

How to position a business for growth capital

Module 3: Investors and the investment process

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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Elements of a good investor presentation• Giving an investor presentation• Other documentation needs
Mar 23	Module 5: Growth and exit	<ul style="list-style-type: none">• 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 – Module #3 – June 2

Part 1: Investors

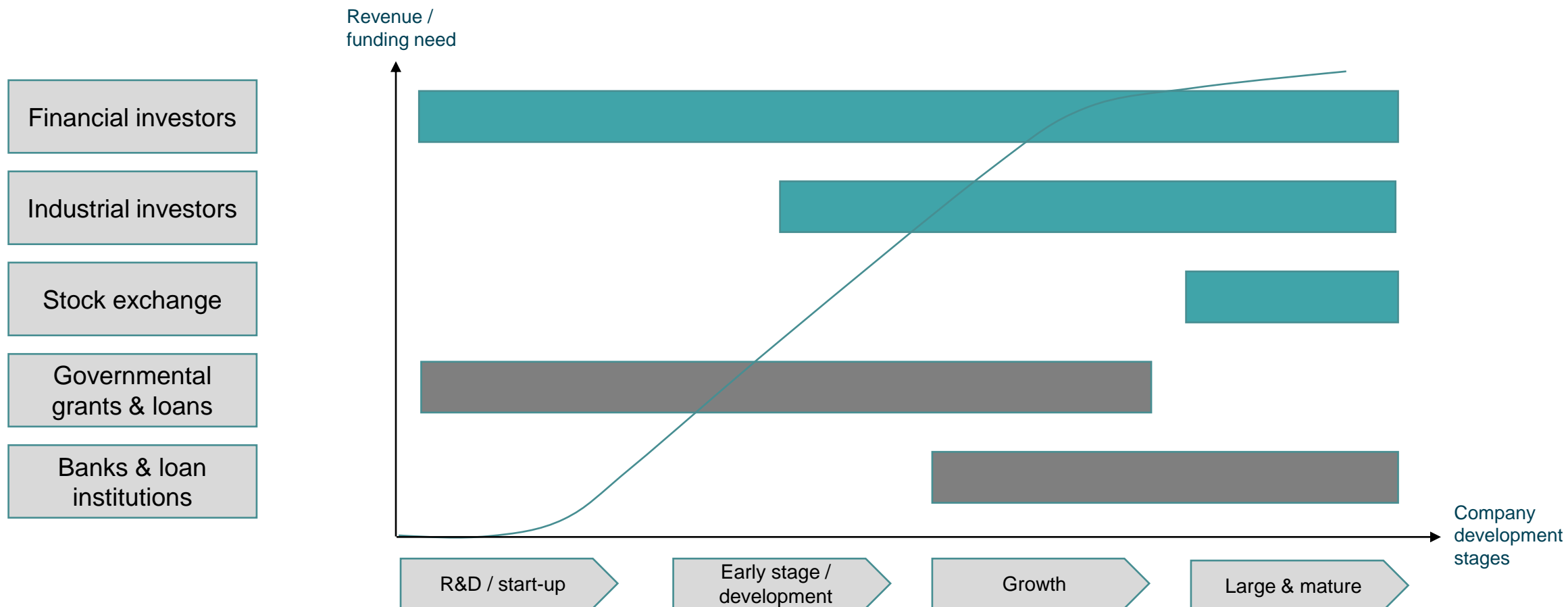
- Different types of financial investors – and their characteristics: Business angels, seed, venture capital, buyout, family offices
- Investors – an external perspective (Argentum)
- Q & A

