

How to position a business for growth capital

Module 2: Preparations and business plan

GCE Ocean Technology Course Programme Winter 2021
by Idévekst Energi on behalf of GCE Ocean Technology

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Programme overview

Feb 16

Module 1: Intro and real-life examples

- Introduction to the programme: Background & objective, Capitalization & sales process, Programme overview & modules, The investment landscape & what it takes – an overview
- «Stories from real life»

Feb 24

Module 2: Preparations and business plan

- Preparations for a capital / transaction process: Why? What? How?
- Business plan: Which topics to cover? How? Some examples. Capital need / funding plan

Mar 9

Module 3: Investors and the investment process

- Different types of financial investors – and their characteristics: Business angels, seed, venture capital, buyout, family offices
- The investment process: Preparation, marketing, transaction (negotiations, due diligence, execution)

Mar 16

Module 4: Investor presentation

- Elements of a good investor presentation
- Giving an investor presentation
- Other documentation needs

Mar 23

Module 5: Growth and exit

- What does it mean to work with active owners to implement a growth and value creation plan
- Preparations for exit: Part or 100% sale of the company

Agenda – Feb 24

Part 1: Preparations for a capital or transaction process

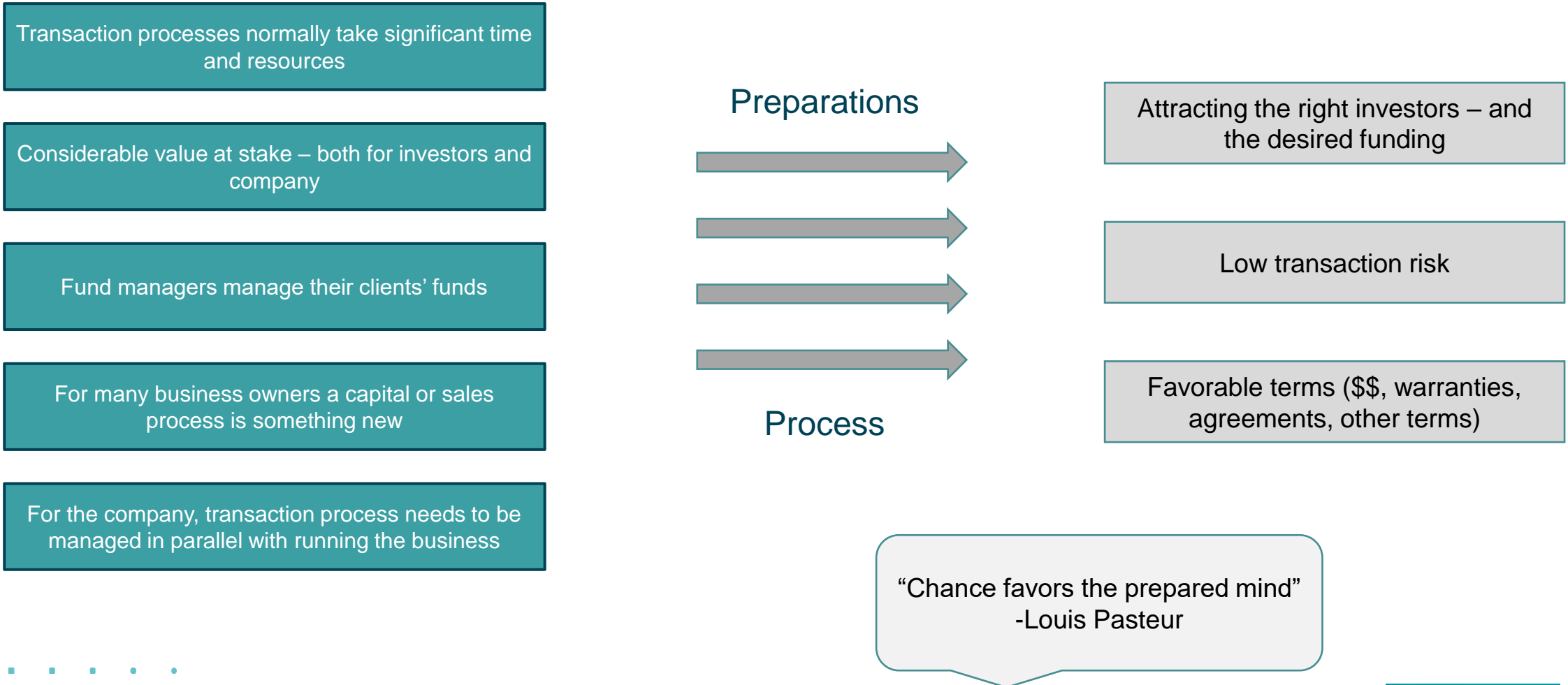
- Why?
- What and how?
- Q&A

Part 2: Business plan

- What should a good business plan cover?
- The most important parts of the business plan – some details and examples
- Funding need and plan
- The business plan from an investor's perspective
- Q&A



As with many other things in life: Proper preparations improve the chances of a successful process





Successful preparation – some suggestions



Orderly and correct information

Communicate the strengths of the business – while being honest and open
Structure & prepare – to make the process as easy as possible for all involved

Establish and follow a process

Establish structure and predictability – but be prepared for “the unpredictable”

Identify the right investors (or buyers)

- If raising capital: How much? Which kind of investor(s) is right for the business? Which contributions (other than only capital) do you want from the investors?
- If selling: Which “new home” is right for the business?

