



Investment Readiness

Growth/Distress

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- Investment readiness – what does it mean?
- Proof of the business plan
- Evaluation of the investment
- Compliance requirements
- Sources of funding

Investment?

Investment definition from Investopedia:

= a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

Purchased in three forms:

1. Ownership
2. Lending
3. Cash



Ownership

1. Traded shares
2. Business acquisition
3. Real Estate (Property)
4. Precious metals and commodities



Higher Risk – Higher Returns

Lending and Cash

1. Government or company bonds
2. Short term bridging loans
3. Long term loans
4. Savings in bank accounts
5. Money market funds



Lower Risk – Lower Returns

Investment Readiness

Ability to give value in two forms:

1. Capital appreciation (growth) for a future profit
2. Cash Flow

Balance Sheet			
As of December 31, 2018 (000s)			
Assets		Liabilities	
Cash	100	Accounts Payable	100
Accounts Receivable	1,000	Current Portion of Debt	1,000
Inventory	1,000	Notes Payable	100
Prepaid Expenses	100	Accrued Expenses	100
Other Current Assets	200	Total Current Liabilities	2,300
Total Current Assets	3,400	Long-term Debt	2,000
Property, Plant, and Equipment	4,000	Total Liabilities	4,300
Goodwill	100	Owner's Equity	
Total Assets	8,500	Common Stock	100
		Retained Earnings	7,400
		Total Shareholders' Equity	7,500
		Total Liabilities and Equity	8,500

Growth in Asset Value

ABC Corporation	
Income Statement	
For the Year Ended December 31, 2019*	
Net sales	\$510,000
Cost of goods sold	<u>365,000</u>
Gross profit	145,000
Selling, general and admin exp	<u>100,000</u>
Income before income taxes	45,000
Income tax provision	<u>12,000</u>
Net income	<u>\$33,000</u>
Earnings per share**	<u>\$0.19</u>
See accompanying notes to the financial statements ***	

Cash flow:

1. Interest repayments
2. Dividends

Proof of Business Plan

Critical elements of the business plan

- Competitive Advantage
- Sustainability (sales plan)
- Historical financial data
- Future cash flow plans based on the sales plan
- Risk and mitigation of risk

Evaluation of the investment in the plan

Type of investment, ability to repay, repayment terms

Ratio analysis

Cost benefit analysis

Critical elements of the business plan

Cash is King

Sales Plan is proof of ability to generate revenue that will repay interest or pay out dividends.

Ratio

This will determine the type of investment the investor is willing make and inform repayment terms based on the ability to repay.

Analysis

The more guaranteed the sales, the better.

confirms

- Letter of intent, contract, purchase order, pre-orders

ability to

Therefore there has to be a proof of concept that strengthens the assumptions of the sales projections

repay loans

Historical Data provides a history – a comfort level that determines the risk level

& generate a

Cash flow projections enable the determination of cost versus benefit analysis

return

Both sets of information enable the ability to perform ratio analysis

Critical elements of the business plan

Risk Mitiga tion

What can go wrong?

Uncertainties exist that will affect:

- sales, operations, production, distribution, market, economy etc.

Internally

- Weakness/Strength

Externally

- Threats/Opportunities

Compliance and Information required for financial analysis

Due diligence protects the investor from loss

It Confirms/provides the:

1. The legality of the investment
2. Ownership structure (FICA)
3. Management structure and ability of management to grow and preserve value of business
4. Supporting documents for all the financial assertions, both historic and projected
5. Any supporting information that strengthens validity, competency, experience etc.



Forms, forms, forms and long list of supporting documents

Compliance and Information required for financial analysis

Typical information required:

1. Company incorporation documents (CIPC)
2. Share register and share certificates
3. Identity documents of directors
4. CVs or profiles of directors
5. Asset and Liability Statement of sureties
6. Bank statements, financial statements, projections
7. Certificates of ownership of assets, lease agreements, industry compliance certificates and BEE certificate/affidavit
8. Tax Compliance Pin and any other SARS and Labour compliance certificates



Forms, forms, forms and long list of supporting documents

Sources of Funding

1. Government Funding
2. Banks
3. Angel Investors
4. Crowd funding
5. Individuals
6. Funding websites for SMEs
 1. Funding Hub (6 months, R350k revenue)
 2. Lula lend (bank statement)
 3. Bridgement
 4. Thepeople.co.za (RFQ, PO)





Thank you