Part 2: The investment process

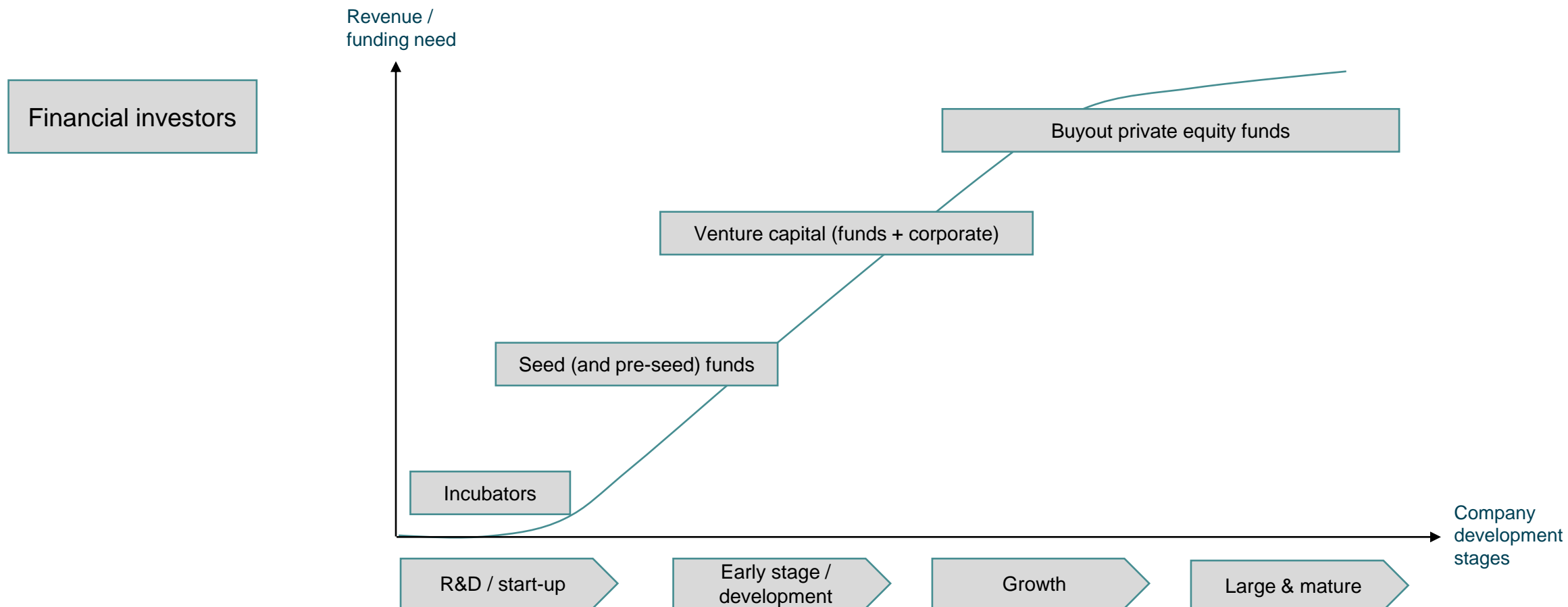
- Steps in the process: Preparation, marketing, transaction (negotiations, due diligence, execution)
- Process suggestions and tips
- Q & A



