

# INVESTMENT ATTRACTION GUIDE

Efficient Infrastructure is essential to driving sustainable economic development and growth, lifting levels of productivity and boosting employment.

## TOOLKIT PURPOSE & EXPLANATORY NOTES

### Aim

The aim of this toolkit is to provide business owners with access to information with regards to attracting investment capital in order to facilitate growth or assist in expanding into new markets or products.

### Toolkit Principles

There are a number of key principles that the toolkit has adopted:

- Provide some basic yet high quality information across a series of topics relevant to attracting investment capital
- Formulate a robust investment application template
- Strike the right balance between information and clarity
- Simplicity is fundamental – do not use sophisticated technical terminology
- Use of high level and powerful language that conveys succinctly the key information and messages
- Provide a list of additional resources for further assistance in key business areas

### Toolkit Methodology

The toolkit has been developed by experienced business executives and owners who have practical knowledge and experience in growing businesses through the use of investment capital.

It comprises a combination of information topics as well as an application template with practical examples of how to complete each section of the application.

The application template is generic and may need to be altered to suit the individual circumstances of the business owner.

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## WHY CONSIDER EXTERNAL INVESTMENT?

It is important that you give due consideration as to the reasons why you are seeking an external investor. There are a number of issues you need bear in mind prior to taking this course of action.

### Advantages of External Investment

The major advantages are:

- External investors are generally prepared to accept higher risk investments than are other sources such as financial institutions
- Investors can bring significant business knowledge and experience
- They can have immense business networks that may assist in entering and penetrating new markets
- The investor may act as a mentor to you or your key staff
- Investors offer more flexible business arrangements

### Disadvantages of External Investment

There some significant disadvantages associated with external investment that you need to consider:

- You will potentially need to give up between 10-50% equity in your business
- You may be removed as a business executive if the shareholders do not believe you are the right person to lead the company to its next stage of its growth
- You may be required to sell the business before you are ready to – timeframe may be negotiated as part of the shareholder agreement signed prior to the provision of funding

### How to Target Suitable Investors

The easiest and fastest way to find suitable investors is to use investing organisations that can match angel investors or venture capitalist with business owners.

There are a number of investor organisations that can assist you to find, target and approach these investors:

- [www.australianinvestmentnetwork.com](http://www.australianinvestmentnetwork.com)
- [www.businessangels.com.au](http://www.businessangels.com.au)
- [www.findangelinvestors.com.au](http://www.findangelinvestors.com.au)
- [www.privateequityaustralia.com](http://www.privateequityaustralia.com)

Approaching external investors is no different to any other business connection you make or conversation you may have with your bank. The key is to strategically and philosophically match your business needs and personality to the right investor. The organisations listed above will greatly assist in that regard.

### Alternative Funding Sources

Before considering utilising external sources of investment, it is important to examine alternative sources of funding.

- Commercial business loans – financial institutions (banks, credit unions etc)
- Mezzanine Funding – debt capital with rights to convert to equity if loan is not repaid
- Convertible Notes – a bond that can convert to ownership shares (Ref: website [www.asx.com.au/documents/resources/irs\\_course\\_06.pdf?irs\\_course\\_06\\_text](http://www.asx.com.au/documents/resources/irs_course_06.pdf?irs_course_06_text))
- Debtor Finance – using accounts receivable invoices as collateral

It is advisable to explore all funding options before embarking on a course of bringing in external investors

### Importance of Documented Business Plan

It cannot be stressed enough the importance of having a formally documented robust strategic business plan. The plan should cover in detail the following:

- Vision, Strategy & Strategic Themes
- Market, Industry & Competitor Analysis
- Business Model
- Financial Plan
- Marketing Strategy (incl Product & Customer Segmentation)
- Human Resource Plan
- Operations Plan
- Risk Management Matrix & Plan
- Implementation Action Plan
- Performance Scoreboard

It is advisable to seek professional external assistance such as attending a business planning workshop prior to completing your business plan. For a comprehensive planning program for business owners visit [www.executiveboardsaustralia.com.au](http://www.executiveboardsaustralia.com.au) - Business Strategy for CEO's

### Professional Advice & Other Financial Considerations

Obtaining professional advice is critical in order for you to ensure that you are properly protected in any transaction. When you don't have any experience in seeking or working with external investors then having experienced independent advisers is important.