Prepare properly – before going to market

Seek to control the process – rather than letting the process control you

Dedicate the required resources

Internal resources (be prepared that the process will be demanding...)
Consider getting external advice (depending on internal capabilities and capacity)

Decide what your objectives are

Raise capital (and if so how much) – or exit – and when?
“Ownership strategy”



Recap: Capitalization or sale – typical process

Preparation

- Business plan
- Capital need and ownership strategy
- Valuation
- Value adding initiatives
- Potential investors

Marketing

- Investor presentation / marketing material
- Contact
- Non-disclosure agreements
- Meetings / management presentation
- Questions & Answers
- Indicative offers

Transaction

- Negotiations
- Due diligence (DD)
- Final negotiations and agreements
- Execution

Post-transaction

- Development with new owner(s) to grow and create value



Preparation tasks

A

Business plan

- More on this topic later in today's module

B

Capital need and ownership strategy

- Which capital need?
- Which ownership structure is right for the company – over time?
- Which decision power / structure do we want and can we accept?

C

Valuation

- What is the business worth?
- Which pricing are we willing to accept when raising capital or selling the business?
- How to optimize company value?

D

Value adding initiatives

- In a growth / fundraising phase: How to substantiate and build business value over time?
- Before exit: What do we want to achieve before a sale (and which opportunities to “leave to the new owners“)?
- Are there any potential “deal breakers” that need to be resolved?

E

Potential investors

- More on this topic in module #3 (March 9)

F

Investor presentation / marketing material

- More on this topic in module #4 (March 16)

G

Due diligence preparations

- More on this topic in module #3 (March 9)
- Investors will need to “look under the hood” in a due diligence. Proper preparations makes this an easier job for both investor and for you – and reduces the probability of negative surprises that may put your value, the process or the whole transaction at risk

H

Plan the process

- More on this topic in module #3 (March 9)
- Seek to control the process – rather than letting the process control you
- Establish structure and predictability – but be prepared for “the unpredictable”



B

Capital need and ownership strategy (1:2)

What is the capital need related to building the business?

Developing a business – in most instances – requires capital

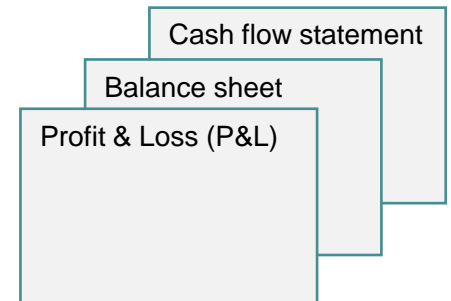
Balance between:

- Making funds last vs. building the business at desired speed
- Sufficient cash – vs. dilution

R&D
Marketing and sales
Operating expenses
Working capital (inventories, receivables, ++)
Investments
Etc.

Preparations:

- Based on your business plan
- Which operational and financial assumptions?
- Which projected financials (P&L, balance sheet, cash flow) over time?
- Which uncertainty & scenarios – and based on this which buffer is needed?

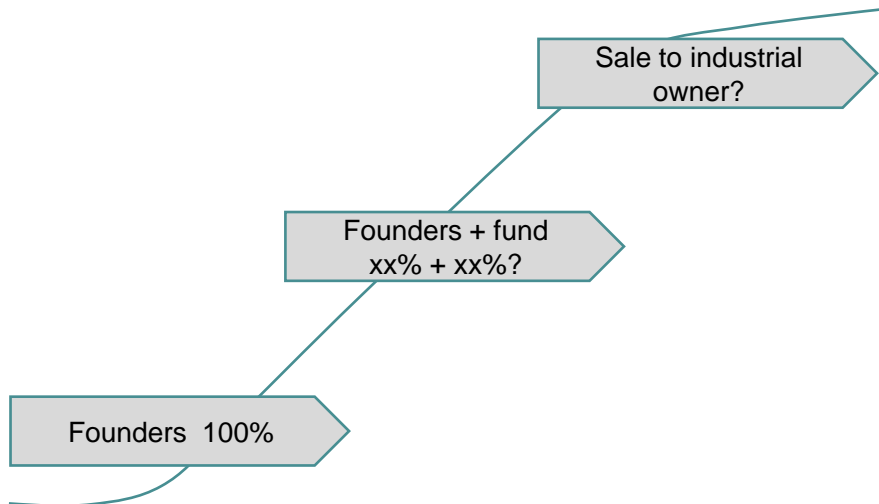




B

Capital need and ownership strategy (2:2)

Which ownership structure is right for the company – over time?



Which decision power and structure are desired / acceptable?

Regulated by law...

50%

Majority in general assembly (GA)
Most GA decisions – incl. board election

33,4% / 66,7%

Negative / absolute control
Mergers / restructuring etc

10% / 90%

Call for general assembly
Forced buy-out other shareholders

...and typically by a Shareholder's Agreement (SHA) and other agreements

Business plan
Election of board
Change in management
Funding
Mergers and acquisitions
Exit (drag-along / tag-along)
Other significant decisions



