

**ENERGY  
CATALYST**

# Investment Guide: Investment Readiness

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## Investment guide: Investment readiness

External funding provides critical resources that allow businesses to develop new products, expand production capacity, and access new markets. For many businesses, securing financing is an essential step in establishing a foundation for long-term growth and sustainability. However, businesses must be investment ready to secure external funding that meets their needs. Management teams must understand their growth plans and financing needs to ensure that new funding supports, rather than hinders, their path to sustainability. Further, they must understand how their business will be perceived by external audiences and be equipped to negotiate with potential investors.

### Investment readiness overview

Investment readiness is “the capacity of an enterprise to understand and meet the specific needs and expectations of investors,” and it plays a critical role in shaping whether a business receives investor funding. Two key components influence a business’ investment readiness: business viability and quality of investor materials.

The first aspect of investment readiness is **business viability**: management teams must demonstrate to investors that their businesses are sustainable, well-run organisations. Businesses should demonstrate a sound business model, unique value proposition and qualified team.

The second aspect is **investor materials**. Documents such as business plans, financial models, investor teasers and memoranda should be robust and make a compelling case for investment in the business.

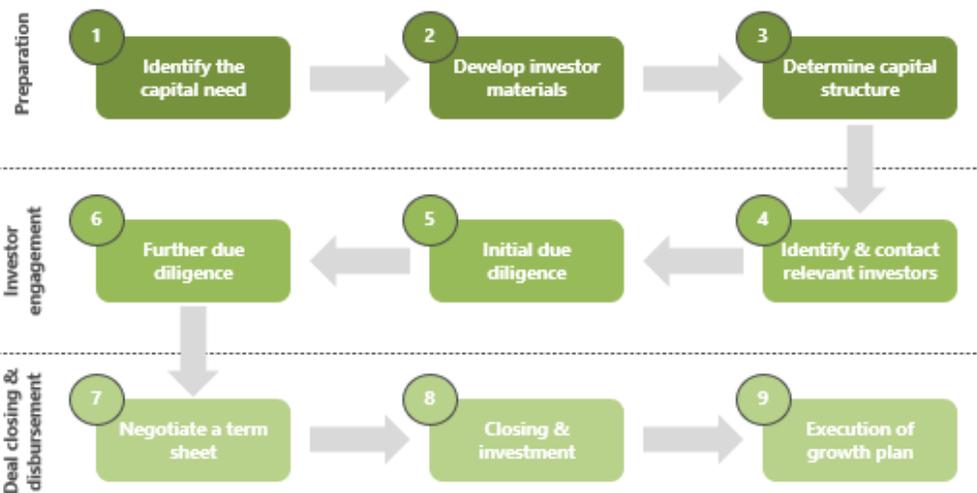


Figure 1 The capital raise process

Investment readiness has multiple benefits for businesses:

1. **Businesses understand themselves better.** Investment ready businesses understand their capital needs and are aware of the capital available to them. Such businesses are best placed to manage external financing.
2. **Businesses can engage better with investors to raise external capital.** An investment-ready business can more easily raise external capital as it is prepared to meet the needs and expectations of investors.
3. **Investment readiness accelerates the capital raise process.** Businesses will have their documents and information prepared in advance, which will shorten the due diligence process and minimise other process delays.

## The capital raising process

Raising capital is typically a multi-step process involving preparation, investor engagement and execution. This process typically takes between three and eighteen months but could last longer.

### 1) Identify the capital need

Before pursuing external capital, businesses need to develop and refine their growth strategy to evaluate their capital need. They should identify what initiatives they want to fund and determine how funding those plans aligns with their long-term goals. By connecting these objectives to their strategy, business leaders can assess whether their operations can be funded internally, and if not, whether it is the right time to raise external capital.