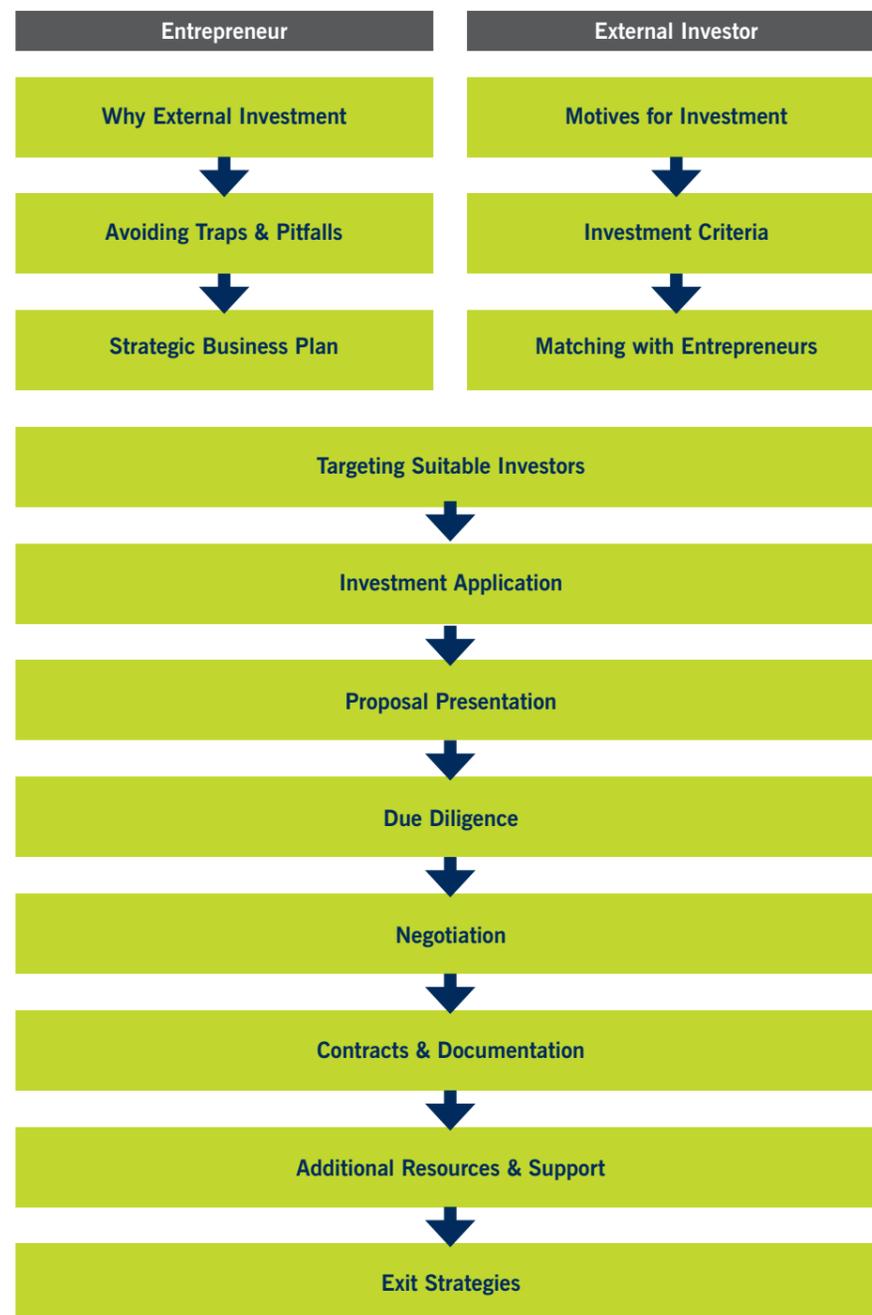
Those advisors include:

- **Solicitors** – expertise in previous external investments, contract law & international law
- **Accountants** – expertise in budgetary management, tax law, mergers and acquisitions
- **Independent Consultant** – experienced business owner/executive with expertise in strategy development and business planning
- **Industry Expert** – specific industry experience particularly in entering international markets

Each of these advisors will charge for their services and it will be necessary for you to make an allocation for these costs in your budget. Generally these advisors will charge between \$250-\$500 per hour.

## STAGES OF INVESTMENT

Depicted below are the various stages of the investment process:



## TYPES OF INVESTORS

There are several different types of investors:

### Angel Investor

An angel investor is an affluent individual who provides investment capital for a start-up or existing business in exchange for convertible debt or ownership equity. Such investors may also organise themselves into investor groups in order to spread their risk.

Because of the potential risks, angel investors will require a high rate of return typical within the range of 3-5 times their initial investment over a 5-year period.

References:

**Australian Investor Network**  
[www.australianinvestmentnetwork.com](http://www.australianinvestmentnetwork.com)

**Business Angels**  
[www.businessangels.com.au](http://www.businessangels.com.au)

**Wholesale Investor**  
[www.wholesaleinvestor.com.au](http://www.wholesaleinvestor.com.au)

It is advisable to explore all funding options before embarking on a course of bringing in external investors

### Venture Capitalist

Venture capitalists are generally pooled investments incorporating wealth investors, investment banks or other financial institutions who generally invest in start-up ventures with limited operating history.

The Australian Government has a suite of programs to assist companies through the equity gap period. Programs such as the Innovation Investment Fund work with private venture capital fund managers to provide capital and professional expertise for innovation.

Requirements of venture capitalists can vary but in general terms they will be seeking returns similar to those of angel investors.

References:

**One Ventures**  
[www.one-ventures.com.au](http://www.one-ventures.com.au)  
[www.business.gov.au](http://www.business.gov.au)

**Integral Capital**  
[www.integralcapital.com.au](http://www.integralcapital.com.au)

### Private/Personal Investors

Private Investors tend to be family or friends who may wish to invest in a business venture. They may also wish to become involved in the management of the business and so great care should be taken prior to undertaking this type of capital raising.