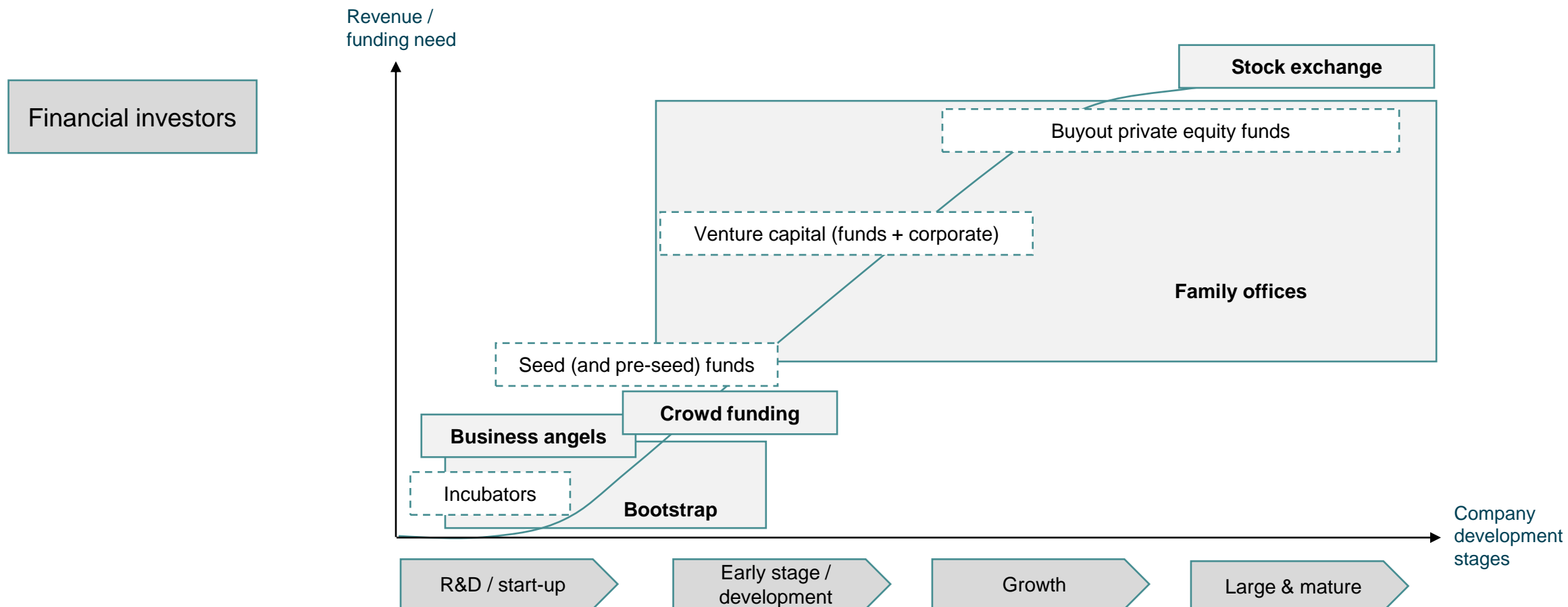
Company funding needs and sources of capital



Financial investors – Investment funds



Other financial investors



Financial investors focus on different situations



	Seed Funds	Venture Capital	Buyout / private equity funds	Family offices
Investment focus	Start-ups and early stage companies before / early in commercial phase	Early stage and emerging companies with a high growth potential	Mature companies (commercial stage and making profits) with value creation potential	Early / growth / mature (i.e. can invest both in venture and buyout stages)
Investments	New equity into the business Several tranches – over time 10 – 25 MNOK*	New equity into the business Several tranches – over time 20 – 100 MNOK*	Buying shares (possibly also combined with new equity) Typically large primary investment – combined with follow-up capital 100 – 1000+ MNOK*	New equity and / or buying shares Flexible, but often target 50 +
Leverage (bank debt)	No	No / limited	Significant	Flexible
Ownership (typical)	10 – 49%	10 – 49%	51 – 90%	Minority or majority
Holding period (typical) and value creation levers	Typical 5 – 10 years	Typical 4 – 8 years	Typical 4 – 6 years (max 10)	Flexible holding period

Some financial investors active in Norway



	Seed funds	Venture capital	PE / Buyout	Family offices	Corporate venture
Norwegian	Alliance Venture Proventure Sarsia Seed Skagerak Maturo	Investinor Nysnø Klimainvesteringer Viking Venture Northzone Idekapiital Hadean Ventures SNÖ Momentum Partners Broodstock Capital Fynd Ocean Ventures Norselab	FSN Capital Herkules Capital Norvestor Longship HitecVision Reiten & Co EV Private Equity Verdane Capital Bluefront Equity	Ferd Capital Katalysator Rieber & Søn Kistefos Farvatn PE AS Bertel O Steen Kapital Watrium Aars AS	Equinor Technology Ventures BKK Spring Agder Energi Venture
Foreign		AP Ventures Mirai Creation Fund	Triton EQT Nordic Capital Summa Equity Altor Adelis Equity		Saudi Aramco Energy Ventures Repsol Shell Ventures

Norwegian incubators, business angles & crowdfunding



Incubators

East & Southern Norway

Aggrator Inkubator Ås AS
Kjeller Innovasjon AS
Oslo Cancer Cluster Incubator AS
Total Innovation AS
StartupLab AS
Skåppå AS
Silicia AS
Pan Innovasjon AS
Klosser Innovasjon AS
Aleap AS
Industriinkubatoren Proventia AS
Innoventus Sør AS
Kongsberg Innovasjon AS
Smart Innovation AS

