- What's your commitment?
- Do you have a solid management team and, if so, who is in charge of what, and why?
- Are the assumptions used to project revenue growth reasonable?
- Does your company have a competitive advantage?
- Is there a viable exit strategy for this investment?
- How will the financing strategy influence the business strategy?

Your Questions

You should be looking for answers to questions like these:

- Does the investor believe that your financial projections are reasonable?
- Does the investor understand your specific requirements?
- Does the investor need additional information?
- Does the investor have access to the type and amount of capital you believe is needed to fund your project?
- Does the investor plan to take an active or passive role in the management of your company?
- Does the investor have the experience and the ability to work with your management team to improve your firm's operating and financial performance?
- Is the investor someone you could talk to about the challenges, opportunities and threats that face your business?

Action Items

See in the Appendix, our *Investor Meetings Checklist* to help you prepare to meet potential investors.

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Negotiations

"Be open minded and be willing to ask questions."*

The Term Sheet

Negotiations will begin seriously when you receive a "term sheet" from the investor. This is his or her response to your proposal, covering the main elements of the deal:

- how much the investor will invest;
- how much of that investment will be in the form of equity (shares) and how much will be in the form of a loan;
- details about the shares and/or loan, such as type of share, when dividends will be paid, or terms of loan repayment; and
- what features the investor wants to see in a new or revised shareholder agreement.

What's on the Table

"I had a feeling for how much I was willing to give up. It's one thing to ask about the future value of money and revenue projections and all that... But at the end of the day, **investors want to take a big enough piece so that you feel the pinch, so you take their involvement seriously**."*

Price	The value of the business and the amount the investor will pay, and the share of the business they acquire are central to the negotiation.
Control	Investors will be looking for ways to control their investment, such as representation on the board of directors or some type of involvement in decision-making. You as the entrepreneur have to decide how much control you can give up.
Performance Measures	You need to decide what measures and targets for success that both you and the investors accept, and then you need to hammer these out (e.g. sales volumes, cash flow levels, debt repayment).
Exit Strategy	You'll need to determine how and when the investor will be able to take his or her investment out of the business (e.g. sale of the company, initial public offering, share buyback).
Employment Contracts	Contracts to ensure that key players keep their positions may be part of the financing agreement.

A Negotiating Session

"Don't feel you have to handle it alone. Get your lawyer and advisors involved."*

A good approach to a negotiation meeting is to proceed along these lines:

- Open the discussion — Briefly state the differences you see between the investment proposal and the term sheet.
- Focus on interest and goals — Discuss your interests and listen to the investor's.
- Find common ways to calculate financial elements — Some differences may be due to different assumptions or approaches in financial calculations. Try to get some clarity and consensus on these. Seek expert advice, if necessary.
- Create alternatives to benefit both parties — Stay flexible and look for alternatives. Reserve time to explore possibilities and be creative about solutions.
- Keep the future in mind — Be sure any deal you make leaves you with options for raising more funds in the future if required.
- Hold multiple negotiating sessions — Use the breaks between meetings to develop alternatives, analyse the investor's position and get additional information to support your goals.
- Don't negotiate over the phone.

"**Don't get caught up in the speed of it all**, in thinking it all has to be done in a 25-minute conference call…. I slowed down the deal and made each part separate: the offer and the counter offer were separate meetings, and I had consultations with my lawyer and advisors between each."

See in the Appendix, our *Negotiations Checklist* to help you prepare to negotiate with investors.

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Closing and Due Diligence

Assess the Deal

Take a good look at the deal from these standpoints:

- Your company's future — Is this the best thing for you and the company, now and in the future?
- Financial needs and goals — A good deal will be good for the financial health of the company, and it won't limit your ability to raise capital in the future or to embark on other ventures.
- Trust and chemistry — This is going to be a long term relationship, so be sure you feel you can build a profitable and constructive partnership that will stay strong, even if the business hits a rough patch.

"This stage can be very taxing, especially the first round of financing, because everything has to be negotiated. Moving from the two-page summary term sheet to the nitty-gritty details of the 100-page shareholders agreement can be tedious and difficult."