### Peer-to-Peer Investing/Lending

This is the practice of lending money to a non-related party of “peer” without going through a traditional financial institution such as a bank.

This type of lending is generally transacted through a peer-to-peer lending/investing company. The risks associated with this type of finance are high and may involve substantial security but generally won't involve equity in the business.

References:  
www.finder.com.au

#### Society One

www.societyone.com.au

### Investor Motives

It is important, as part of your due diligence, that you ascertain the motives of the investor in seeking to invest in your business. This is particularly important in the case of international investors. Some of their motives may include:

- The requirement to shift capital from their country of origin (for political and tax minimisation reasons)
- Their desire to seeking residential status within Australia
- Their ability, through the foreign investment process, to have family members seeking residence in Australia

### Investment Funding & Grants

There are 282 grants within Australia available for businesses who are looking to establish a new business or alternatively grow their existing business.

There are a number of websites that can assist when searching for funding:

- [www.australiangovernmentgrants.org](http://www.australiangovernmentgrants.org)
- [www.business.gov.au](http://www.business.gov.au)
- [www.grantslink.gov.au](http://www.grantslink.gov.au)

## AVOIDING THE TRAPS & PITFALLS OF EXTERNAL INVESTMENT

There are a number of critical traps and pitfalls that can befall a business owner. Understanding what those are and how to avoid them is essential in achieving a successful transaction:

### Selecting the Right Investor

- Do your due diligence – this is critical (use external advisers where possible)
- Ensure that the investors needs align with those of your business
- Ascertain whether you both have similar values and business ethics
- Do they have the experience and networks to assist you in penetrating new markets?

### Not Understanding the True Motives of an Investor

- Don't be afraid to ask probing questions as part of your due diligence
- You need to find out whether they have ulterior motives for investing in Australia

### Giving Investors Too Much Attention

- Don't divert your focus from running the business
- Continue to build your other important relationships with key stakeholders
- Manage your cash flow carefully
- Protect the value of the businesses assets

### Do Not Revise Your Business Model to Suit the Investor

- Each investor will have a unique profile and attitude
- Successful investors will understand your vision and embrace it, so don't change it
- The success of your business model does not change because of the type of funding

### Ensure there is a Robust Business Plan

- Have a properly documented 5-Year business plan developed
- Ensure the vision and future direction of the business is clearly articulated
- Run projections and make contingencies for no, slow and fast growth
- Clearly understand why you are seeking external investment

### Allocate investment Funds Wisely

- Be very clear about what the investor funds are to be used for
- Where possible don't put all the funds into one basket
- Allocate funds to fill knowledge or skill gaps

# INVESTMENT APPLICATION TEMPLATE

The Investment Application Template has a number of components that will be completed by the business owner. The categories are:

- Investment Summary
- The Opportunity
- Unique Selling Proposition
- Financial Forecasts
- Founder/Executive Background & Experience
- Market, Industry & Competitor Analysis
- Marketing Strategy
- Legal & Regulatory Compliance
- Risk Management Analysis
- Investor Funding, Equity & Returns
- Additional Information (Based on Investment Options)

The Toolkit has provided a step-by-step guide as to how to complete the application. It has also provided a specific holistic example in order to complete each section.

## INVESTMENT SUMMARY

**Provide a concise summary of your business concept, strategy and objectives**

*Describe what your business does, where it is located and what strategy you are pursuing*

*Outline why are you in business*

*What are your 5-Year business goals and objectives?*

*What are you seeking from the external investor and what are you offering? Outline the expected return and exit plan*

*The total return over the 5 years is \$9.4 million or 235% ROI on the initial investment*

## EXAMPLE

ABC Wines is a boutique wine production and retail business situated on 2.5 hectares (freehold ownership – bank financed) at Strathalbyn, 25 kilometres from Adelaide, the capital city of South Australia. It operates a multi-brand strategy in both the premium (AUD \$25-\$50 per bottle) 'Heritage Brand' and mid-tier (AUD \$12-\$24) 'Strath Brand' wine categories.

We have an unshakeable passion for wine and have created two unique brands that have deep consumer loyalty demonstrated by consistent revenue & EBIT growth over the last 10 years. There is over 100 years of combined wine industry experience in the Leadership Team.

ABC Wines is seeking to double the turnover and profitability of the business over the next 5-years by utilising a dual strategy:

- Build a state of the art new wine processing and bottling facility
- Enter and drive penetration into the Asian market commencing with China

The identified opportunity is to increase sales in existing markets and expand into new markets whilst driving operational efficiencies through fully automating our bottling process.

ABC Wines is seeking AUD\$4.0 million. In return for this investment, 40% equity of the ordinary shares in the company is offered.

The total dividend return for the investor over the five years is \$2.2 million. It is anticipated that a trade sale after year 5 (using a wine industry standard EBIT multiple of 10) will achieve a sale price of \$18 million.

With a 40% shareholding this equates to \$7.2 million return.

The total return over the 5 years is \$9.4 million or 235% ROI on the initial investment

# THE OPPORTUNITY

(What is attractive about the future prospects and what are you seeking?)

