INTEGER WEALTH Finance

Literature - The Information Memorandum Investors Want to Read

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Below is a document guideline for you to prepare an 'Investment Memorandum' which are critical for investors to base their investment decision on and what an Information Memorandum (IM) is required to contain.

It is not a 'Nice-to-Have' but a mission pertinent set of steps and procedures to establish a basis of information to which your investor can assess their readiness to invest into your product, service, business or company.

Compile this correctly and as per the steps and content below, and you are certain to have a successful fund raise.

> *Caution: Once you have submitted any information to your investor, it is seen as unprofessional should you need to return to submit more or missing information.*

Our first bit of advice: *'Never walk into an 'in-person' or attend an online investment meeting empty handed.'*

An information memorandum (IM) is the document you hand to investors after you have delivered a hard-hitting pitch, just before you leave the room.

> *"Thanks so much for your time, Anne. I'll just leave you with some material summarising everything I've mentioned today, and I'll follow up with you in the next few days to answer any questions you may have".*

If you are a private company (i.e., a 'proprietary limited' or 'limited' or similar structured company with no more than 50 non-employee shareholders), you are required to produce some form of disclosure document when raising funds of a non-personal nature (i.e., not your friends and family) in return for company equity.

The standard disclosure document is called a 'Prospectus' or 'Investment Portfolio' and contains the broadest information requirements.

The 'Prospectus' and 'IM' are very similar documents. Most of the information you are legally required to include in the prospectus will be included in your 'IM', and it is always advisable to have a solicitor (lawyer) look over your 'IM' to ensure you have included all the necessary information.

What is an 'IM'?

An 'IM' is your business plan in a nutshell. It is a short document, about 20-30 pages, which highlights the most important aspects and opportunities your investment offers. It is remarkably like your pitch deck, which you would have used as a visual cue to support your pitch.

The main difference is your ‘IM’ will be much meatier. It will include more analysis, projections and explanation than you could possibly reveal in your pitch without boring your investors.

That is, not to say this document should be long and drawn out and does not ordinarily include the risk analysis and due diligence.

When creating your ‘IM’, think about how an investor is going to read it. (Consider that they are NOT going to sit down with a glass of wine and read it cover to cover.)

They will use it when a question pops into their head, when they need their memory jogged about something you touched on in your pitch, or when they need to quote a number.

They should be able to scan the contents page and flit immediately to the section, sub-section, even sub-paragraph, that contains the answer to their question.

Being succinct is key to a professional ‘IM’. You want ‘punchy’ sentences, comprised of fact after fact after fact.

The sections you need to include, in order are:

1. Letter from the director
2. Investment highlights
3. Executive summary
4. Company history with milestones achieved (including R&D)
5. Expansion plan
6. Market overview
7. Key success factors/metrics
8. Risks
9. SWOT analysis
10. The team (management team)
11. Financial information
12. Finance required/the offer
13. Ambitions (long term goals)
14. Any further supporting information
15. Due diligence report (NOT TO BE INCLUDED BUT SHOULD BE READILY AVAILABLE)

In this post we will bundle up the best of the two examples and provide some further explanation and examples on how to write a professional information memorandum for your app startup.

1. Letter from the director

This short first page is your letter to the investor. Remember this is your first contact in written text where you need to sell them your plan, product or company with your words.

This letter also adds a personal touch to the’ IM‘ by introducing what you and your business are about, your skills and experiences, and your vision for this idea. We all know that even in business, people make quick judgements based on their first impressions. Investors are only human after all, and they are usually busy people at that.

Just like the opening sentence of your pitch is hard hitting, grandiose and inspiring, your letter from the director should set up the rest of the ‘IM’ for success.

Contains:

- *Who are you?*
- *What's your idea and where did it come from?*
- *What are your ambitions for this idea?*
- *Finish with something inspiring!*

2. Investment Highlights

This second page is arguably the most important of your entire 'IM'.

This is often the first thing an investor will read in the 'IM' (they might skip the letter if you stood out in your pitch), but unless you appeal and convince, it will be the last.