Scrutinize Legal and Other Obligations

Be sure to consider:

- Legal issues — Be sure you understand the legal implications of the agreement, such as what representations and warranties the company is prepared to give, the composition of the board of directors, the dividend policy, compensation arrangements, etc.
- Government regulations — Have your lawyer check that all applicable regulations, restrictions and registration requirements are considered.
- Existing contracts — See what effect the deal will have on existing contracts, such as licences, employment contracts, supplier contracts or bank loans.

"Sometimes there's a gap between what you agreed to on the term sheet and the detailed terms. That needs to be hashed out, and you've got to be rational and patient."

Due Diligence

Before closing the deal, the investor will conduct a due diligence review to verify your information and to obtain more data, if necessary. Every investor will perform the due diligence review differently. Some will have advisors (usually from large accounting firms) to perform the task, whereas others, often angels, will handle it themselves.

A due diligence review will usually include a detailed look at these main elements of your business:

- Financial Review — your company's financial status;
- Management Review — your management team's capabilities;
- Market Review — your marketing plan and activities; and
- Operations and Technical Review — your equipment, plant and processes.

"It takes a long time to build the shareholders agreement. But then one day you sign a few pieces of paper and a cheque arrives."

Build and Maintain Good Relations With Investors

It's important to remember that the closing of a deal is the beginning of a relationship. For that relationship to flourish, you need good communication and trust.

You should aim for a higher level of communication with your investor than what is required by your agreement. Make sure the investor gets all relevant information in a timely manner and is included in decision making.

See in the Appendix, our *Closing and Due Diligence Checklist* to help you think ahead to the closing of your deal.

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Appendix

Checklist – Financial Needs (see Step 1)

	Status?	Target Date?	Responsibility?
Develop a business plan, including mission statement, objectives and plans to achieve those objectives.			
Assemble a team to carry out the plan and make your company "investor ready".			
Prepare financial statements with projections based on your objectives and plans.			
Prepare annual projections ranging from one to five years and one year's monthly cash budget.			
Determine your financial needs (e.g. working capital, fixed assets, marketing costs, and financial cushion).			
Formulate your company's financial objectives for liquidity, leverage, management and profitability.			
Examine the assumptions that underpin your financial projections and working capital needs; look at these assumptions from all perspectives.			
Produce several financial scenarios to determine how changes in these assumptions would affect the company's projected profit and cash flow.			
Calculate your company's break-even point.			

Checklist – Financing Options (see Step 2)

	Status?	Target Date?	Responsibility?
Prepare your financing needs and financial projections so you can use them as a basis for discussion with possible investors.			
Meet with your bank and other conventional sources of financing to determine how much funding you can expect from them.			
Consult with an investment advisor and legal counsel on funding options available to you.			
Investigate if your company is eligible for government assistance through tax credits on research and development, or other sources.			
Consider your funding from a contractual and operational point of view.			
How much should be funded: • internally? • through conventional external sources? • through risk financing?			
How much should be funded with: • debt? • equity?			
Consider the pros and cons of: • equity participation; and • subordinated debt investment.			

Checklist – Investment Potential (see Step 3)

	Status?	Target Date?	Responsibility?
1. Review the key conditions investors are looking for.			
2. Conduct a situation analysis of your company and its environment. • Examine your internal operations to identify strengths and weaknesses. • Consider all key operational areas: o management o marketing o production/manufacturing o finance o human resources o distribution/delivery o research and development • Examine your business environment to identify opportunities and threats. • Consider: o economic environment o industry characteristics o market dynamics o competitive climate			
3. Determine the value of your business for purposes of attracting investors. • Calculate the discounted cash flow value. • Determine the investor's expected rate of return. • Consider the equity share you'll be selling.			
4. Determine the exit value for the type of exit strategy you've chosen.			

Checklist – Management Capabilities (see Step 4)

	Status?	Target Date?	Responsibility?
Management and Company Performance			
Take stock of your company's track record and consider how best to present it to an investor.			
Identify the key functions that need to be managed in your business.			
Assess your management strengths and weaknesses in each of the key areas. (Use a Management Audit Tool or other method.)			
Prepare "report cards" on each of the important management functions.			
Prepare for investors' questions in each of these areas.			
Compare the management skills you have with those you need on a grid.			
Strengthen your management team through training, hiring, realigning roles, or adding expertise through a board or through advisors.			
Competitive Position			
Assess your overall competitive strength relative to your competitors.			
Develop strategies for managing areas of weakness more effectively.			
Be prepared to explain to investors your competitive position and the strategies you are using to improve it.			