Western Norway

VIS - Vestlandets Innovasjonsselskap AS
Validè AS
Atheno AS
Kunnskapsparken Sogn og Fjordane AS
Aksello AS
Industriutvikling Vest AS
Peak Venture

Mid-Norway

Proneo AS
Vindel AS
T:Lab AS
Protomore Kunnskapspark AS
6:AM Accelerator AS
ÅKP AS

Northern Norway

Kunnskapsparken Bodø AS
Norinnova AS
Pro Barents AS
Kystinkubatoren AS
KUPA AS
Kunnskapsparken Helgeland AS
Orinor AS

Business Angles

Norwegian Business Angles Network - NorBAN
Business Angles Norway
BAN Bergen
Nordic Business Angle Network
FinTech Angles
AngelChallenge
Oslo International Hub - OIH Angles

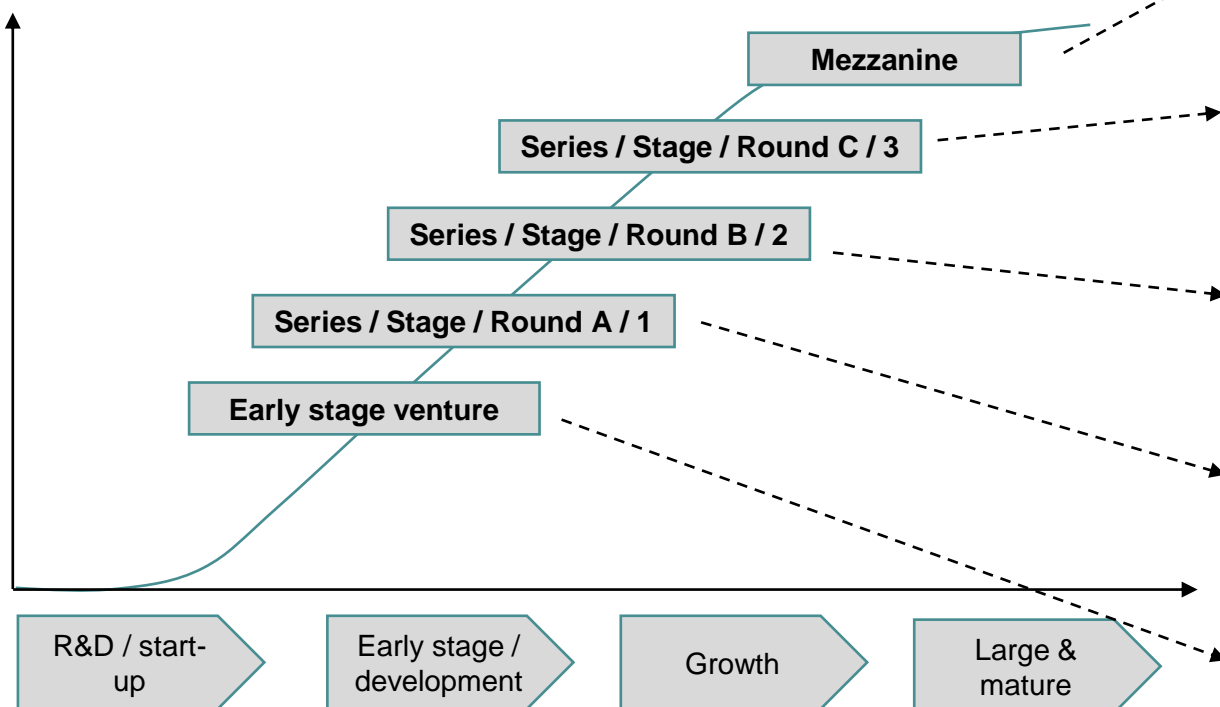
Crowdfunding

Around
SparkUp
CrowdWorks
dealflow
Folkeinvest
Funding partner
Green Currency
kameo
Startskudd
monner

Venture capital investment stages / rounds



Revenue / funding need



When: In commercial phase – making profit

Capital for: Growth, new markets and products, M&A

Late phase / low risk

When: In growth phase – approaching breakeven

Capital for: Increasing market share, growth, working capital, M&A

Medium risk

When: In commercial production

Capital for: Market expansion / growth, product enhancement, working capital

High / medium risk

When: Product is developed and in production, but cash flow is negative

Capital for: Marketing / market entry. Working capital. Running costs

Early phase / high risk

When: Early phase

Capital for: Market testing / launch. Product development. Running costs

Early phase / high risk

How to determine which investors to approach?