### 2) Develop investor materials

Businesses must prepare documents which they will present to potential investors. These documents will deepen understanding of the business' operations and support the engagement with investors. A **business plan** is an internal document describing the business, its objectives and its strategy to achieve those objectives. A **financial model** translates the business plan into a numerical, analytical format that allows the business to determine the capital needed to execute on its growth plan, forecast potential returns and understand the risks and sensitivities involved in meeting growth targets. The business plan supports the development of a short **investor teaser** and a more detailed **investor memorandum**. These three documents are sell-side items as they are not only used internally but also shared with investors to introduce the business and investment opportunity.

### 3) Determine capital structure

Businesses can fund their operations and growth with internal funding (e.g. retained earnings), external funding (e.g. debt, equity, quasi-equity, grants) or a combination of the two. Capital structure is the combination of various funding sources that a business uses to finance itself.

When determining the capital structure for a business, management should consider the cost of capital and the intended use of the funds. For instance, an expansion might be funded using equity that does not require monthly repayments, which would reduce the cash available to finance the expansion projects, or debt might be used to support ongoing operations of a stable business that can make monthly repayments.

### 4) Investor identification and outreach

After understanding their capital needs, businesses should familiarise themselves with the investor landscape, including the types of investors present, the type of capital they offer, and the types of businesses they invest in. Key resources for finding investors include investor networks (e.g. Global Impact Investing Network), business databases (e.g. Crunchbase) and investment events (e.g. Sankalp). Businesses should use these resources to identify relevant investors based on the investor preferences.

Once the management team identifies matches, they should reach out to the investors. This may include “warm” introductions through mutual contacts or “cold” outreach that involves introducing their business to new investors via tailored messaging.

## 5) Initial due diligence

**Due diligence** is defined as “investigation and analysis in support of a recommendation.” Investors request business documents and may call the business to ask questions to understand the market opportunity, business model, traction, growth strategy and capital requirement of the business. It is important to have a **data room** (a secure online storage platform for key information only accessed by authorized parties) so that investors can easily access relevant information.

## 6) Further due diligence

This step involves intensive investigations into the previously shared internal documents and business processes, where investors ask extensive questions about past and future performance. Information obtained via further due diligence will be used to negotiate the term sheet. This step may require significant time from senior management and advisors for both the investor and business.

The commercialisation guide on due diligence can be referred to for further details on engaging with investors during this phase.

## 7) Negotiate a term sheet

A **term sheet** is a document that outlines the commercial and control terms and conditions for a potential investment. It is not a binding document, but it guides the development of a final investment agreement. It often includes an “exclusivity clause” that prevents businesses from soliciting other investors.

## 8) Closing and investment

A finalised term sheet is presented to the investor’s investment committee for approval, which is then translated into an **investment agreement** by legal counsel. It sets out the capital commitment, timelines and the terms and conditions of the investment.

## 9) Execution of growth plan

Once the deal has closed and funds have been disbursed, the business should be prepared to execute on a short-term roadmap, such as a 100-day plan, to ensure that it hits key milestones. Some investors deploy capital in tranches depending on whether the business meets these milestones, and a roadmap will help achieve them. Businesses should also send regular progress updates to their investors that include highlights of the business’ operations, key performance indicators (KPIs), important hires and requests that the business has for its investors.

## Barriers to a successful capital raise

**Business constraints** are factors within the business’ control that lengthen the capital raise process or cause the deal not to close.

A management team that lacks key skills may signal to investors that the business is unable to achieve its growth potential, which discourages investment.

Incomplete, inconsistent or vague information makes it difficult for investors to understand the business, which may lengthen the due diligence process.

Growth strategies not backed by historical performance and internal capacity may seem unrealistic to investors and discourage investment.

**Investor constraints** are factors on the investor's side that lengthen the capital raise process or cause the deal not to close.

Due diligence can be a lengthy process that requires the coordination of multiple parties and advisors, such as lawyers and consultants. In addition, investment committee meetings are typically based on a fixed schedule, and investors will need to work to standard governance processes during the investment process.

### Investment readiness assessment

Before deploying capital, investors will assess a business against key dimensions to determine whether it can realise growth plans and provide the expected return on investment. Businesses often focus only on day-to-day operations at the expense of meeting other investment readiness criteria, which could prevent the business from receiving funding.