It should list in dot point form the key highlights of the investment, your offer, and what makes it such an exciting opportunity.

- *Why is your idea especially interesting or relevant to them?*
- *Why should they keep reading?*

3. Executive Summary

This section is often the most difficult yet most important to write in the entire document.

The executive summary serves as a short summary of the business plan. It necessary as investment executives do not have time to read a whole business proposal.

It should be written last and contain only the most relevant and significant points made in the 'IM'.

> *'It is often very difficult having to condense your entire product, business strategy and market analysis into 1-2 pages.'*

You might think the summary makes your business look superficial, however it is far worse to over supply information that the investor has to wade through and you may look like an amateur who doesn't know what the purpose of an executive summary is.

Therefore, allow plenty of time to write a succinct, appealing and convincing summary.

Use subheadings that correspond with the sections of your 'IM', so investors can easily refer to certain points.

Dot or bullet points work well here too, as it's just for visual scanning.

As a skeleton, make sure you include:

- The company and its founders – a very brief background highlighting your credentials (skills, qualifications and experience).
- The market opportunity – the size and growth prospects of the opportunity, projected market share
- The product/service/technology – unique features or functions
- Past track record – milestones achieved to date, a summary of sales, gross profits and pre-tax results explaining significant trends (if applicable)

- Summary of financial projections – sales profits over last 3 years (if applicable), briefly explaining trends
- The funding requirement – Re-state the capital you need, the share per investment and how the money will be used

4. The Company History (with milestones achieved)

Your past might not seem so important but looking at your track record is a common method investors use to evaluate your future potential.

Even if you are a startup, there should be some key milestones you have achieved to get to where you are now, pitching to that investor.

4.1 What have you done to get here?

Begin with your date of formation/incorporation

- What phases of development have passed since then? E.g. R&D, development
- The previous and current involvement of outside shareholders (you may want to include their names in an appendix)
- Any major agreements with investors, suppliers, clients or other credit sources
- Significant expansion of the team
- Indication of past financial performance (if applicable)

Just starting out in your venture? Here are some ideas:

- The size of your pre-launch client base
- Any clients you have got on board so far
- Any other investors you have on board
- Past successes, e.g. when you hit 'X' number of information downloads
- Credentials of your 'Advisory Board Members'
- These milestones almost act like social proof that your idea has traction and shows you are a founder who gets things done.

If there were setbacks in the company history, such as you lost momentum or some of your directors somewhere in the middle either left, ran out of motivation, energy or supporting funds, or there was a massive drop in customer retention etc, make sure you address these and talk about the steps you took to prevent these losses happening again.

Overall, this section needs to make you look productive.

5. Expansion Plan

Your company history section will finish with where you are right now. That is a convenient section in which you emphasise about your product or service and where the business is going. What are your goals, and what is your plan of attack to getting there?

This information is all high level content. Investors know that execution is always changing and there is some flexibility with your plan, so do not be concerned that if you do not commit to exact dates.

At the minimum, you should cover key tasks for the next 3 years.

Be specific in describing which aspects of the business you see expanding, but always remain conservative. Keep assumptions at a minimum, and if you must make one, keep it conservative and explicitly state that it is an assumption.

Here are some examples of high-level tasks for a software product:

- Raise investment
- Launch version 2/major update
- Expand existing product line, add a new feature
- Market expansion – Serve a different customer segment or geographical segment
- Increase number of employees
- Open an additional office location and why
- You should go into more detail that this, however. E.g.: Raise investment – how much and from whom.
- Expand existing product line – to what, and why is this a good idea?
- Analyse data – what are you going to be looking for in the data?

You don't need to become 'over expansive', but looking ambitious and organised will show investors this business has long-term potential, and 'de-risk' their investment.

It is also important to justify every step in your growth plan.

- Why do you want to expand to serve your geographical industry or industry sector in 2 years' time.?
- What evidence exists that this is a good opportunity and a good move for your business at that exact time.?

