

Contents

Introduction to Investment World

Raising Equity and Debt

Raising Grant Capital

Crowdfunding

Investment Readiness

Re-cap



Having a Credible Business

- Having a credible business model
- Having the necessary track record – eg. For raising certain types of equity, you need to demonstrate demand and that unit economics work
- Having a strong and credible team
- Having the appropriate documentation in order - grants: applications, equity/debt: BP and financials

Understanding the Market and the Process

- Understanding the stage of your company
- Understanding the type of capital that you need and how much capital you need
- Understanding what you want to do with the capital and your growth plan
- Understanding the investor network, and the type of investors that would be a good match (including understanding their return expectations)
- Understand how to approach investors
- Understanding and being prepared for Due Diligence

Grant vs Equity vs Debt

From a Capital Providers Perspective

EQUITY

- Returns through growth & value
- Take ownership of the company
- Invest & Exit (3 – 5+ years)
- IRR – 20%+
- Interested in only SCALE, SCALE & SCALE

DEBT

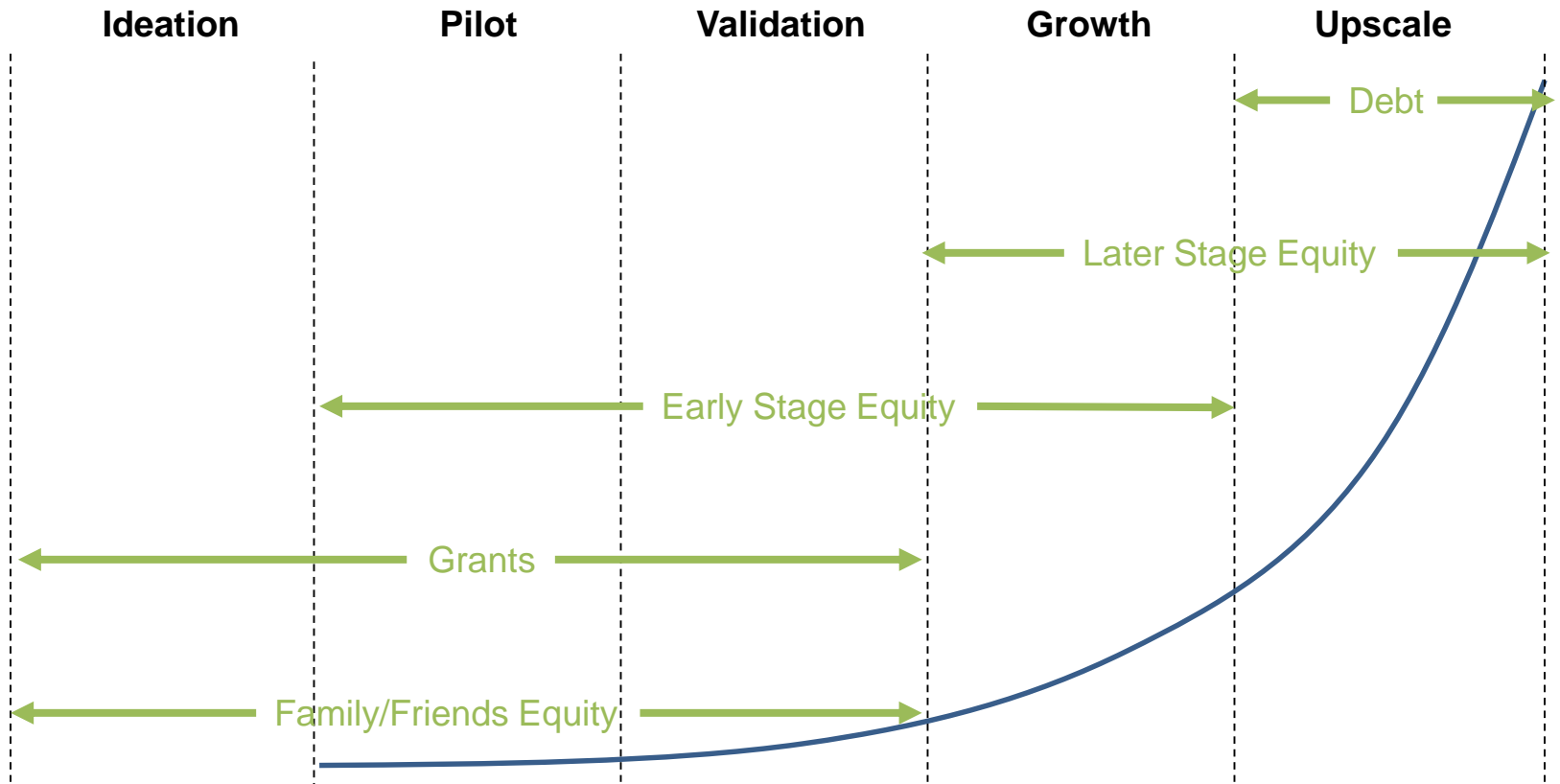
- Returns through interest
- Fund cash flows
- 3 years of operating history
- Interested in only CASH, CASH & CASH
- Inventory / Working Capital
- Business model proven

GRANT

- Returns through social impact, helping solve a problem, or creating a market – systemic change
- Investing in high risk businesses, hence reducing risk for future investors
- Required to do pilots, prove a business model

Company Lifecycles/Stages

Their focus can also vary significantly



Raising Equity

What does raising Equity mean?