c

Valuation – some comments

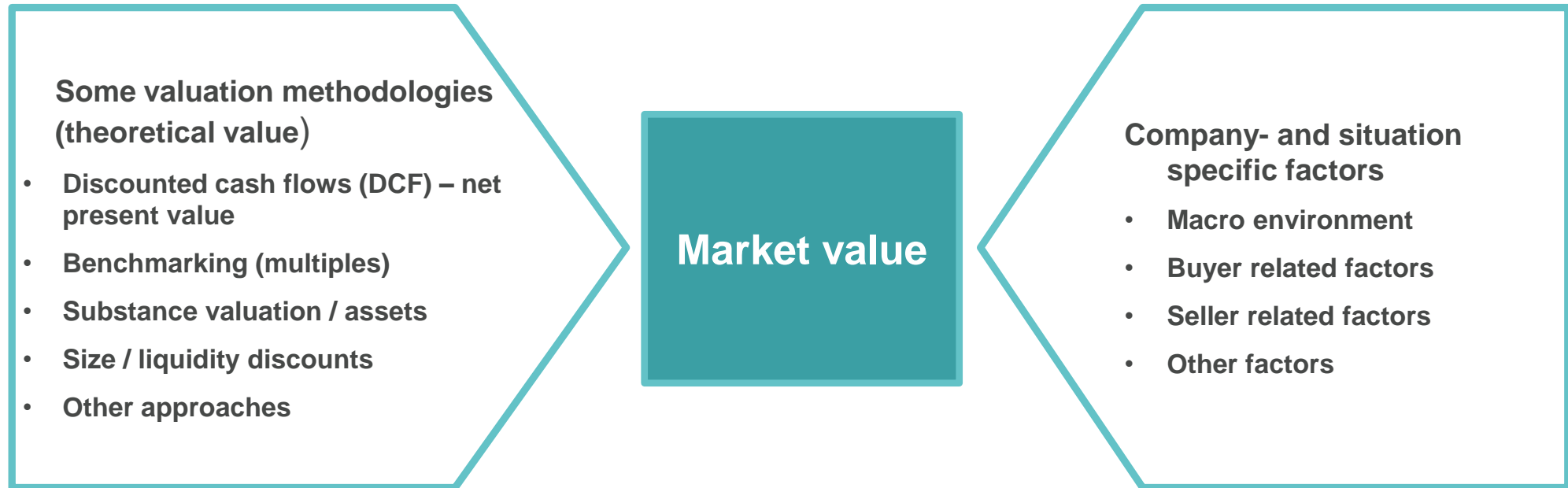
- The market value of the company is at the end of the day determined «by the market»
 - The price at which a seller is willing to sell – and a buyer is willing to buy
- Company valuation: An estimate of company value (an expected market value) – based on a set of assumptions and different valuation methodologies
- Company valuation is not an exact science
- Use different approaches / methodologies when conducting a valuation
- Company- and situation-specific circumstances often play a role (and may be difficult to quantify)
- Good and credible financial projections – based on well substantiated assumptions – are important (projections are often unrealistically optimistic)
- As mentioned above, the market value of a company is determined «by the market»
 - But having a perspective on which value range may be acceptable is useful before embarking on a transaction process
 - And it is possible to influence the market value through a good process, proper preparations, and identifying the «right buyers or investors»





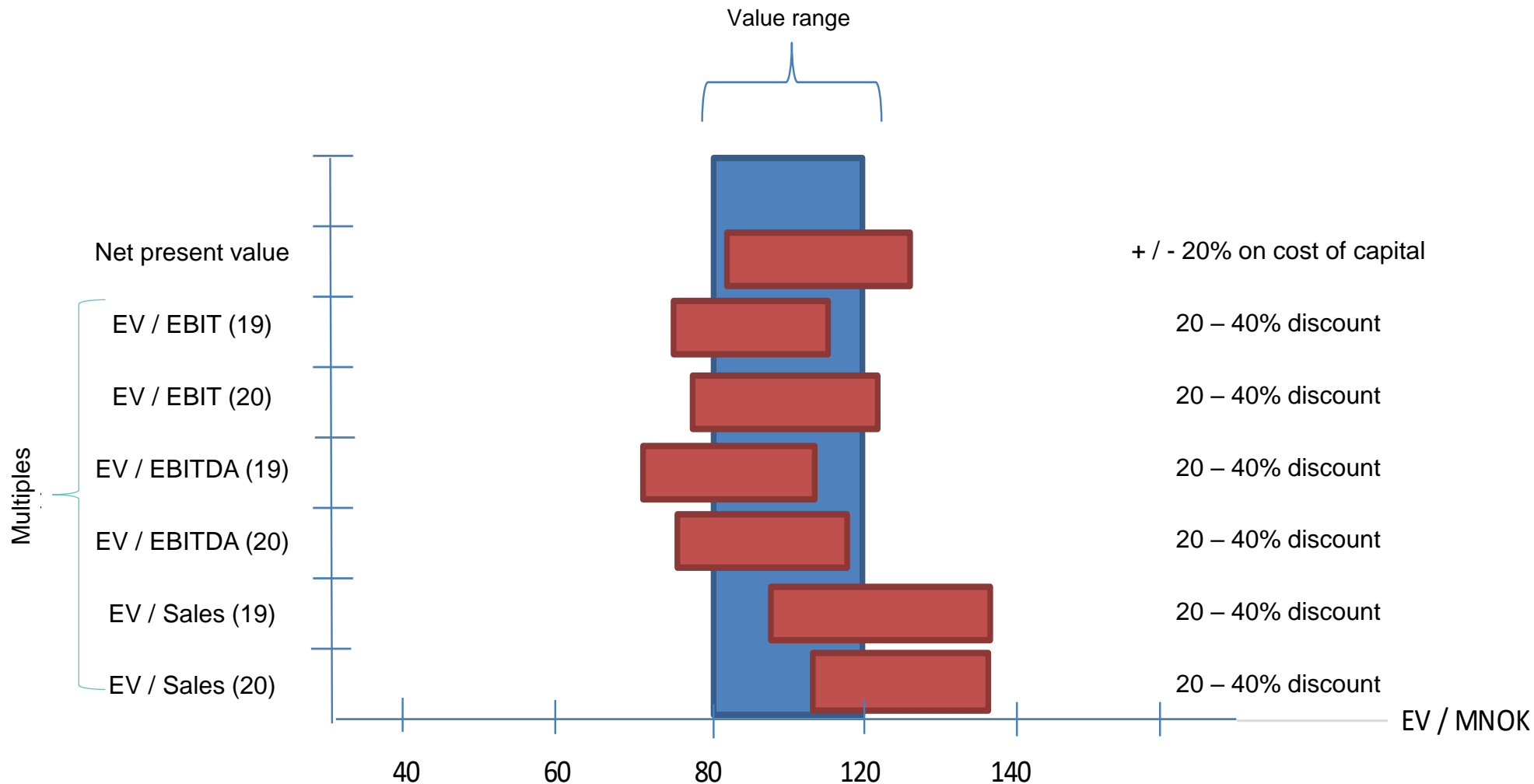
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What determines the value of a company