This indicates that you have not just 'randomly added' growth milestones because they look good on paper. These milestones must be highly specific to your business.

6. Market Overview

Know your market back to front.

This section shows you have done your research and that you are aware of a world of product offerings, competitors and customers that exist outside your business.

With regards to the market itself, you need to include:

- Size of the market
- The gap in the market – what problem does your app, product or service solve.?
- What segment of the market you are addressing.?
- Market growth – is it a mature/stagnating market or a growing one.?
- Use free credible resources wherever possible.

With regards to competitors, you need to include:

- An identification of your top 3 competitors
- A business comparison – What is their unique selling proposition? What is their monetisation strategy? What is their marketing strategy?
- Their target markets
- Their app store, product display or services advertising and online presence – their average rating, their good and bad reviews, their keywords

The best way to find this information is by executing a SWOT analysis. A SWOT analysis is a breakdown of your perceived strengths and weaknesses, what opportunities they create for you and what threats are presented. The following example again refers to a software company.

Strengths

- What advantages does your application have over your competitors.?
- What do you do well as a company or business.?
- Weaknesses that you can identify in your competitors which you can avoid in your own (be honest and expansive)
- What could your competitors improve which you have or will implement in your business.?
- What should you and your competitors avoid.?
- What are people in the market likely to see as a weakness.?
- What other weaknesses do you have and those of your competitors.?

Weaknesses

- What is blocking your advance into market.?
- What does the company require to make it prevalent in its industry.?
- What are your competitors doing or what do they have in their arsenal which can make your entry into the market an obstacle? (Be noticeably clear and expansive here indicating that you understand your market, competitors and industry)

Opportunities

- What opportunities can you spot in your competitors that you will be taking advantage of.?
- What interesting trends are you aware of you may not have noticed, but your competitors have.?

Threats

- What obstacles do you and then your competitors face.?
- What are your competitors doing that could pose a threat to your business?
- Is changing technology threatening your competitors position?
- Could any of their weaknesses seriously threaten their business?

Displaying this information on competitors will clearly illustrate how your business or product is different.

Your product does not have to be different in every aspect. Your product might have the exact same functions as a competitor however be more user friendly and marketed towards a different target user.

Whatever it is, you will need some convincing analysis to back up the claims you have just made and prove that your idea has secure investment pillars to stand on.

7. Key Success Factors/Metrics

What do you need to get right in order to go from where you are now to where you want to be.?

Key success factors demonstrate to investors that you have thought about ways in which they will be able to assess your performance.

'It shows investors specifically what outcomes they should look for as a result your efforts.'

Key success factors are invaluable for founders as well as investors, because they serve as useful benchmarks to reaching your goals.

As well as measuring the success of your product or service itself, set some 'KPI's (Key Performance Indicators) for your business too.

- Revenue/ROI
- Costs
- Awareness
- social media presence
- employee growth

8. Risks

What are the risks involved in investing in a business like this.? More importantly, how have you mitigated them.?

Your 'IM' will invariably contain some assumptions, so this is where you can address them. It is crucial that you consider any and every possible risk involved. If a potential investor identifies a significant risk that you had not considered, it seriously undermines your credibility.

It is always and strongly advisable to have your risk evaluated by a 'third-party' professional risk evaluator, disconnected from your personal or business orbit. Investors often consider that you may be a 'little to close to the trees, to see the forest', and want to see that you have taken the effort to have a third party contribute to validation of your information.

Remember, ever business venture contains risks. These should be expanded on in a 'Due Diligence' which will expose such risks and the ability to mitigate such risks.

You might be hesitant to reveal to investors the very real risks of their investment, but you should not be, as also never hide any risk purposefully as this WILL be discovered later in the relationship to which can only result in catastrophic results with your investor.

Discussing risks demonstrates that you have considered the investment proposal thoroughly, and that you have put yourself in the shoes of the investor.

What can these risks relate to?