Overview

➤ **What does selling Equity/Shares mean?**

- Selling a part of your company
- Giving up control (or part of control) to the investor

➤ **Why sell Shares?**

- You don't have enough money and your business is not yet commercially sustainable
- You need money to grow your operations - Organic growth will be slow / take too long
- Better to have 10% of a \$10 million company than 100% of something worth very little
- Investors can also bring experience and human capital to help grow the business

➤ **How should I choose an investor?**

- You want '**Smart Money**'
- It's like **getting married**
- Choose an investor that shares a common vision/beliefs in the business

Types of Equity Investors

Angels | Seed Stage | VCs | IPO

➤ Angels

- Idea Stage
- Very small investment (\$25k – \$200k)
- Family/Friends

➤ Seed Stage Investor

- Need some proof the model is working
- Smaller investment (\$100k – \$500k)

➤ Venture Capitalists (VCs)

- Larger investment (\$500k – \$10m)



Private Equity

➤ Banks (debt)

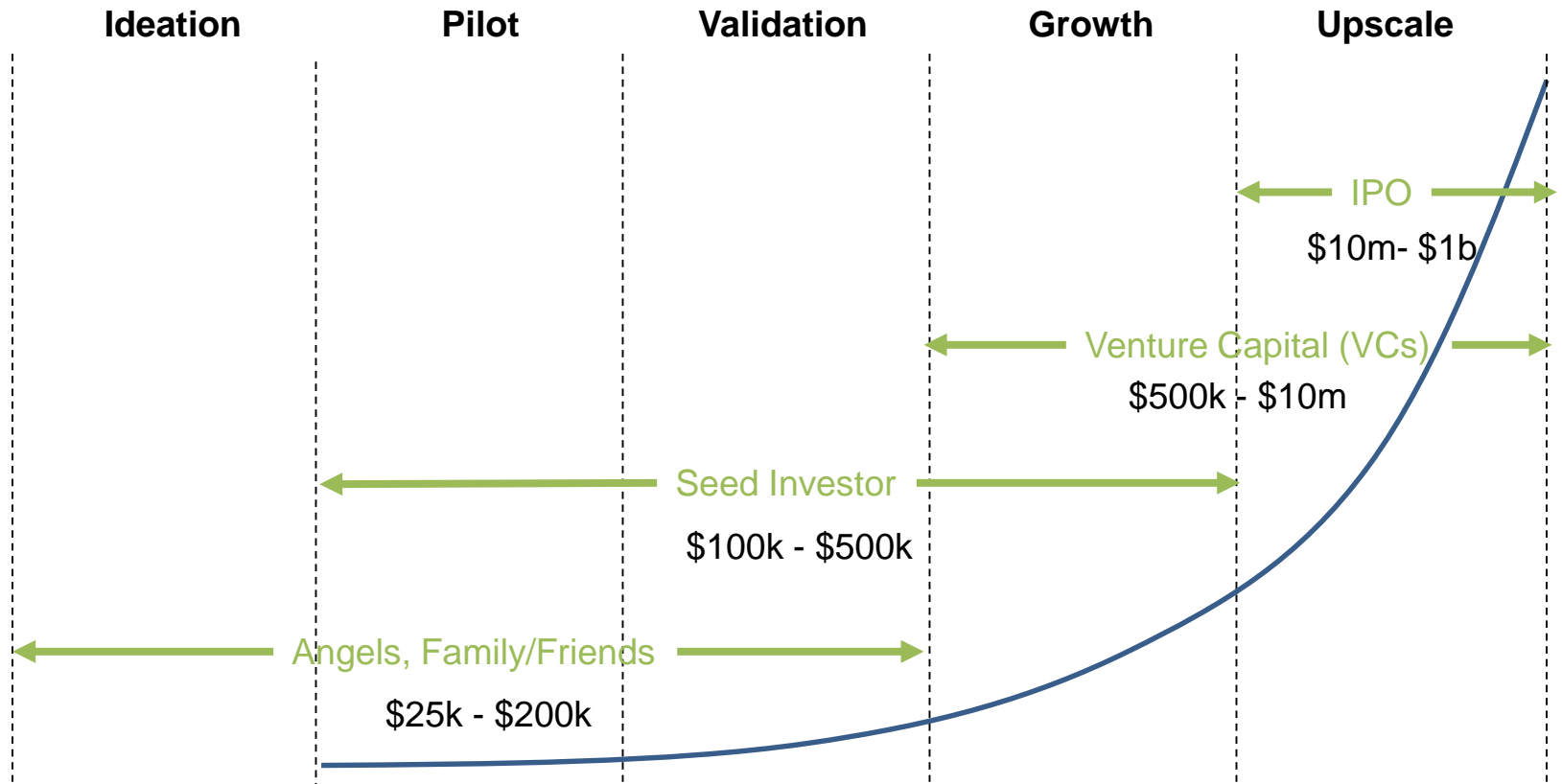
- Need operating history

➤ Retail Investors

- Initial Public Offering (IPO)
- Public equity

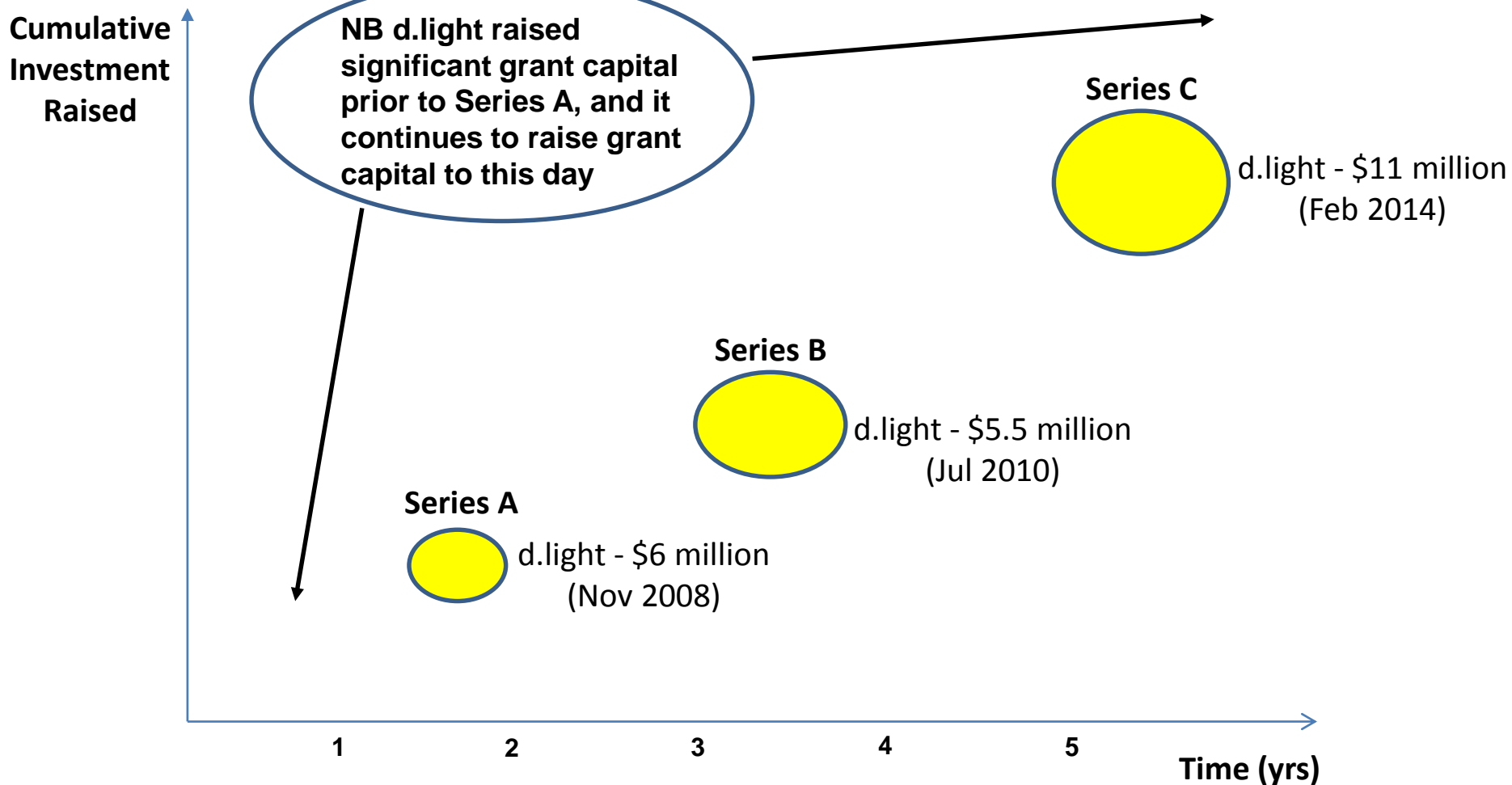
Investment Lifecycle

Angels | Seed Stage | Venture Capitalists | IPO



Investment Lifecycle

Equity Raising (Multiple Rounds)