## Outline the future opportunities that you have identified

*What are the key strategies you intend pursuing?*

*What are the benefits of the opportunities?*

## Why are you seeking external investment?

*Be specific in the reasons for the partnership*

*What is the exit plan?*



# EXAMPLE

ABC Wines is seeking to double the turnover and profitability of the business over the next 5-years by utilising a dual strategy:

- Build a state of the art new wine processing and bottling facility
- Enter and drive penetration into the Asian market commencing with China

The identified opportunity is to increase sales in existing markets and expand into new markets whilst driving operational efficiencies through fully automating our bottling process.

The cost of the new facility is AUD \$4.5 million (will be built on the existing ABC Wines owned land) and a projected marketing expense of \$500k. ABC Wines is seeking funding of \$4.0 million. The allocation of funds will be \$3.5 million for the new facility and \$500k on international marketing activities.

The existing Australian wine market is mature with consumers having sophisticated understanding of wine and innate ability to unearth value from their wine choices.

The strategy for entering the new Asian markets is to develop strategic partnerships with local wine distributors and wholesalers who will sell product through their existing channels. Initially the Strath brand will be the preferred product to cater for the mid-tier consumer due to the purchasing decision being based on price and value.

In addition ABC Wines will drive their on-line sales through a comprehensive digital marketing program that will target the 25-50 year age group. The development of specific mobile apps will be utilised to build brand recognition and presence in the Asian markets.

It is forecast that by year 3 international sales will account for 30% of total turnover and ABC Wines will implement a country specific entry strategy through a careful and systematic product roll-out.

ABC will continue to source grape varieties from its extensive vineyard network and will utilise grower contracts to maintain and protect grape supply.

The major benefits of the new production facility can be summarised as:

- Increase bottling capacity by 80%
- Full system automation that drives labour efficiencies
- Optimising inventory management that eliminates wastage



The facility is an integral part of the market expansion strategy and enables the control of a significant component of the supply chain.

ABC is seeking an international investor primarily to use their influence and business connections to assist in penetrating the Asian market and to build brand loyalty with the Asian consumer.

ABC wants to partner with an investor who shares their passion for wine whilst building a business that achieves the targeted return on investment objectives.

The exit plan for the owners is seek a trade sale with one of the top global wine businesses in Year 5 following the achievement of the growth targets and establishment of the brand presence in the Asian market.

## UNIQUE SELLING PROPOSITION

(What is the value proposition that differentiates your product or service in the market and is better than your competitors?)

### Outline what is unique or different about your product or service

Detail “why” you are in this business – what are you passionate about?

The key success factors of the value proposition may include (these factors will also apply to a new product or service):

- How is the brand perceived in the market place?
- What do your customers value most about your product or service?
- What specific need does your product or service fill?
- What brand image is in the mind of your customers

- *Is there anything unique about your product or service?*
- *How satisfied are your customers?*
- *Price (Are you competing on price or do you charge a premium?)*
- *Quality (How reliable and superior is your proposition?)*
- *Innovative (Is the proposition a new idea or invention?)*

### If you could fill the room with your ideal customer, who is in the room?

Outline the demographic of your key customers

Do they have specific tastes or demands? – What are their buying criteria for your product or service?

## FINANCIAL FORECASTS

(The 5-Year Financial Budget)

### Outline the 5-Year Financial Plan

(Provide three key financial numbers (Revenue, Gross Profit & Expenses) from the Profit & Loss Statement)

	Current Year	Year 2	Year 3	Year 4	Year 5
Revenue (\$)					
Gross Profit (\$)					
Gross Profit (%)					
Expenses (\$)					
EBIT (\$)					
EBIT (%)					

### Provide assumptions and reasons for growth forecasts

Reference – [www.rba.gov.au](http://www.rba.gov.au) – Reserve Bank of Australia  
 Market Research – [www.clomarbrunton.com.au](http://www.clomarbrunton.com.au)  
[www.tradingeconomics.com/australia/forecast](http://www.tradingeconomics.com/australia/forecast)

EXAMPLE

ABC Wines has developed a culture of passion for wine. The reason why we are in this industry is because we love wine and the pleasure it brings to those who have an appreciation for the taste of wine.

The ABC Wines market positioning is identified through its tag line “Where taste meets value” and signifies how they are different from their competitors.

Key Success Factors of the value proposition are:

- Depth of flavour in all wine varieties
- The brand is perceived as producing quality wine
- Value pricing across both brands
- Deep customer loyalty
- Heritage Shiraz won three wine awards
- Uniquely shaped wine bottles (depicted below)



The ABC bottles are easily recognisable in comparison to competitor bottles and contribute to its brand and customer loyalty.