- Company valuation: An estimate based on a set of assumptions and different valuation methodologies
- Market value: Value of the company as determined «by the market» in a transaction
 - The price at which a seller is willing to sell – and a buyer is willing to buy

Recommend to use different valuation approaches in combination





D

Value adding initiatives (1:3)

Background:

- In general, the value of a business depends on how well developed / structured / large / profitable the business is
- When planning a transaction, natural to consider whether there are actions that should be completed before a transaction?

Some generic reflections / advice:

- Implement key value adding initiatives if there is time. But focus more on “sufficiently good” than on perfection
- No universal answer – this will depend on the transaction that is planned, the status of the business and other factors (market, kind of investor / buyer, etc.)
- Adapt your approach to your situation, what your investors will be looking for, and what drives value for them
- Prioritize sorting out any potential “deal breakers” (more on this later)



D

Value adding initiatives (2:3)

In a growth / fundraising phase

Technology, IP, market need / interest, business potential, future earnings, team, credible plans

Lower: Cover the basics, establish good plans

But remember:
“A smaller share of a much bigger cake...”

Securing IP / patents
Business plan (incl. market need, competition, etc)
Customer acceptance?
Financial projections and funding need – over time
Team, credibility, reduced risk

What drives company value?

Level of preparations / value optimization

Typical preparations

Before an exit (Sale of 100% or significant share)

Financial results (revenue & EBITDA), market position, proven products and technology

Higher: EBITDA influences company value
But remember “... a bird on the roof...”

Contracts, market, revenue
Cost & profitability



D

Value adding initiatives (3:3)

Probability of successfully completing a transaction is better if you can avoid surprises, incorrect or missing information, and high perceived risk

Address potential “deal breakers”

Technology / IP

Markets / customers

Regulatory / competition

Operating setup / suppliers / partners / distributors

Legal (Agreements and rights / Conflicts / Other uncertainties)

Team / employees

Financial

Other

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Make sure formalities and structure are in order

Company structure and formalities

- Holding company/-ies?
- Options and other rights
- Board / GA minutes and other formalities