Types of Equity Investors

Early Stage Investors

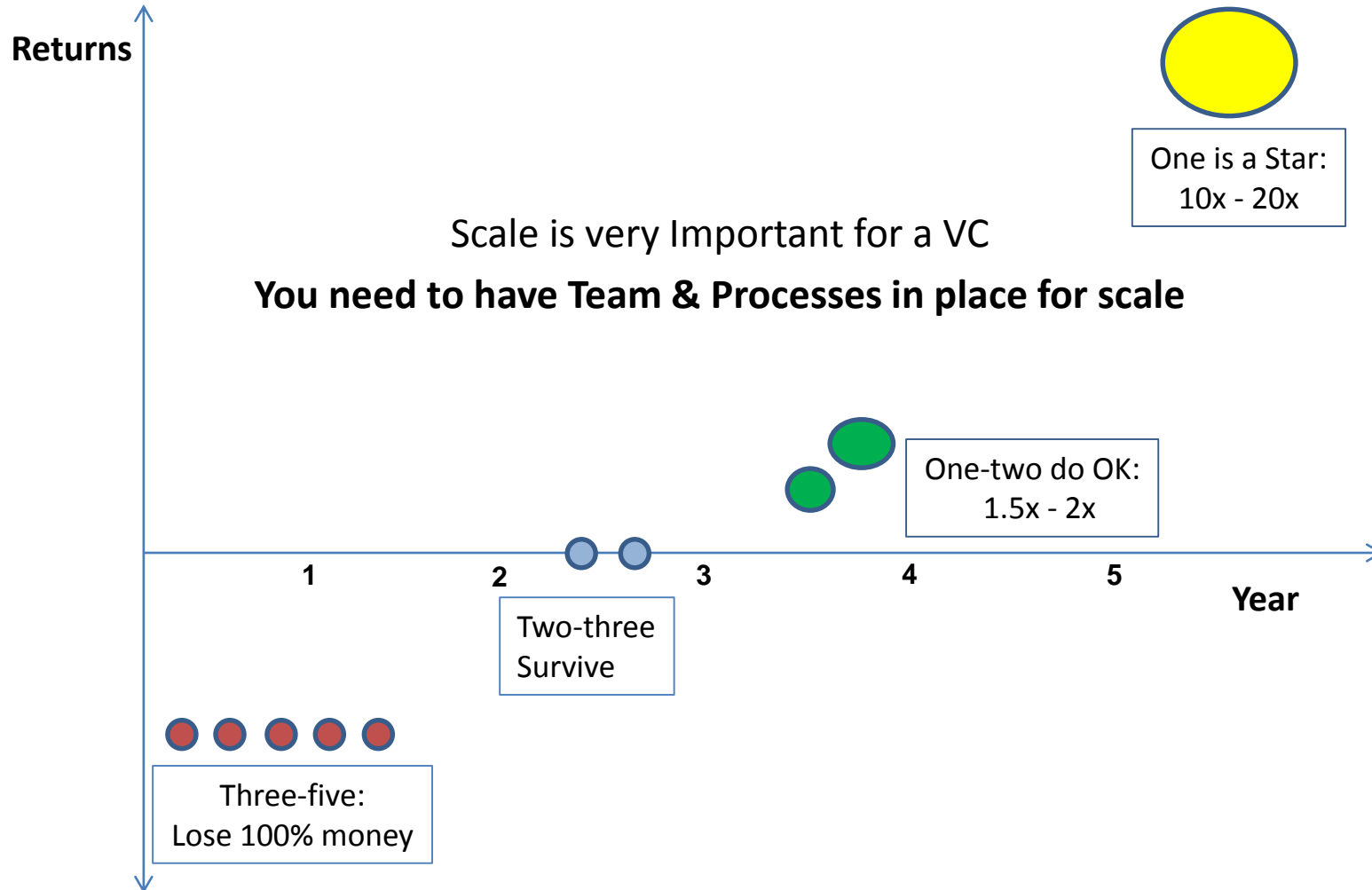


Later Stage Investors



Venture Capital Model

Invest in ten companies



Investors Perspective

Overview 1

➤ Risk/Return

- How risky is the company?
- What is special/unique about the company?
- What are the expected returns? Are these realistic?

➤ Competition

- Can the model be easily copied by competition?
- Is there enough room for multiple players in the market?

➤ Customers

- Who are they? Can they pay?
- How big is the demand for the product?
- How big is the market?

➤ Scale

- How big can this company get? How fast can they scale?
- Do they have the necessary systems and processes in place?

Investors Perspective

Overview 2

➤ **Team/Execution Capability**

- How good is the team?
- What is their experience? What is their background?
- Are we confident they can execute their proposed business/growth plan?

➤ **Impact**

- What is the company's 'Theory of Change'?
- What are their indicators and metrics?
- What has been their social and environmental impact to date?
- Will the company have significant social and environmental impact in the future?
- Do they already have systems in place to track and monitor the impact?
- Are their strong governance structures in place?

➤ **Exit**

- How will we get our money back?
- Who might be interested in acquiring the company?
- What are other realistic exit opportunities?

Investor Concerns

Feedback from investors

➤ **Management Team**

- Perceptions of management team capabilities
- Inexperience in East Africa or with previous successful start-ups
- Management Team not based in country of operation
- Quality of education / limited skill sets

➤ **Proof of Concept:**

- Concept/business model not proven, sometimes due to very early-stage capital cap
- Competitive advantage of technology/business model not demonstrated
- Weak understanding of the market, and of consumer demand

➤ **Consumer Willingness-to-Pay:**

- High upfront costs and no strong end-user financing/distribution model

➤ **Importance of Returns:**

- Investors seek market-rate returns
- Energy companies serving BOP that survive over long term (typically ~10% of start-ups) will deliver even concessionary rates of return

Key Risks

How to mitigate them



- Develop the product
- Show the product working

- Sell the product
- Have paying customers
- Show demand for the product

- Have a good team
- Complimentary skillsets
- Show work done on the ground

- Have barriers to entry
- IP / Patents
- First mover advantage

- Get the licenses
- Understand the rules & regulations
- Follow them

Successes and Failures?

Who in the room is willing to share examples of why they have / have not been successful with raising equity?