The ideal ABC Wine customer has the following characteristics:

- 30-65 age group
- Female consumers predominately prefer white wine varieties
- Average spend of \$80 per week on wine
- Married or defacto relationship
- Employed in white collar industry

EXAMPLE

ABC Wines 5-Year financial forecasts are:

	Current Year	Year 2	Year 3	Year 4	Year 5
Revenue (\$)	\$5.0m	\$6.25m	\$7.5m	\$8.75m	\$10.0m
Gross Profit (\$)	\$3.25	\$4.06	\$4.87	\$5.68	\$6.5m
Gross Profit (%)	65%	65%	65%	65%	65%
Expenses (\$)	\$1.25m	\$1.44m	\$1.58m	\$1.66m	\$1.7m
EBIT (\$)	\$500k	\$750k	\$1.05m	\$1.40m	\$1.80m
EBIT (%)	10.0%	12.0%	14.0%	16.0%	18.0%

### Provide assumptions and reasons for growth forecasts

Revenue growth will be driven by organic growth of x% in the Australian market and xxx unit sales in the Asian market. These forecasts have utilised international market research specifying consumer trends and demands in both the Australian and Asian markets. Forecasts have adopted a conservative approach at the lower end of research statistics.

A full financial analysis including profit & loss, balance sheet and cashflow projections is available upon request.

## FOUNDER/EXECUTIVE BACKGROUND & EXPERIENCE

(Only include those experiences that are relevant to the current business)

**Provide details of the general business background and specific industry skills & knowledge of both the Owner(s) & Executive team**

*(Include qualifications, industry memberships and relevant work experience demands? – What are their buying criteria for your product or service?)*

The key executives of ABC Wines are:



**John Smith**

John is the co-founder of the business together with Mary Jones. His career has been predominately in the engineering industry specialising in water and energy efficiency. He has the following qualifications & experiences:

- Managing Director – ABC Wines Pty Ltd [2004-Present]
- Bachelor Mechanical Engineering (Adel)
- Master Business Administration (Deakin)
- Bachelor Viticulture (Charles Sturt)
- CEO – STU Environmental Solutions [1990-2004]
- General Manager – XYZ Engineering [1980-1990]
- Member – Australian Society of Viticulture
- Fellow - AICD

John will lead the international expansion into the Asian markets.



**Mary Jones**

Mary is the co-founder of ABC Wines. Her career is in sales and marketing across a number of industries including the wine sector:

- Director – Sales & Marketing ABC Wines [2004-Present]

- Bachelor Business (Marketing) (Uni SA)
- Sales Director – LMN Winery [1994-2004]
- General Manager – Sales – VWX Corporation [1984-1994]
- Marketing Manager – PRS Products [1980-1984]
- Member – Australian Society of Viticulture
- Over 20 years of sales experience in wine industry
- 34 years sales and marketing experience

Mary has committed to remaining with ABC Wines for the next 5 years.



**Peter Brown**

Peter is the General Manager – Operations and chief wine maker at ABC Wines. His career has been entirely in the wine industry:

- Chief Winemaker – ABC Wines [2004-Present]
- Master Viticulture (Adel)
- Operations Director – GHI Wines [1994-2004]
- Winemaker – DEF Winery [1984-1994]
- Member – Australian Society of Viticulture
- 30 years' experience in wine making

Peter has signed a 5-Year employment contract with a further five year option. As a key member of the leadership team, Peter has committed to producing wine varieties for the Asian markets.

ABC Wines has an advisory board in place with an independent chair – John Jones



## MARKET, INDUSTRY & COMPETITOR ANALYSIS

### Our Industry

*(Describe what industry you operate in)*

*Outline the size of your market*

#### EXAMPLE

The Australian wine industry is the world's fourth largest exporter of wine with approximately 750 million litres a year to the international export market with only about 40% of production consumed domestically.

The domestic market is worth A\$2.8 billion with a per capita consumption of about 30 litres per annum. Only 16.6% of wine sold domestically is imported. The Australian market can be defined as mature.

### Market Overview

*(Outline the key factors in each of your markets)*

#### EXAMPLE

The Australian market can be described as mature and with the climate and soil types, Australia can produce all of the major wine types. It has some of the oldest grape vines in the world. Consumers are sophisticated and are seeking value in their purchasing decisions.

In the coming years Asia is predicted to be the driver of world wine market growth due to rising consumption coupled with growing middle class purchasing power, considerations of health benefits and status symbols.

China, India and South Korea are viewed as the major emerging wine markets due to the increased population growth in those three countries. Consumers are experimenting and developing their wine pallets and they are aware of the quality of Australian wine.

### Industry Growth & Profitability

*(Describe the growth prospects and overall profitability of the industry)*

*Is your industry declining, stable or increasing in terms of revenue?*

*What are the key factors influencing industry profitability?*

#### EXAMPLE

Industry growth is expected to be stable in the Australian market and strong in the Asian markets.

Overall the wine industry remains positive but increased competition from substitute products and pricing discounts may threaten profitability. The focus is to target the premium and mid-tier wine consumers where pricing is not the major purchasing criteria.

The key to profitability is to provide quality wines at a price that delivers value. Production efficiency through systemised automation will drive gross profit margins.

### Competitor Analysis

*(Who are your major competitors and what strategies are they pursuing?)*

#### EXAMPLE

Our competitors can be categorised into two segments. The first is other wine brands and the second is substitute products such as beer, spirits and cocktail mixers.