Relationship to owners and employees

- Employment agreements and terms
- Debt and assets

Other obligations

All relevant agreements in place



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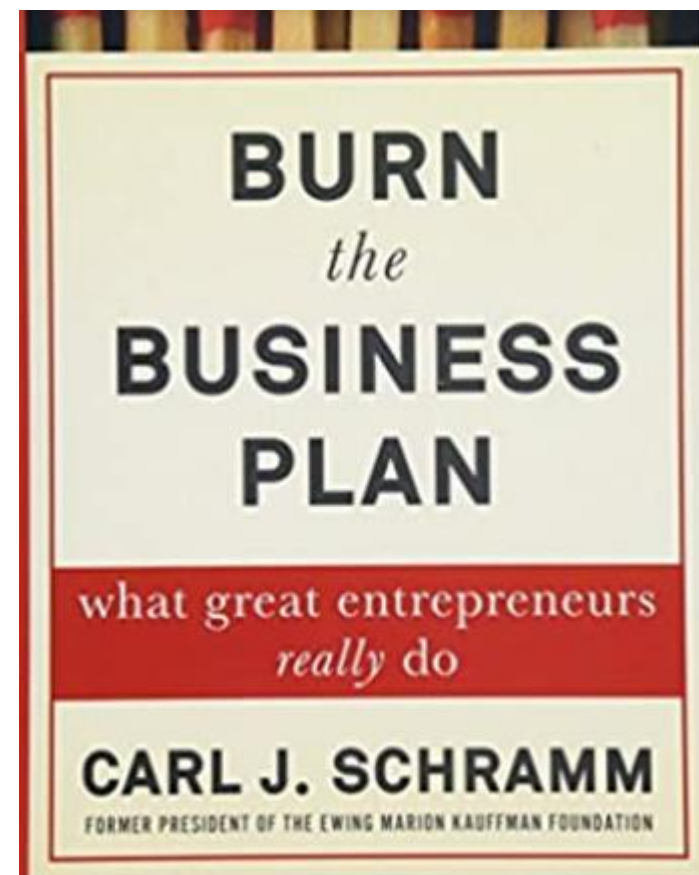
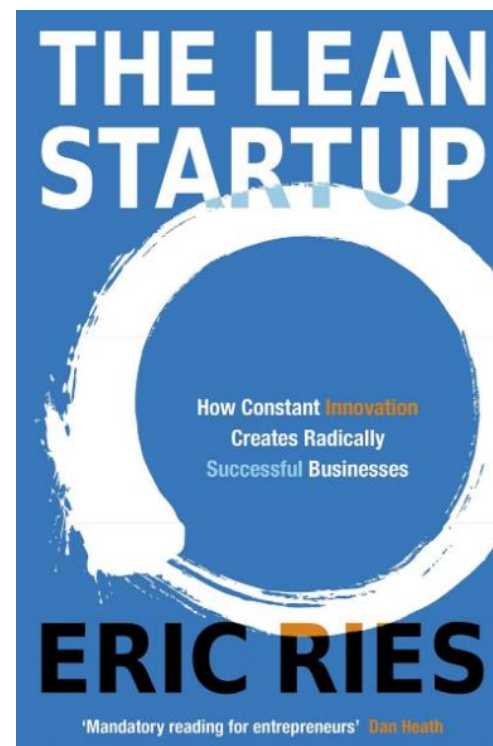
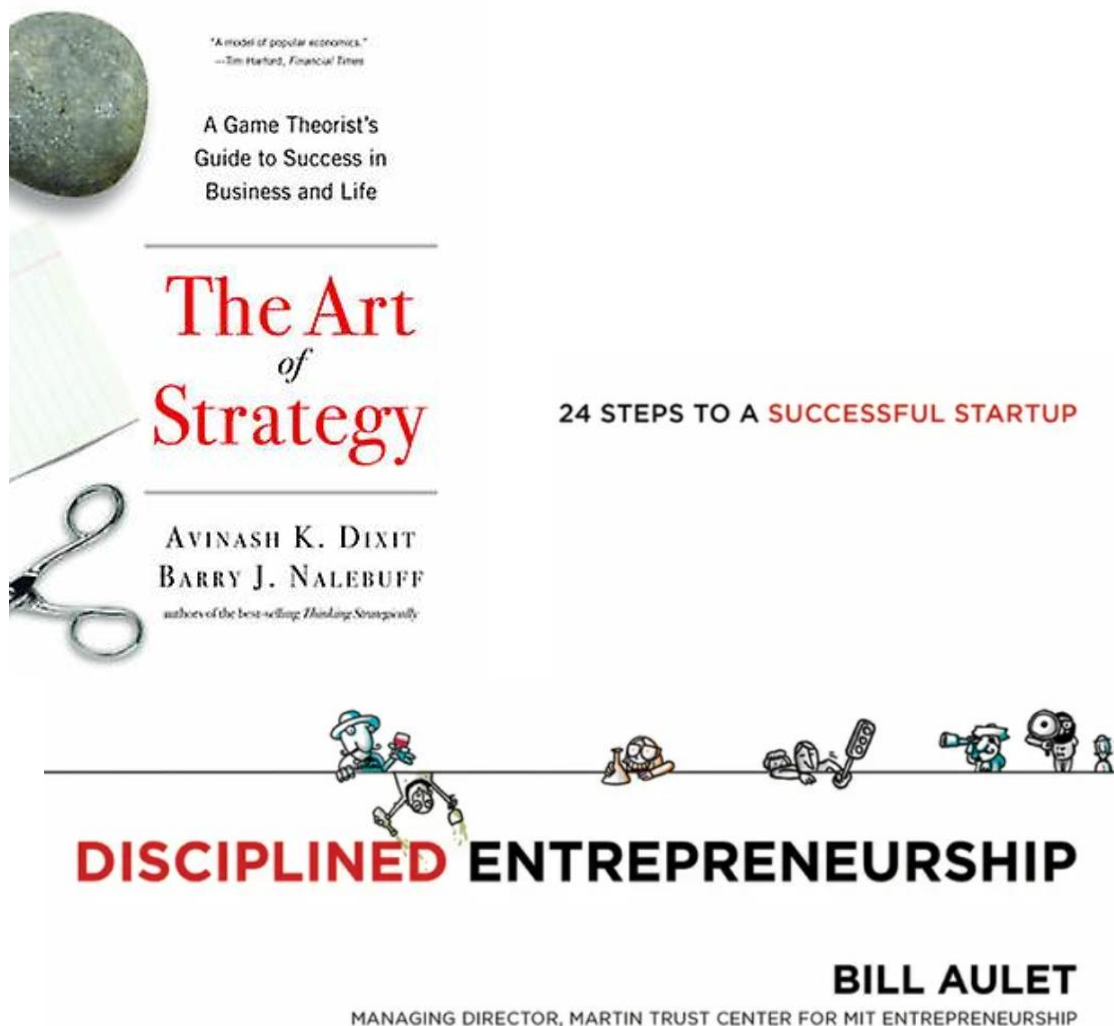
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«How to write a business plan»: 77 million hits on Google!





A «non-plan business plan» is argued by some....

“For any new company there is only one thing to do: Devise a new product and just put it out there. Then you can answer the only two questions that count: Are there customers? How much will they pay?”

Ted Farnsworth, serial entrepreneur

“Making a successful company requires an intimate tango with customers, not a tight grip on a business plan”

Michael Levin, Founder of Titan Steel

We would argue that a good business plan allows for a close tango with customers!

Why is a solid business plan important?



“Would you tell me please which way I ought to go from here?”

“That depends on where you want to get to” said the Cat.

“I don’t much care where” said Alice.“ Then it doesn’t matter which way you go” said the Cat

Alice in Wonderland, Lewis Carroll



Bill Gates’ career has been marked by his incredible vision. Microsoft beat the competition largely because they were always looking one step ahead, to the next revolutionary idea.

if you want to get ahead in business, think ahead.