Raising Debt

What does raising Debt mean?

Overview

➤ What does raising debt mean?

- Getting a loan from a bank/debt provider
- You need enough cash to re-pay the loan (principal and/or interest) – Cash is King!
- If you don't have enough cash, you need to sell assets, or the company goes bankrupt/insolvent

➤ Use of debt

- Working capital (short-term) or new assets (long-term)

➤ Why raise debt?

- Usually cheaper than equity
- You do not give up control

➤ What does a debt provider need?

- Typically, 3 years operating history + Cash flows for last 3 years
- Audited financial statements (Balance sheet, Income Stmt & Cash Flow Stmt) for 3 years
- Business Plan & Financial model

Types of Debt

Overview

➤ Secured Loan

- Debt is secured against an asset
- Also called pledging a collateral
- If you fail to pay, the bank gets the asset

➤ Unsecured Loan

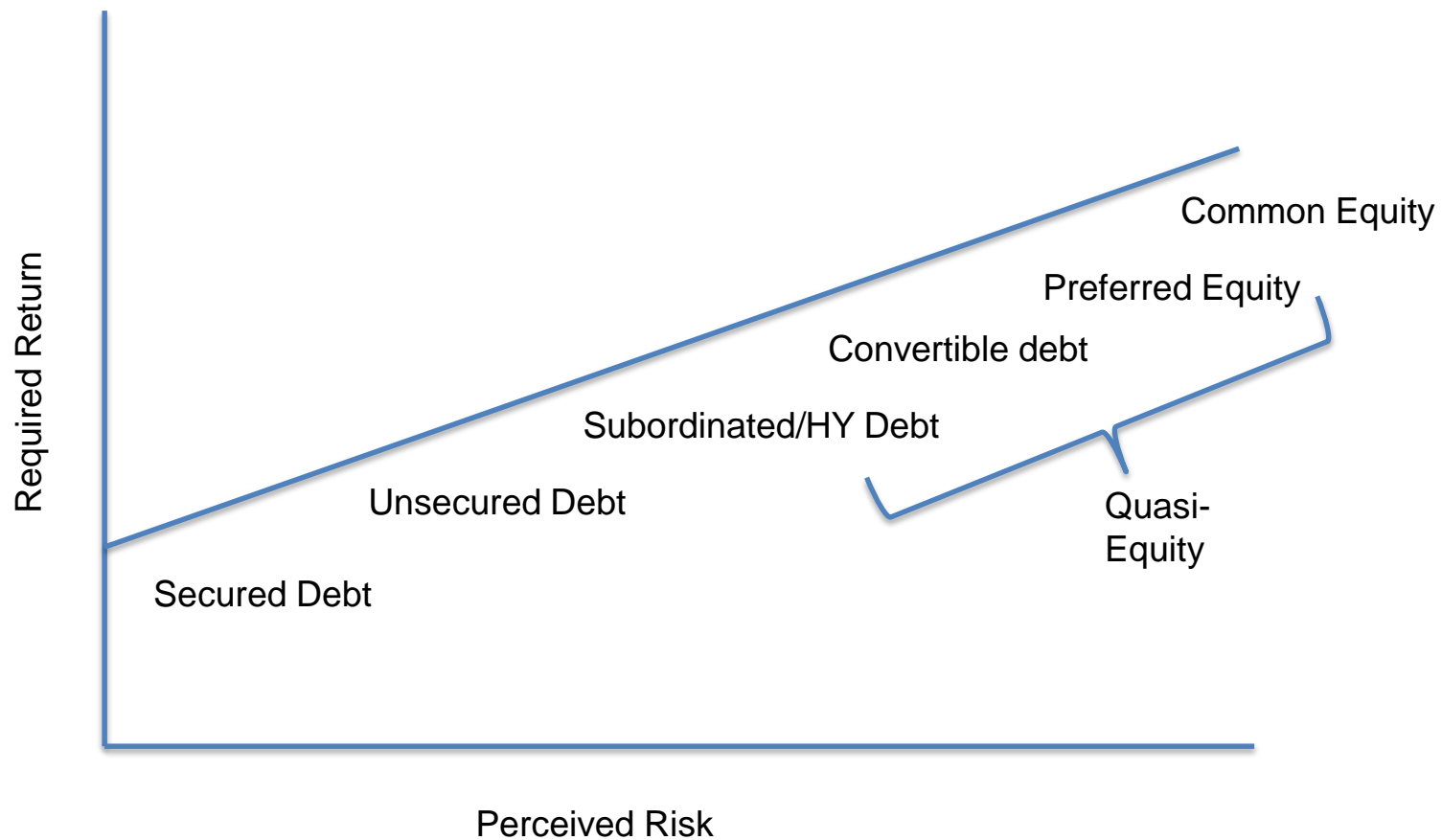
- Repayment of debt is not tied to any collateral
- Risk is higher, as the lender has no security, therefore higher interest rate!
- Impact investors tend to give unsecured loans / soft loans

➤ Sub-ordinated debt

- This debt has lower priority than other debt
- In case of bankruptcy, lender will get paid after all other debts get paid
- Usually provided by organizations/foundations to encourage local banks to lend
- Sub-ordinated debt, however, still has higher priority (ie is lower risk) than equity