The major domestic competitors are:

**DEF Wine Corporation** – biggest producer of wine in Australia through multiple brands. Dominates the mid-tier market with xxx brand. Is pursuing a cost leadership strategy by offering discount trading terms to retail distributors.

**GHI Wines** – second largest competitor and competes directly with DEF. Is also adopting a cost leadership strategy with a view to taking market share across the mid-tier segment.

**JKL Global** – produces premium brand wine through its yyy brand. Seeks to dominate the premium segment through a differentiation strategy focussing on wine quality.

## MARKETING STRATEGY

(The marketing plan outlines the process of analysing marketing opportunities, identifying and selecting key markets, developing the marketing mix and managing the marketing effort)

### Outline what, how and where you are selling

Product Categories	Sales Channels	Key Markets

### What is your market positioning?

*(Describe what position in your market you are adopting)*

*What is the brand promise and key benefits of your brand?*

ABC Wines utilises a multi-dimensional marketing and distribution strategy:

Product Categories	Sales Channels	Key Markets
'Hermitage Brand' (Premium) <ul style="list-style-type: none"> <li>• Shiraz</li> <li>• Cabernet Sauvignon</li> <li>• Merlot</li> <li>• Sauvignon Blanc</li> <li>• Riesling</li> </ul>	The customers we sell to:  Distribution Channel <ul style="list-style-type: none"> <li>• Independent Liquor Wholesalers</li> <li>• Major Liquor Retail – Dan Murphys/BWS</li> <li>• On Premise (Hotels &amp; Restaurants)</li> </ul>	Our markets are defined and segmented based on annualised sales <ul style="list-style-type: none"> <li>• Australia</li> <li>• New Zealand</li> <li>• China</li> <li>• Singapore</li> <li>• Hong Kong</li> <li>• Japan</li> <li>• Thailand</li> <li>• India</li> </ul>
'Strath Brand' (Mid-Tier) <ul style="list-style-type: none"> <li>• Sauvignon Blanc</li> <li>• Riesling</li> <li>• Chardonnay</li> <li>• Shiraz</li> <li>• Cabernet Sauvignon</li> </ul>	End Customers <ul style="list-style-type: none"> <li>• On-Line</li> <li>• Cellar Door</li> </ul>	

#### What is your market positioning?

ABC Wines market positioning can be summarised by its tagline "Where Taste Meets Value". It has adopted a focussed differentiation strategy that has value as its core element.

This is the position they want to occupy in the mind of consumers. The benefits and key features of the ABC Wine brands include:

- Depth of flavour
- Taste with Value
- Combined 100 years of experience in producing wine
- Australian owned and operated
- Grapes sourced from South Australian vines

## LEGAL & REGULATORY COMPLIANCE

### What are the major legislative regulations that apply to your industry?

*[Reference – Legal Issues Guide for Small Business at <http://sblegal.innovation.gov.au>]*

### EXAMPLE

The major legislative requirements include:

- Australian & New Zealand Food Standards Code – Wine Production
- Australian Grape & Wine Authority – Act & Regulations (incl Labelling)
- Wine Australia Corporation - Act & Regulations
- AS 6000 2009 Organic & Biodynamic Products
- Foreign Acquisitions & Takeovers 1975 – Act & Regulations
- Foreign Investment Review Board – Australia Foreign Investment Policy

ABC Wines have engaged VW Lawyers as their legal representatives to ensure compliance with all legislative requirements.

### What are the key taxes that apply to your industry?

*[Reference – Australian Taxation Office at [www.ato.gov.au/business](http://www.ato.gov.au/business)]*

### EXAMPLE

The key taxes are:

- Income Tax
- Company tax
- Wine Equalisation Tax [Producer Rebates]
- Goods & Services Tax
- Customs Duties & Tax

Monthly accounting is outsourced to VW Accountants. Their engagement requires them to advise on all taxation issues to ensure compliance with all ATO requirements.

# RISK MANAGEMENT ANALYSIS

(Utilise the risk matrix to identify the key risks, the likelihood of occurrence and consequences)

## Identify the top 10 risks for your business

Plot the 10 risks in the matrix based on likelihood and consequence of occurrence

Consequences			
Likelihood	Minor	Major	Catastrophic
Almost Certain to Occur in Most Circumstances			
Possible & Likely to Occur at Some Time			
May Occur However it is Unlikely			

## Outline the Action Plan for Catastrophic Risks

References: *Preparing a Risk Management Plan* – [www.business.qld.gov.au](http://www.business.qld.gov.au)  
*SmallBiz Connect* – [www.toolkit.smallbiz.nsw.gov.au](http://www.toolkit.smallbiz.nsw.gov.au)  
*Risk Management Books* – [www.amazon.com](http://www.amazon.com)