Not all investors are a good match for all companies – and vice versa

Not all processes “materialize” – so talk to different investors with the aim of reaching an agreement with some of these

Try to find investors that 1) are a good match and can contribute to the business, and 2) you want to work with

Some factors to consider:

Development stage / company
status and plans

Capital need (\$\$)

Ownership %

Market / industry focus

Local / Norwegian / foreign
investors

Desired contribution in addition to
capital (market access, network,
technology, business build /
development)

Investors – an external perspective



Ingibjörg Meyer-Myklestad

Argentum

Agenda – Module #3 – June 2

Part 1: Investors

- Different types of financial investors – and their characteristics: Business angels, seed, venture capital, buyout, family offices
- Investors – an external perspective (Argentum)
- Q & A

Part 2: The investment process

- Steps in the process: Preparation, marketing, transaction (negotiations, due diligence, execution)
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Typical transaction 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

The process – an example



An example:

	Jun / Jul	Aug	Sep	Oct	Nov	Dec
1. Preparations						
2. Presentations to buyers						
Teaser						
Company presentation (IM)						
M1 : Sufficient interest to proceed-Y/N?						
Meetings						
3. Indicative offers and negotiations						
M2 : Term Sheet signed						
4. Due Diligence						
5. Final negotiations and execution						
M3 : Closing						

Plan the process – some reflections and recommendations

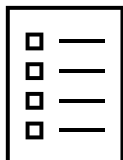


- A proper transaction process takes time
 - Large organizations often have complex decision making structures and processes
 - Whereas the transaction may be your “top priority”, the other parties often have several other activities on their plate
- Start your preparations – and the process – well enough in advance
 - Proper preparations help structure the process – and timeline
- Seek to control the process – rather than letting the process control you
 - Establish structure and predictability – but be prepared for “the unpredictable”
 - If possible – aligning several investors / buyers in a parallel process may strengthen your bargaining position and reduce your risk (but is not always possible)
 - Different buyers / investors may want to “test your process” along the way

The marketing phase



1



- Investor presentation
- “One-pager” for initial introduction without NDA
- NDA to be used when sharing investor presentation
- Prioritized list of investors including contact details
- Draft your input to a potential term sheet. Consult legal advisor.

Documents

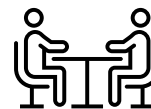
2



- Contact the investors and present your case on a “one-pager” level.
- Follow-up as needed
- Investors will evaluate the investment opportunity and decide if they want to continue the dialogue
- Try to align as many potential investors as possible

Initial dialogue

3



- Sign NDA prior to sharing the investor presentation
- If feasible, give the presentation in a meeting with the investors
- A Q&A-phase will follow – respond swiftly!
- Do not enter into exclusivity at this stage

Management presentations

4



- Set a deadline for the investors to submit indicative offers if you have several interested investors
- Evaluate the offers; valuation, expertise, relations
- Be prepared to enter into exclusivity
- Sign term sheet and prepare for DD and negotiations. Consult legal advisor.

Indicative offer & Term sheet

The transaction phase



DD preparations

- DD request list
- Review DD list
- Prepare electronic data room

DD process

- Answer questions from DD-team

DD review

- Review and discuss findings with DD-team



Negotiations

- Negotiate Investment Agreement and Shareholders' Agreement
- Support from legal advisor mandatory



Final negotiations

- Adjustment of agreements after DD



A smooth process adds value!

Closing

- Fulfill closing obligations
- Sign agreements
- Transfer of funds



Due diligence



Due diligence

Process of verification, investigation, or audit of a potential deal or investment opportunity to confirm all relevant facts and financial information

- For the buyer / investor: Understanding risk / downside – and substantiating upside / investment case
- For both buyer / investor and seller / company: Ensuring consistent expectations and decision base – thereby also reducing risk of misunderstanding and later conflict

Typical due diligence topics

Financial

Commercial

Organization / workforce

Legal

Technical & IP

Environmental

Enabling a successful due diligence



Why and how?