Risk Comparisons

Debt to Equity



Types of Debt

Based on Duration

➤ Long-Term Loan

- Long-term loans are used to buy Assets
- The loan period can be anywhere from 5 years to 20 years
- Capital provider typically wants to see 3 years operating history & cash flows
- Capital provider also wants to see the business plan, DPR (Detailed Project Report) and other project related documents
- Harder to raise than Short-Term loans

➤ Short-Term Loan

- Short-term loans are used to finance working-capital
- The loan period is usually less than 1 year
- Capital providers typically require operating history of last 3 years and cash flows
- Can usually fund 20-30% of your cash flows (max 50%)
- Easier to raise than Long-Term loans

Convertible Debt/Note

Overview

➤ Features

- Debt which has the option of converting into equity
- Also called quasi equity
- Ideal for early stage companies where valuations are difficult, ie revenues are low
- Gets converted into equity at a pre-defined event

➤ Advantages

- No need to value company at this early stage – something that can be very difficult
- Less risky than pure equity - paid out before (but more risky than regular debt)
- Investor sees upside if the company performs well. If not, investor can eg reclaim principal

➤ Who provides

- Family & Friends
- Foundations that support early stage companies
- Impact Investors

Cost of Debt

Overview

Name	Interest Rate	Comments
Local Banks	20 % - 25%	Loan in Local Currency (Ksh)
Local Banks (KCB/Standard Chartered)	8% - 10%	Loan to be raised in USD
SunFunder	10% - 15%	Crowdfunding platform (loans) to entrepreneurs for solar products
responsAbility	12%	Working capital loans (\$500k - \$2m)
Alpha Mundi	10% - 14%	No collateral/low collateral funds for developing countries (Africa/Latin America)
KIVA	0%	Crowdfunding platform; need to show impact
GroFin	Market rates	For SMEs in Africa

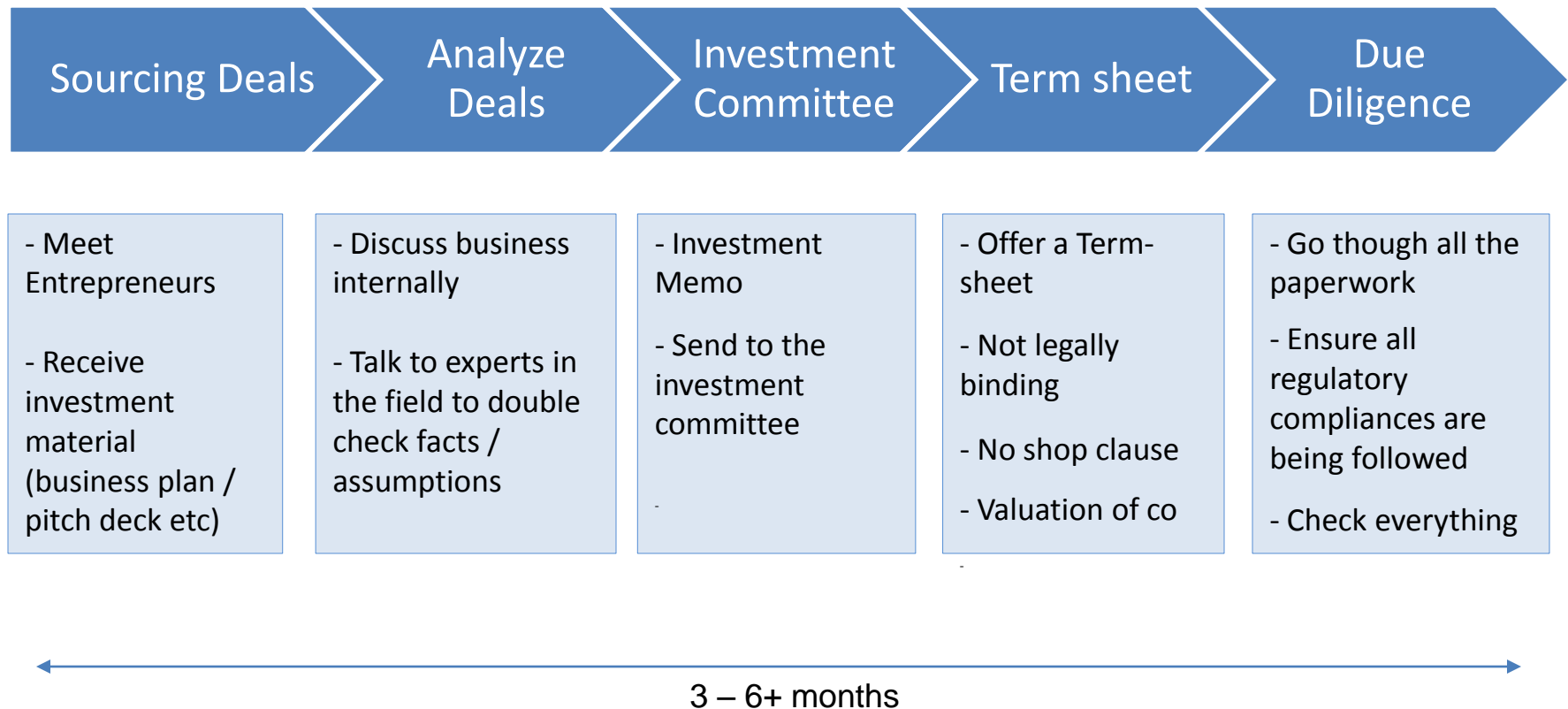
Successes and Failures?