An overview of key dimensions that businesses and investors use to evaluate investment readiness are outlined in Table 1.

**Table 1 Dimensions of investment readiness**

| Dimensions   | Areas of consideration  | Significance   |
|--|---|--|
| <b>Market and industry</b>                                   | <ul style="list-style-type: none"> <li>- Target market size</li> <li>- Product/service demand</li> <li>- Competitive landscape</li> <li>- Industry barriers to entry</li> <li>- Regulatory environment</li> </ul> | An understanding of these factors enables the investor to assess whether there is a significant market for the products and services, and the business' relative performance in the market, both of which drive financial sustainability |
| <b>Business model and operations</b>                         | <ul style="list-style-type: none"> <li>- Production processes</li> <li>- Product offerings</li> <li>- Strategic value chain partnerships</li> <li>- Distribution channels</li> <li>- Customer outreach</li> </ul> | By understanding the business model, investors can identify both internal and external risks associated to scaling operations and achieving growth targets   |
| <b>Organisational structure</b>                              | <ul style="list-style-type: none"> <li>- Competencies of senior management</li> <li>- Skill assessment framework</li> <li>- Employee retention and succession</li> <li>- Employee compensation</li> </ul>         | Knowledge about the team helps investors identify whether the business' employees and management have the competencies to deliver on the value proposition pitched   |
| <b>Historical performance</b>                                | <ul style="list-style-type: none"> <li>- Sales</li> <li>- Customer base</li> <li>- Gross and net margins</li> <li>- Cash flows</li> </ul>   | Investors need to understand the drivers of historical financial and operational metrics to understand key growth assumptions supporting projections   |
| <b>Growth strategy &amp; projected financial performance</b> | <ul style="list-style-type: none"> <li>- Company vision</li> <li>- Growth strategy</li> <li>- Detailed business plan for execution</li> <li>- Financial projections</li> </ul>                                    | A growth strategy ensures that the business is working towards achieving realistic objectives that will increase profitability and deliver more value to investors   |
| <b>Capital need</b>  | <ul style="list-style-type: none"> <li>- Capital requirement</li> <li>- Investment terms</li> <li>- Paths to exit/repay investors</li> <li>- Prior engagements with investors</li> </ul>                          | This helps investors understand what the business expects from them and its track record for delivering returns on previous investments  |
| <b>Governance structures</b>                                 | <ul style="list-style-type: none"> <li>- Processes and controls</li> <li>- Board of Directors (BOD)</li> <li>- Competencies and role of the BOD</li> <li>- Statutory documentation</li> </ul>                     | Governance structures influence the implementation of the growth strategy, regulatory compliance, and efficiency of the due diligence process  |
| <b>Business impact</b>                                       | <ul style="list-style-type: none"> <li>- Understanding of business impact</li> <li>- Impact measurement framework</li> </ul>  | Social enterprises must demonstrate an understanding of social impact and their own impact to date to qualify for impact capital   |

### What is investment readiness?

With an understanding of what investment readiness is, key dimensions of interest to investors and their significance to a capital raise, businesses can work towards investment readiness.

Businesses should assess their strengths and weaknesses in line with the key investment readiness dimensions. Where weaknesses are identified, management should establish an implementation plan to work

on issues that can be addressed ahead of investor conversations. Additionally, management should develop an action plan to execute on once capital has been raised for those challenges that require investment, such as key hires in the organisational chart.

If a team does not have the capacity to carry out this self-assessment, the business can participate in investment readiness programmes. These programmes are three to six months long and are run by ecosystem supporters (e.g. Innovate UK, Growth Africa) with some examples outlined in Table 2. They could also hire advisory firms (e.g., Open Capital Advisors) to help them become investment ready.

A business may consider itself investment ready when it can demonstrate that it meets the criteria, as displayed in Figure 3, with supporting documentation readily available in a company data room.



Figure 2 Example of an investment ready business

## Engaging investors

Investment-ready companies are best positioned for successful investor outreach, and they should develop a strategy to identify and communicate with investors. Relevant investors can be identified according to high-level criteria, including geography, sector focus and ticket sizes. This list can be further refined using criteria such as organisational focus, capital offered, the type of business they invest in and their return expectations. Further information can be found in the investor landscape overview provided in the “Debt Financing” and “Angel and Impact Investors” commercialisation guides.