- A proper and well prepared due diligence greatly reduces transaction and legal risk
- Think through the due diligence – and start preparations early
- Get help from someone who has done this before



Contents of due diligence

- Substantiate upside (market potential, growth, revenue opportunities, uniqueness, financials)
- Explain and seek to mitigate possible risk areas (be open as to which risks exist, but at the same time explain how you are working to manage these risks / and why the risks are manageable)

Enable an easy process for the buyer / investor

- Electronic data room ready shortly after signing of term sheet
- Data room consistent with investor's DD request list and expectations
- Be open and honest, structure and provide information, and preempt and answer questions effectively
- DD-information consistent with information given earlier
- No surprises or major findings during DD

Agreements



Transaction terms typically regulated in different agreements – describing the rights and obligations of involved parties
Recommendation: Get support from a good lawyer with transaction experience

Share purchase agreement (SPA)

(for a sale of the company)

Typical topics covered:

Description of company for sale
Purchase price and payments
Representations and warranties
(Due diligence)
Conditions for closing
(for buyer and seller)
Non-compete and non-solicitation
Conflict resolution
Other terms

Investment agreement

(for an investment into the company)

Typical topics covered:

Description of company
Investment amount(s) and value (and possibly different tranches)
Representations and warranties
(Due diligence)
Conditions for closing
(for investor and company)
Non-compete and non-solicitation
Conflict resolution
Other terms

Shareholders' agreement (SHA)

(for a joint shareholding situation)

Typical topics covered:

Strategy / business plan
Ownership
Governance / voting / management
Investments and major decision
Lock-up
Exit / future sale (drag-along and tag-along)
Non-compete and non-solicitation
Conflict resolution – hereunder possible termination of joint ownership
Other terms

Other agreements (that may be relevant – depending on circumstances)

Term sheet / letter of intent (LOI)
(before final agreements)