EXAMPLE

Consequences			
Likelihood	Minor	Major	Catastrophic
Almost Certain to Occur in Most Circumstances		<ul style="list-style-type: none"> <li>Failure to Penetrate Asian Markets – insufficient sales in new markets</li> </ul>	
Possible & Likely to Occur at Some Time	<ul style="list-style-type: none"> <li>Increase in Expenses &amp; Costs – blowout in wages &amp; business costs</li> </ul>	<ul style="list-style-type: none"> <li>Loss of Sales – through changing customer demand</li> <li>Distributor Relationship Collapse – breakdown of business critical relationship</li> <li>Loss of Key Staff – aging workforce that are at retirement age</li> </ul>	<ul style="list-style-type: none"> <li>Crop Disease &amp; Failure – no grapes resulting in no product</li> <li>Plant Destruction Through Fire – total business interruption</li> </ul>
May Occur However it is Unlikely	<ul style="list-style-type: none"> <li>Exchange Rate Fluctuations –country specific currency strategy</li> </ul>	<ul style="list-style-type: none"> <li>Production Inefficiencies – new facility does not deliver cost efficiencies</li> <li>Contracting Domestic Market – reduced sales in Australia</li> </ul>	

### Outline the Action Plan for Catastrophic Risks

#### Crop Disease & Failure

- Utilising Drought Risk Assessment Modelling
- Rain Forecasting
- Pest Inspection & Eradication Program
- Frost Prevention Program
- Develop Alternative Supplier Arrangements

### Plant Destruction through Fire

- Fire Sprinkler Installation & Maintenance
- Business insurance schedules [includes Business Interruption Insurance]
- Business Continuity (disaster) Plan
- Bushfire Disaster & Evacuation Plan

## INVESTOR FUNDING, EQUITY & RETURN

### Outline the amount of funding required & equity offered

*(In calculating the amount of funding, consider cost of construction, fit-out, marketing expenses, employment costs, production costs. Include all of these costs in a budget and have this budget scrutinised and reviewed by your accountant)*

### What is the return on investment projections?

ROI is calculated:

$$\frac{\text{Dividends} + \text{Sale}}{\text{Initial Capital Investment}}$$

EXAMPLE

#### Funding & Equity

ABC Wines is seeking AUD\$4.0 million and will be allocated as outlined previously. In return for this investment, 40% equity of the ordinary shares in the company is offered.

#### Return

Forecast EBIT growth is 10% year 1 to 18% year 5. It is estimated that the dividend returns for the investor are:

- Year 1 - \$200k
- Year 2 - \$300k
- Year 3 - \$420k
- Year 4 - \$560k
- Year 5 - \$720k

The total dividend return for the investor over the five years is \$2.2 million. It is anticipated that a trade sale after year 5 (using a wine industry standard EBIT multiple of 10) will achieve a sale price of \$18 million.

With a 40% shareholding this equates to \$7.2 million return.

The total return over the 5 years is \$9.4 million or 235% ROI on the initial investment

## ADDITIONAL INFORMATION (BASED ON INVESTMENT OPTIONS)

### Outline any additional information that might be useful for an investor

EXAMPLE

The land at Strathalbyn on which the ABC Wines Pty Ltd business is situated is owned by the Smith Jones Superannuation Trust (Trustees – John Smith & Mary Jones).

The investment in the ABC Wines business will not involve any ownership in the freehold land.

In the event of a trade sale of the business, the freehold land may be included and offered in that sale.



## PROPOSAL PRESENTATION

(The Top 10 Tips for a Successful Presentation)

The following tips are designed to focus your attention on the key aspects of your investor presentation:

1. **Know Your Business Fundamentals** – intimately. Understand the key business and financial drivers. Demonstrate your business acumen
2. **Prepare Your Visual Presentation** – less is more. The presentation should not be verbose. High level language is the key. Use visual imagery where possible
3. **Practice Before You Present** – use your spouse or a trusted colleague as a sounding board and source of constructive feedback on both content and presentation style
4. **Determine the Key Messages** – understand what are the three fundamental messages you want to convey and continually reinforce them
5. **Speak Clearly & Confidently** – use the appropriate tone and volume. Don't mumble but rather be passionate when you are talking about your business
6. **Know Your Audience** – who is in the room and what are their motives for investing. Address those motives where appropriate.
7. **Stick Strictly to the Time Limit** – this will demonstrate discipline and respect for people's time. It will also serve to drive focus and clarity
8. **Build a Relationship with the Potential Investor** – be warm and friendly. Make your own assessment as to whether this is a suitable match and fit
9. **Do Not Get Bugged Down in Detail** – this is critically important. Too much detail may turn off potential investors as they may view the business as too complicated
10. **Anticipate & Prepare for Questions** – ask your mentor, advisory board or business coach for assistance in developing answers to key questions

The key to successful presenting is preparation of both content and style. Take as much time as necessary in order to have a powerful and attractive presentation.

At the conclusion of the presentation advise the potential investors that you have a fully prepared 5-Year business plan available for them to review.

References:

**Make Better Presentations**  
www.prezi.com

**Basic Secrets of Successful Presentations**  
www.forbes.com

**Presentation Skills**  
www.skillsyouneed.com

## THE CONCEPT OF DUE DILIGENCE

It is important that business owners seeking investment capital familiarise themselves with the processes that they and their business may be subjected to as part of that capital raising. There is a very high probability that their business and themselves will be subject of 'due diligence' analysis.

'Due Diligence' is an investigation or audit of a potential investment and serves to confirm all the material facts of a sale.