Who in the room is willing to share examples of why they have / have not been successful with raising debt?

Investment Raising Process

Investment Process

Overview – From an Investor’s Perspective



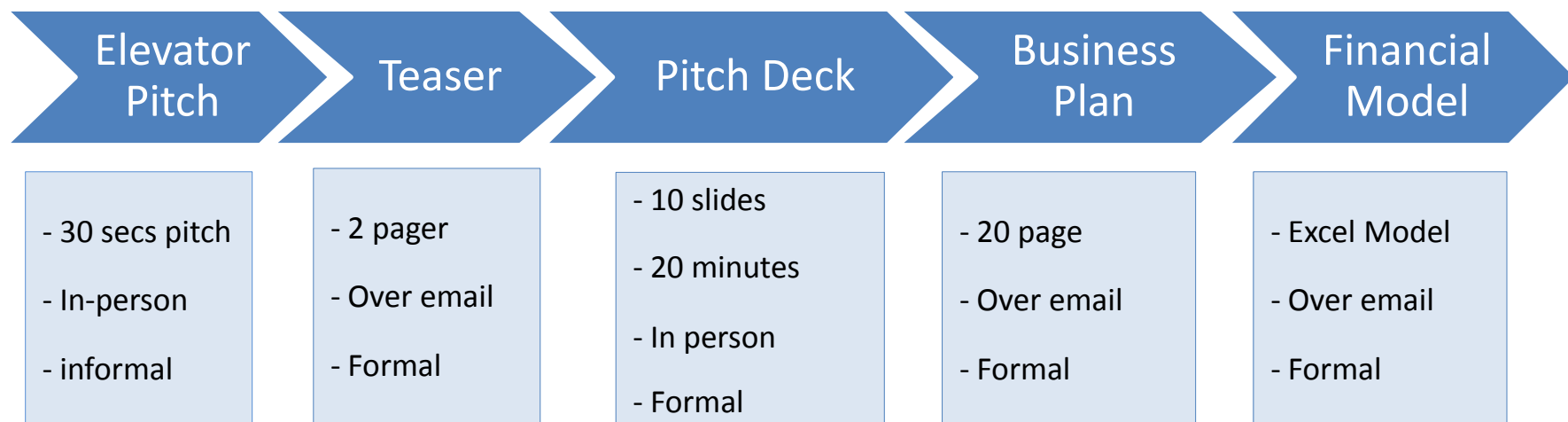
Documentation

Raising equity

- NDA
- 2 pager
- Powerpoint presentation/Pitch Deck
- Business Plan and Financial Model
- Due Diligence documentation
- Indicative Term Sheet
- Final Term Sheet
- Contract (Shareholder Agreement, Sale Purchase Agreement, Investors' Rights Agreement, etc.)

Approaching Investors

Documentation Required



Pitching to Investors

Teaser

S.No.	Topics	Description
1.	Title	The title slide should have your business name, your name & contact details
2.	Problem	Explain what problem you are trying to solve and why is it important. Market Size
3.	Solution	Describe your solution and how it solves the problem
4.	USP	What's your magic sauce? What's so special about you or your idea?
5.	Team	Who is on your team? Include pictures The team should be able to deliver
6	Status/Milestones	What have you achieved so far? What would you like to achieve in the next few years?
7.	Investment/Returns	What is the investment amount required & the expected returns?

Investment Teaser

Group Exercise

1. Get into groups of twos
2. Review the Investment Teaser of the other person
3. Give it a rating out of 10
4. Summary Slide of Strengths & Weaknesses of the Investment Teasers you have reviewed

Pitching to Investors

Pitch Deck

S.No.	Slide	Description
1.	Title	The title slide should have your business name, your name & contact details
2.	Problem	Explain what problem you are trying to solve and why is it important. Market Size
3.	Solution	Describe your solution and how it solves the problem
4.	Business Model	How are you going to make money? Who is going to buy your product/service, how will you distribute it etc?
5.	USP	What's your magic sauce? What is so special about you or your idea?
6.	Competition	Provide the competitive landscape

Pitching to Investors

Pitch Deck

S.No.	Slide	Description
7.	Management Team	Who is on your team? Include pictures The team should be able to deliver
8.	Roadmap	What are your key milestones? What will you achieve in year 1, year 3 & year 5?
9.	Financials	Give a 3-year to 5-year projection showing number of customers, revenues, costs, profits etc
10.	Ask	How much money are you asking for and what will it be used for & what are the financial returns (IRR/Breakeven)?