Employee agreements

Rental agreements

Asset purchase agreement

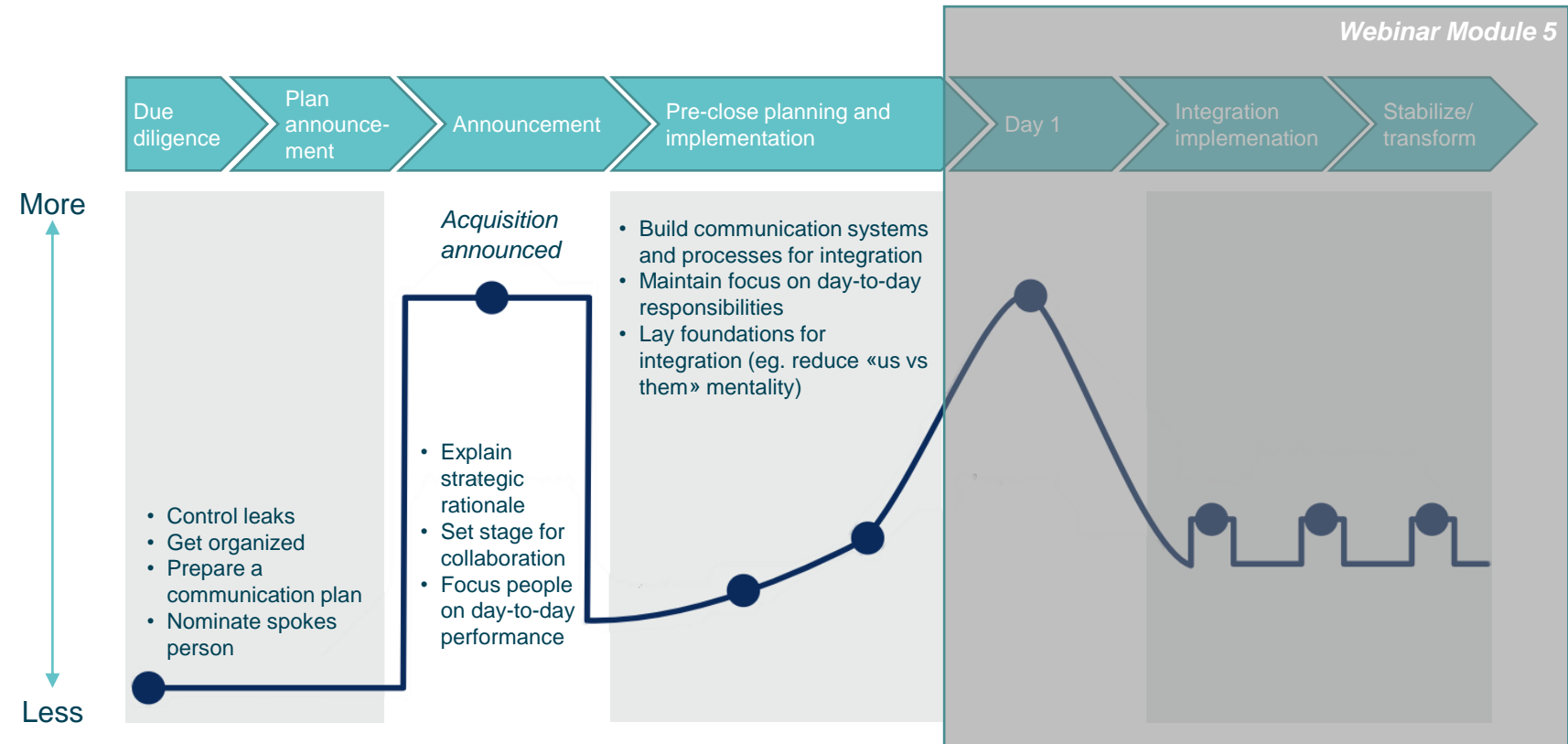
Other agreements

Confidentiality and communication



Be strategic

- Bring only select individuals into the circle before a buyer is identified and a deal is at hand
- Prepare the management team
- Ensure key employees help your sale
- Limit the duration of the DD and negotiation process
- Communicate to employees your understanding with respect for their fear for a new situation
- Customers and vendors should only be made aware of the sale once the terms of the transition are in place.



Properly timing the release of information is essential; consider support from transaction consultants/business brokers that are experts in balancing sale confidentiality with the need to communicate openly with the people who matter to you and your company's next owner.

Maintaining operations in parallel with a transaction process



Align your resources

- Top management suddenly gets another job to do next to the operational work that actually adds value to the company.
- Time spent on the transaction process is very often underestimated, and may affect early prognosis negatively
- Sales price/valuation of the company is often lower than it could have been if the resources were aligned with the focus and actual workload.
- Point out whom from management are the spokes personnel

Prepare the management team ready before the transaction process starts

- A buyer/new owner is concerned about whether or not the key employees in the company will follow the company or not. Especially for smaller businesses, the dependency on key employees can be great.
- It is of great value for the seller to have a good management team that is motivated to participate, as well as ensure that this also applies to other key employees.
- It is important that the transaction team have enough time available for the process; evaluate to allocate some daily workload elsewhere
- As part of the seller's due diligence, it is also often advisable to “drill” all senior executives (or all employees) in the most important routines and procedures. This gives a more professional impression to a buyer/investor and can have an impact on their interest / negotiations / price.

Recap - typical transaction process



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Recap process - some “key takeaways”

Think it through:

- Analyze growth opportunities and what it takes in detail
- Consider alternative sources for growth capital
- Implications of getting a new owner on board?
- Implement value adding improvements if possible



Preparation

Marketing



Be honest and ambitious:

- What you claim will be checked during DD!
- Take ownership to your growth ambitions!
- The highest bidder is not necessarily the best match

Stay safe:

- Hire a legal advisor with extensive transaction experience
- Agreements are made for rainy days
- Eliminates unnecessary future use of resources and professionalizes cooperation



Transaction

Post-transaction



Be proactive:

- Use your investor as a sparring partner
- Deal with issues before they turn into problems!
- Never present challenges without proposing solutions!

Agenda – Module #3 – Mar 9

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Part 2: The investment process

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Preview – Module #4 – Mar 16

Part 1: Investor presentation – and other documentation needs

- Key contents of an investor presentation – a quick overview
- A “teaser”
- Other documentation needs

Part 2: Telling – and selling - the story

- Different audiences – different needs
- What triggers an investor?
- Some examples
- Q & A



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