Checklist – Investment Proposal (see Step 5)

Have you...	Status?	Target Date?	Responsibility?
assigned an Editor-in-Chief to take charge of the overall production and quality of the proposal?			
assigned your most knowledgeable team members to prepare the appropriate key components of the proposal?			
considered how you will gain and keep investors' attention with your proposal?			
thought about how you can draw on the written company information you already have to build your investment proposal?			
prepared an executive summary that provides a compelling, attractive snapshot of the rest of your proposal?			
included the key components that a successful investment proposal should have?			
ensured the proposal is written in attractive, straightforward language?			
paid attention to the details of appearance and presentation that will make your proposal look like a highly professional effort?			

Checklist – Finding Potential Investors (see Step 6)

	Status?	Target Date?	Responsibility?
1. Consider what kind of investor you should look for.			
Determine what types of investors are interested in companies at your stage of development.			
Review your funding requirements to see how they match up with the profiles of various investor types.			
Decide what type of investor is best for you in terms of: • industry experience; • location; • investment leadership, syndication; and • level of involvement in management.			
2. Find potential investors.			
Use your own networks, professional groups or associations, business contacts, economic development organizations, and so on, to identify potential investors.			
Use professionals, such as financial advisors, lawyers and accountants with venture capital experience, to help identify prospects.			
Investigate online resources for identifying and linking up with appropriate investors.			
3. Assess and rank the potential investors you have identified.			
Get an understanding of investors' criteria, particular interests and previous track record of investments.			
Use a ranking system to match your needs with the potential investors' criteria.			
Choose the "best fits" for your company to approach.			
4. Review your short list of prospects.			
Prepare a list of questions you would like to ask potential investors.			
Do research, ask among your contacts or make personal contact with possible investors to learn more about them.			
Look into the reputation, level of commitment and personal styles of investors you are thinking of.			

Checklist – Investor Meetings (see Step 7)

	Status?	Target Date?	Responsibility?
1. Look creatively and widely for potential investors, through: • personal referrals • social and industry gatherings • formal letters • "cold calls" • networks, professional groups or associations, business contacts, economic development organizations, and so on.			
2. Anticipate the first meeting. • Begin developing and rehearsing your presentation. • Organize yourself in advance: agenda, location, equipment, handouts, etc.			
3. Consider two points of view: the investor's and yours. • Anticipate the investor's needs. • Identify you own questions and issues for the meeting.			
4. Manage the meeting effectively. • Remember to follow through on your preparations. • Be observant and respond to the investor's reactions. • Carry out a post-meeting assessment with your team.			
5. Anticipate and understand the due diligence review. • Expect the investor to begin due diligence early. • Be open, not defensive. • Recognize that due diligence is a positive sign.			

Checklist – Negotiations (see Step 8)

	Status?	Target Date?	Responsibility?
Put in the time to prepare. • Investigate the other party. • Know your own position thoroughly.			
Use an advisor to increase objectivity, facilitate communication and bring you negotiating expertise.			
Determine your bottom line on all key elements of an agreement: • price; • amount of capital invested; • control (including management responsibilities and board of directors); • performance measures; • exit strategy; and • other.			
Consider what the investor will likely accept on these key elements. Look ahead for common ground.			
Develop a strategy for handling negotiation over price (consider the investor's background and how you present your price).			
Prepare yourself and your team for negotiation sessions by reviewing guidelines on what to do and what to avoid during negotiations.			
With legal assistance, pay careful attention to the shareholder agreement that will define many of the key elements you've negotiated.			

Checklist – Closing and Due Diligence (see Step 9)

	Status?	Target Date?	Responsibility?
Take a careful look at the deal that is on the table, considering: • your company's future; • the financial arrangements and their effect on your company; and • the level of trust and positive chemistry you feel underlie the deal.			
Have an outside expert or advisor review the deal with your interests in mind.			
Review legal and contractual obligations: • go through the legal agreements with a fine-tooth comb, and with expert advice; • review government and regulatory requirements; and • consider the effects of the deal on existing contracts.			
Prepare for the due diligence review, assembling necessary documents and support for: • financial review; • market review; • management review; and • operations and technical review.			
Conduct your own review of the investor.			
Work toward establishing a good ongoing relationship with the investor.			