Nick Scheidies

1. To map the future
2. To support growth and secure funding
3. To develop and communicate a course of action
4. To help manage cash flow
5. To support a strategic exit

Alan Gleeson

What characterizes a robust business plan?



Keep your ear to the
ground



Think ahead

Be prepared !

Watch out !

Adjust course when necessary!



What are investors typically looking for?

Attractive business
idea



Strong value proposition



Attractive business model



Strong competitive edge

Credible & able to
execute



Resources: Team & Expertise



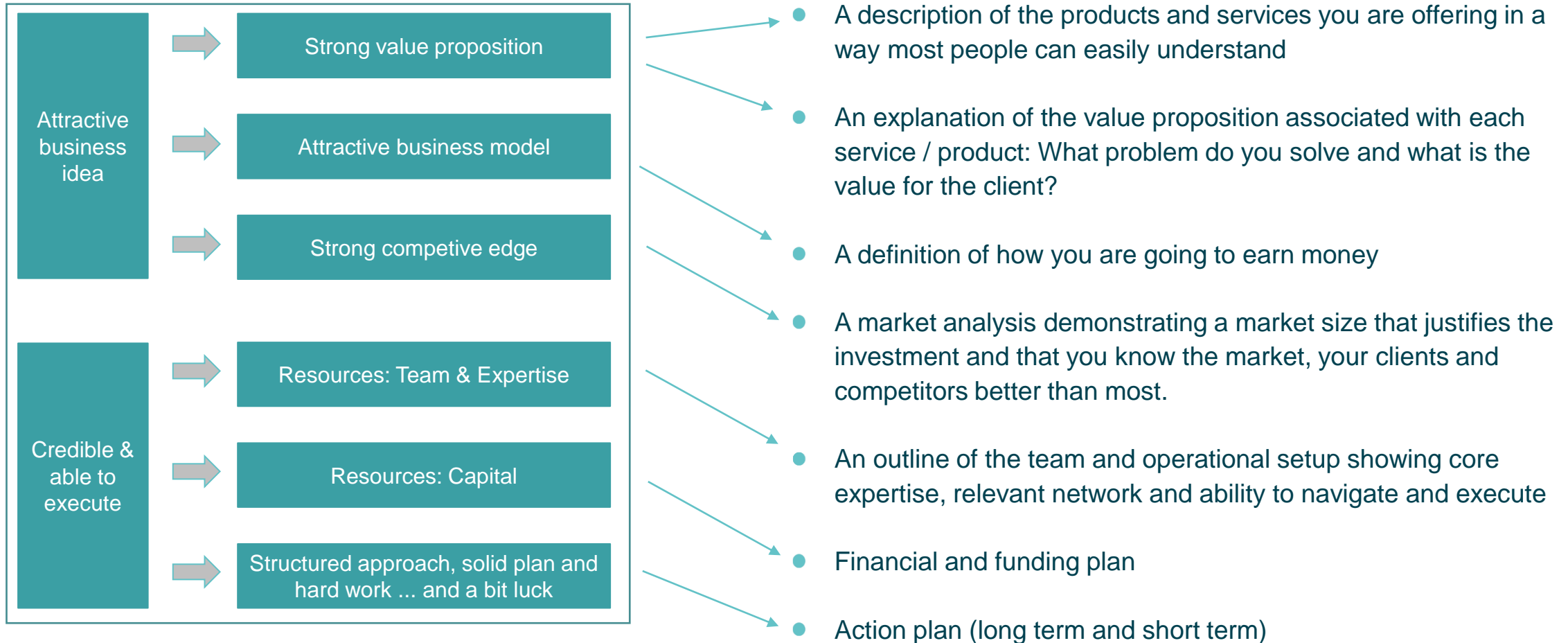
Resources: Capital



Structured approach, solid plan and hard work
... and a bit luck



The core elements of an attractive business plan





The core elements of an attractive business plan

• A description of the products and services you are offering in a

There are different business plan templates and structures that can be used – and which cover the key elements in a good way

Important:

- The core elements are covered
- Value proposition, value proposition, and competitive edge are solid enough to enable success and convince investors
- Rock solid team, necessary operational setup
- Structured and credible action plan and financials