Investor outreach can be facilitated through “warm” introductions by mutual contacts or as “cold” outreach, for example through e-mail. Cold outreach should be professionally set out, highlighting key factors that make the business a good match for the investor. It should contain a brief business overview, key milestones achieved, capital requirement and a request for a call/meeting to give investors a high-level understanding of the investment opportunity and its potential value.

Once investor fit has been determined, the investor will begin the due diligence process. A company that is investment ready will realise the benefits of preparing for investor outreach through having readily available, comprehensive answers to tough investor questions and supporting documentation. This demonstrates good governance and helps win the trust of investors, and can streamline due diligence, reducing the time taken to raise capital.

**Table 2 Examples of ecosystem supporters**

| Institution   | Role   |
|---|--|
| <b>Alliance for Rural Electrification</b>                         | Provides networking opportunities, capital raise support and operational support to renewable energy businesses                                |
| <b>Energy 4 Impact</b>  | Provides business development, technical, financial and operational support to clean-energy businesses in Sub-Saharan Africa                   |
| <b>Energy and Environment Partnership Trust Fund (EEP Africa)</b> | Provides investment readiness coaching, linkages to investors and financing to clean energy businesses in Southern and East Africa             |
| <b>Get.Invest Finance Catalyst</b>                                | Links small and medium sized renewable energy businesses in Sub Saharan Africa with finance opportunities                                      |
| <b>Growth Africa</b>  | Offers business planning, investment readiness and mentorship services to small and medium businesses in Africa                                |
| <b>Private Financing Advisory Network</b>                         | Offers coaching and linkages to investment to renewable energy businesses in emerging markets  |
| <b>USAID Clean Power Asia</b>                                     | Provides operational support, facilitates the development of enabling policy and mobilises investments for renewable energy businesses in Asia |

## References and further reading

**Discussion paper on investment readiness programmes**

<http://www.oecd.org/global-relations/45324336.pdf>

**Supporting early-stage entrepreneurs in East Africa**

[https://www.usaid.gov/sites/default/files/documents/15396/180128\\_PACE\\_IRP\\_Final\\_Report\\_-\\_External\\_Version.pdf](https://www.usaid.gov/sites/default/files/documents/15396/180128_PACE_IRP_Final_Report_-_External_Version.pdf)

**Building impact investment readiness**

[https://ssir.org/articles/entry/building\\_impact\\_investment\\_readiness](https://ssir.org/articles/entry/building_impact_investment_readiness)

**Capital structure**

<https://corporatefinanceinstitute.com/resources/knowledge/finance/capital-structure-overview/>

## Useful contacts

**Alliance for Rural Electrification**

Rue d'Arlon 69-71  
1040 Brussels  
+32 2 709 55 42  
<https://www.ruralelec.org/>  
are[at]ruralelec.org

**Energy 4 Impact**

P.O. Box 76580 00508  
Mbaruk Road, Opposite Panorama Court  
Nairobi  
+ 254 722 508 789  
<https://www.energy4impact.org/>  
east.africa@energy4impact.org

**Energy and Environment Partnership Trust Fund**

<https://eepafrica.org/>  
info@eepafrica.org

**Get.Invest**

Rue d'Idalie 11-13  
Brussels  
<https://www.get-invest.eu/>  
michael.franz@get-invest.eu

**Growth Africa**

P.O. Box 17726 - 00100 GPO  
Nairobi  
+254 724 151 924  
<https://growthafrica.com/>  
info@growthafrica.com

**Private Financing Advisory Network**

Nairobi  
<https://pfan.net/>  
info@springaccelerator.org

**USAID Clean Power Asia**

Abdulahim Place, Suite 501  
Bangkok  
+66 2026 3065  
<http://usaidcleanpowerasia.aseanenergy.org/>  
hello@usaidcleanpowerasia.org

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