Writing Business Plan

Overview

➤ **What is a Business Plan?**

- Blue-print of your business
- Vision/Mission of the business
- Honest assessment of your strengths/weaknesses
- Plan of action – milestones
- Identify who your customers are and how will you sell to them
- Identify key risks for your business
- Competition & size of the opportunity
- Developed hand in hand with a financial model

➤ **Purpose of a Business Plan?**

- Help you plan
- Clarify direction
- Future Vision
- Attract Funding

Writing a Business Plan

Business Plan Template

S.No.	Topics	Description
1.	Cover Page	The cover page should have your business name, your name & contact details
2.	Table of Contents	
3.	Executive Summary	1 page executive summary giving details about your whole business in 1-page
4.	Problem/Opportunity	Create awareness about the problem and possible business opportunity
5.	Your Solution	What's your unique solution and how does it address the market?
6.	USP (Unique Selling Proposition)	What's your magic sauce? What is so special about you or your idea?
7.	Competition	Provide the competitive landscape

Writing a Business Plan

Business Plan Template

S.No.	Slide	Description
8.	Sales & Marketing	What will be your marketing strategy?
9.	Business Model	How exactly are you going to make money?
10.	Status & Milestones	What are your key milestones? What will you achieve in year 1, year 3 & year 5?
11.	Team	Who is on your team? Include pictures The team should be able to deliver
12.	Financials	Give a 3-year to 5-year projection showing number of customers, revenues, costs, profits etc
13	Investment/Returns	How much money is required (investment amount), returns (IRR, breakeven)?

Financial Model

Overview

Financial model goes hand in hand with the business plan and it should include:

- Assumptions
- Income Statement
 - Revenues
 - COGS (Cost of Goods Sold)
 - Gross Profit
 - SG&A (selling general & admin expenses)
 - Net Profit
- Cash Flows Statement
 - Cash flow from operations
 - Cash flow from financing activities
 - Cash flow from investing activities

The model should:

- Project at least 3 years of operations
- Calculate financial returns (IRR, NPV, Breakeven)

Financial Model

Sample Assumptions Worksheet in Financial Model

Assumptions		
General		
Currency Conversion	90	Ksh/USD
Corporate Tax	30%	%
Solar Lights		
Cost Price (SunKing - Eco)	800	Ksh/light
Cost Price (SunKing - Solo)	2000	Ksh/light
Sale Price (SunKing - Eco)	1200	Ksh/light
Sale Price (SunKing - Solo)	3000	Ksh/light
Distribution Costs		
No of Ecos in a box	20	#
No of Solos in a box	15	#
Cost of 1 box in Matatu	2000	Ksh/box
Cost of 1 box in Boda	200	Ksh/box
Manpower costs		
Salesperson Salary	20,000	Ksh/month
No of lights sold per salesperson (per month)	100	lights/salesperson
Salary Escalation	5%	%

Financial Model

Sample P&L Worksheet in Financial Model



Profit and Loss Statement								
Year 1 (Month-wise)		Jan	Feb	Mar	Apr	May	June	July
Sales								
SunKings Eco								
No of lights sold (Ecos)	#	50	100	200	250	300	350	400
Price of Ecos	Ksh/lantern	1200	1200	1200	1200	1200	1200	1200
SunKings Solo								
No of lights sold (Solos)	#	10	20	30	40	50	75	100
Price of Lights	Ksh/lantern	3000	3000	3000	3000	3000	3000	3000
Revenues								
Revenues (Ecos)	Ksh/month	60,000	120,000	240,000	300,000	360,000	420,000	480,000
Revenues (Solos)	Ksh/month	30,000	60,000	90,000	120,000	150,000	225,000	300,000
Total Revenues	Ksh/month	90,000	180,000	330,000	420,000	510,000	645,000	780,000
Costs								
COGS (Cost of Goods Sold)								
Eco Costs	Ksh/month	40,000	80,000	160,000	200,000	240,000	280,000	320,000
Solo Costs	Ksh/month	20,000	40,000	60,000	80,000	100,000	150,000	200,000
Transport	Ksh/month	12,000	20,000	25,000	25,000	30,000	35,000	35,000
Total COGS	Ksh/month	72,000	140,000	245,000	305,000	370,000	465,000	555,000
Gross Profit	Ksh/month	18,000	40,000	85,000	115,000	140,000	180,000	225,000
Gross Margin		20%	22%	26%	27%	27%	28%	29%
SG&A (Selling General & Administrative Expense)								
No of sales Agents	#	1	2	3	3	4	4	5
Salaries	Ksh/month	20,000	40,000	60,000	60,000	80,000	80,000	100,000
Office Costs	Ksh/month	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Mobile Phone (Airtime)	Ksh/month	5,000	7,000	10,000	12,000	15,000	15,000	15,000
Internet	Ksh/month	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total SG&A	Ksh/month	50,000	72,000	95,000	97,000	120,000	120,000	140,000
Operating Expenses	Ksh/month	122,000	212,000	340,000	402,000	490,000	585,000	695,000
EBITDA Calculation								
EBITDA	Ksh/month	(32,000)	(32,000)	(10,000)	18,000	20,000	60,000	85,000
- Depreciation	Ksh/month	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
EBIT	Ksh/month	(34,000)	(34,000)	(12,000)	16,000	18,000	58,000	83,000
- Interest on loans	Ksh/month	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Net Profit								
Profit Before Tax (PBT)	Ksh/month	(39,000)	(39,000)	(17,000)	11,000	13,000	53,000	78,000