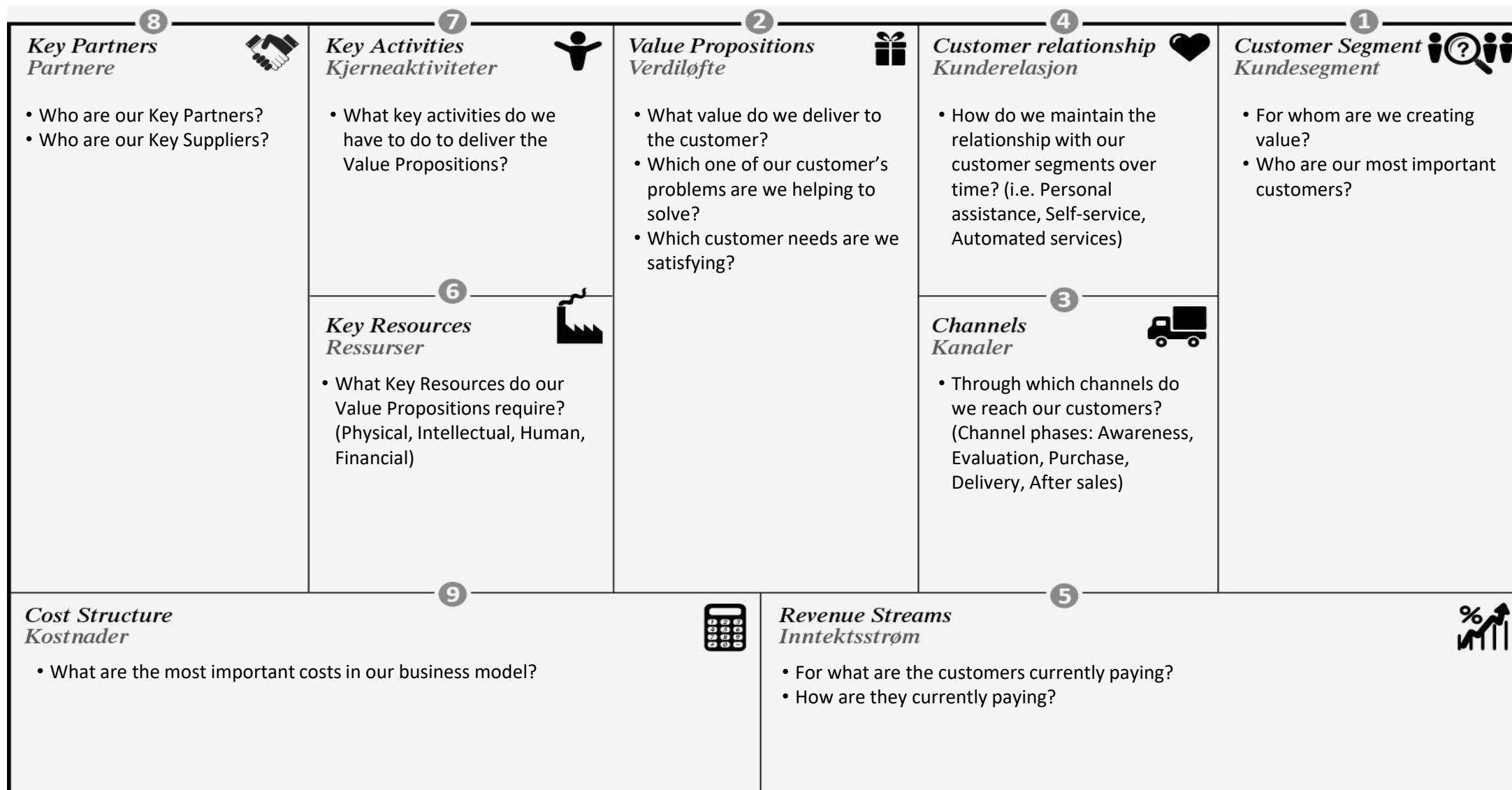
"If I Am To Speak Ten Minutes, I
Need a Week for Preparation; If
an Hour, I Am Ready Now. "

W. Churchill

• Action plan (long term and short term)

Several different business plan layouts / structures

One example: The Canvas model - Osterwalder





The business plan – A possible index

- Executive summary
 - 1-2 pages summarizing the core elements of the plan
- Chapter 1 Business idea & value proposition
 - The basic business idea and what problem(s) you solve and the resulting value you provide to clients
- Chapter 2 Products, services & technology
 - Products, services and core elements of the underlying technology/IPR
- Chapter 3 Market and competitor analyses
 - Market trends/outlook/size/segmentation, clients, competitors and competitive edge
- Chapter 4 Operational set-up
 - Supply chain, manufacturing set-up, sustainability, revenue model, margins & pricing, how to sell/distribute etc.
- Chapter 5 Organization
 - Team, core expertise, required resources and facilities, organizational build-up, HSEQ
- Chapter 6 Financials
 - Financial history and forecasts, capital required and plan for funding
- Chapter 7 Action plan – the most dynamic part of the plan - requires to be updated on a regular basis
 - Short and long term objectives, overall action plan – 3 years typical, 100 day plan with specific actions/responsibilities



The value proposition – a vital and challenging part!

- The value proposition is a description of :
 - How your product or service solves problems for the client
 - What benefits clients can expect – be as quantitative as you can!
 - Why customers should buy from you rather than from your competitors