- The industry
- The company and personnel
- Product development
- Market
- Timing and financing of the venture

Here are some examples of risks:

- Competitor moves in on your target market
- Overspending on design/development
- Time delays for launch
- Inability to recruit staff
- New industry regulation introduced
- List risks in order of importance and likelihood of happening
- Financial information presented not aligning with reality within your timeline.

Beside each one, state the steps you are taking to minimize the impact of these risks (should they actually occur).

Your risk section is <u>not supposed to be and does not need to be negative.</u> Transform it into a positive by showing investors you are realistic and proactive.

> *'The best way to manage risk is to become aware of it. Then you can proactively deal with it should it ever arrive, and clearly navigate it when it does.'*

Risk management is key to every investment and a strong pitching point to any investor. It gives them a sense of ease that you really have considered the risks and are not afraid to illustrate them, assuring investors that you can deal with them, because you are aware of them.

9. The Management Team

The people in and around a team are the number '1'. An investor will look to when investing in an early-stage, operation and mature business alike. Why is that.?

Without much in the way of data, a customer base or a viable product, the team is the best indicator of a venture's success.

State why your team is investment worthy. What skills, connections and experience does each person bring to the table.?

Include a photo and a short bio of each person involved in this venture, not limited to immediate or full-time staff.

Include any advisors and mentors you can leverage credibility off.

10. Financial Information

This section brings the whole 'IM' together in the form of relevant numbers. Here is what you would need to include:

- Details of any previous financial records, briefly explaining any significant trends
- Projected growth for the next 3-5 years – state targets for total customers, revenue and expenses for each year
- Any assumptions you have made in your projections

Investors fully expect to see these projections at the bare minimum. It is basic to the evaluation of an investment opportunity, as well as determining how much company equity the investor will want in return for their investment.

These projections should be justified by the strategies you have previously outlined in the 'IM' and <u>should be conservative.</u>

11. The Investment Offer/Finance Required

Round off the basics of the 'IM' with the investment offer.

- How much are you valuing your company at.?
- How much in total do you need to raise.?
- How much capital are you looking for from this investor right now, and at what cost per share if it on a share basis.?
- What are you doing to raise that money.? Include crowdfunding, government grants, other investors
- Where is that money going exactly.? How will it be applied to reach your key success factors.?
- How will investors realise this investment.?
- Who will manage the investment.? (Investors usually require a third-party professional to manager/oversee their investment)

12. Ambitions/Long term goals

It is always good practice to conclude your 'IM' on a positive note. Include a short paragraph of your larger goals which will inspire investors and bring them back to the same excitement level they had when you were pitching.

An 'IM' is a very formal document and including a personalised touch at the start and finish places them in a great frame of mind to read your plan and reflect on it later. It also helps investors determine if they are compatible with your business.

Unlike the milestones covered in your expansion plan, these goals are your overarching vision for the business. They should not be able to be achieved in less than 10 years.

Cast any doubts or restrictions aside and rather focus on you and your team and about what you want your business, company, product or service to achieve in the long term.

- Do you want to expand to every continent.?
- Do you want to be promoted, or even acquired by Microsoft or Google.?
- Do you want to revolutionise an industry and eliminate the current market leaders.?

Whatever it is, bundle it up neatly and concisely in an inspiring, sensible and financially attractive package.

> *'Do not be concerned about sounding 'irrelevant, silly or stupid'. If you are not embarrassed or overwhelmed by your long-term goals, they are usually not big enough.'*

13. Further Information

This section should usually be an appendix to your 'IM'.

Investors might not even look at your 'IM', but it serves as a place for them to find further information that isn't immediately relevant to the investment opportunity (e.g. legal statements, disclaimers, financial statements, raw data).

Your 'IM' should be able to stand on its own, so it's a good idea to add in anything you may think may add a slight chance that investors would want to invest in your product, business or service and see you succeed.

One final note…

Don't be afraid of rejection. It happens to everyone and develops your experience. Every investment opportunity is different, just like every business and team is different.

If you follow this structure, you will have a professional document to hand to investors when leaving an investment meeting.

Good luck! *(…but then again luck eventually has little to do with it, if the pre-work is done correctly)*