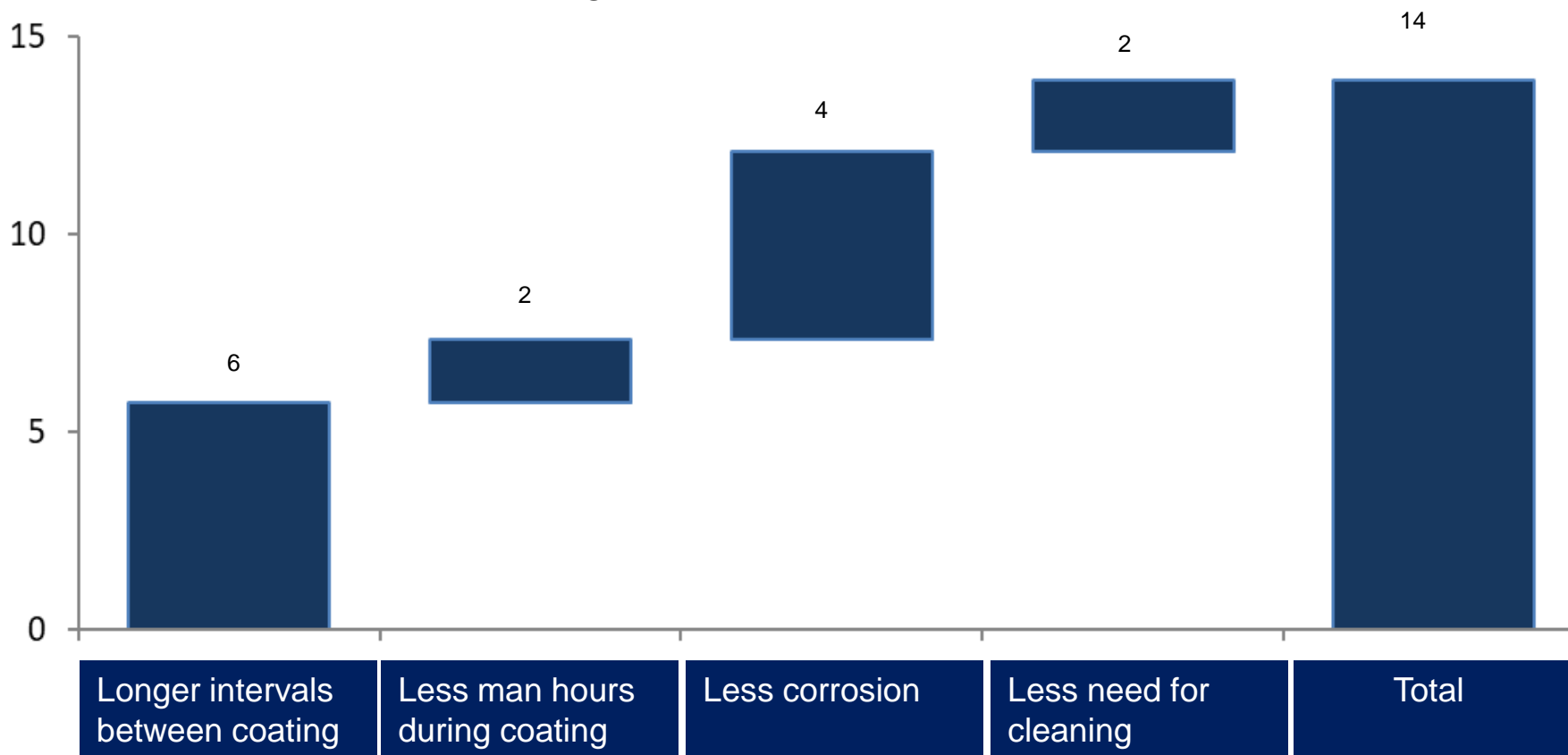
A thorough understanding of client needs is mandatory!

You need to know your competitors!

Value for client - Example



Value for client by using protective coating X as compared to competing coatings – USD / 1 m2 coated surface





Revenue models – Examples

Product sales

Purchase product for X
and sell to clients for X+

Pay per use

Product owned by supplier
and made available to
client who pay per use

Subscription

Product / services are
paid for through a monthly
/ yearly fee (often after a
trial period)

Consumables

Sell base product /
equipment for a low price
and refills / service parts
with a higher margin

Combined sale of products & services

Sell product with a healthy
profit margin and offer
aftermarket services

Financial projections and funding need / plan



Financial projections

Historic financials:

- How has the business performed?
- Explanations where necessary
- Status debt and other key balance sheet items

Key assumptions:

- What drives the business and financial development?
- Realistic but ambitious targets

P&L / profit-and-loss statement projections:

- Revenue development (and from which sources)
- Cost structure and development

Cash flow projections:

- Cash from operations
- Cash need for working capital, investments, R&D, etc
- Cash sources and funding need

For consideration:

- Scenarios, balance sheet projections

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Funding need and plan

Sources and uses of capital: (example)

Sources:		Uses:	
• Cash from operation	0	Operating losses	8
• Customer funding	5	R&D activities	7
• Soft funding / grants	8	Sales & marketing	4
• New equity	15	Capital investments	11
• Bank / loans	12	Working capital (inventory, receivables, etc)	10
• Other sources	5	Other uses / buffer	5
• Total:	45 MNOK	Total:	45 MNOK

Planned equity issues: (example)

• Timing	Amount	Key milestones reached
• #1 – 2021	10 MNOK	Product design and patents completed Development grant (x MNOK) secured
• #2 – 2022	15 MNOK	Prototype design completed Pilot customer confirmed
• #3 – 2023	25 MNOK	Pilot testing successfully completed

Action plan



Business
objectives

Which position is the
company aiming for (in 3 – 5
year perspective)?

Well established as a strategic advisor to the ocean industries in Western Norway

Key initiatives

1. Build experience base in offshore mining and fisheries segment
2. Increase sales and marketing efforts in Rogaland and toward fisheries segment
3. Double delivery organization and establish partnerships in Eastern Norway and UK

Action plan –
how will you get
there?

High level 3 year plan

Specific 1 year plan

2021

2022

2023

New segments	⇒	xxx xxx xxx	xxx xxx xxx	xxx xxx xxx
Sales & marketing	⇒	xxx xxx xxx	xxx xxx xxx	xxx xxx xxx
Organization and partnerships	⇒	xxx xxx xxx	xxx xxx xxx	xxx xxx xxx

The business plan from an investor's perspective



Jon Trygve Berg

Sarsia Seed

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Preview – Module #3 – March 9

Part 1: Investors

- Different types of financial investors – and their characteristics: Business angels, seed, venture capital, buyout, family offices
- An investor perspective
- Q & A

Part 2: The investment process

- Steps in the process: Preparation, marketing, transaction (negotiations, due diligence, execution)
- Process suggestions and tips
- Q & A



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