The term refers to the care a reasonable person or business would take before entering into an agreement or transaction with another party and is a way of preventing undue financial harm to either party in that transaction.

In terms of the type of due diligence undertaken by a potential investor, it will include an examination of the following:

- Financial Analysis including valuation multiples
- Industry Analysis including geographical specific factors
- Marketing
- Human Resources including management capability and experience
- Production/Operations
- IT Infrastructure & Capability
- Intellectual Property
- Legal
- Macro-economic environment
- Key Risks – risk management analysis, controls & strategies

From a practical perspective the longer the due diligence process takes the lower probability of a successful transaction and investment.

It is therefore imperative to respond quickly and promptly to all requests for information and to seek meetings (either in person or via Skype) to clarify key questions.

References:

**Angel Investing Due Diligence**  
www.tech.co/angelinvesting

**Due Diligence Checklist**  
www.go4funding.com

**Venture Capital Due Diligence**  
www.angel-investor-news

## BUSINESS OWNER DUE DILIGENCE QUESTIONNAIRE

Obtaining fundamental information from a potential investor in a number of key areas is critical to ensure the right fit both personally and professionally. Below is a series of questions that can be asked of a potential investor. The list is not exhaustive but acts merely as a guide to ascertaining the right information:

### Investor Background & Experience

- What is your general business experience
- Do you have any specific skills and knowledge relevant to this industry?
- What networks have you established that will assist us in entering and penetrating new markets?
- Do you have connections with key industry associations or government agencies that can assist in the marketing and business development of our product or service?
- Are you the subject of any investigations or police matters in any jurisdiction? If so, please provide full details

### Investor Key Values & Motives

- What attracts you as an investor to this industry?
- What is your view of the global economic environment over the next 5-Years?
- What is your view of the macro-economic climate in Australia
- What are the fundamental business principles that you have adopted in your working life?
- What values are important to you?
- What role do you wish to play as an investor in our business?
- Why are you considering investing in Australia?
- Is it your intention to use your investment to gain residence for you or any member of your family?

### Cultural Differentiation (Only to be asked of International Investors)

- Are you aware of the Australian business etiquette?
- How do these differ from your own culture?
- How do you propose we deal with any issues or disagreements during our business relationship?

### Financial Capability & Expectations

What capital do you have to invest?

What are your expectations in terms of ROI and timeframes for those returns?

Have you had clearance and approval from the Foreign Investment Review Board to invest in Australia?

### Business References

- Are you able to supply three (3) business references that we can speak to?
- Have you undertaken business in Australia previously and if so, can you provide the details of those business contacts?

## THE PRINCIPLES OF NEGOTIATION

(How to Create a 'Win/Win' Situation)

The true meaning of a win/win negotiated settlement is where the agreement reached cannot be improved further by any discussions. So your outcome cannot be improved for your benefit, and similarly, the agreement for the other party cannot be improved further for their benefit either. By definition, there is no value left on the table and all creative options have been thoroughly explored and exploited.

Preparation and planning is the key to successful negotiation. Try to understand what your negotiating style is and practice so that you can improve and adapt your style depending on the personality of the investor.

Once the negotiation has commenced, adopt the following key principles:

1. Listen Carefully to the Other Party
2. Be Open & Flexible
3. Use Questions to Uncover Needs & Interests
4. Offer More Options
5. Focus on Problems not Individuals
6. Anticipate Other Party's Desired Outcomes
7. Be Willing to Say No – a bad agreement is worse than no agreement
8. Ensure Other Party Wins – especially if it does not compromise your position
9. Be Patient
10. Understand what a win is for you – what is the best and worst case scenario for you. The area in between is the settlement range and if you can negotiate an agreement within the range than that is a win
11. Understand both Your & Other Party's BATNA -

BATNA stands for "Best Alternative to a Negotiated Agreement" and is defined as the course of action that will be taken by a party if the negotiations fail and an agreement cannot be reached. It is also known as a party's 'walk away position'.

Where possible try and ascertain what the other party's BATNA is. This may not be disclosed unless it is beneficial to the other party.

In negotiations involving international investors from different cultures, there is a need to develop an understanding of cultural differences in terms of negotiating styles including the behavioural nuances that may be used or adopted during negotiations.

References:

**Strategies for Negotiating**  
[www.business.qld.gov.au](http://www.business.qld.gov.au)

**Books on Negotiation**  
[www.amazon.com](http://www.amazon.com)

## CONTRACTS & DOCUMENTATION

There are a number of documents that may be created as part of the investment process:

### Memorandum of Understanding

(including Non-Disclosure or Confidentiality Agreements) – these documents may be used as part of the initial screening and due diligence processes

References:

#### How a MOU Works

[www.howstuffworks.com](http://www.howstuffworks.com)

#### What is an MOU

[www.businessdictionary.com](http://www.businessdictionary.com)

### Term Sheet

is a bullet point document outlining the material terms of the agreement negotiated between the investor and business owner. It may be binding or non-binding and will guide legal counsel in the preparation of the formal agreement

References:

#### Term Sheet Definition

[www.investopedia.com](http://www.investopedia.com)

#### What is a 'Founder Friendly' Term Sheet

[www.businessinsider.com.au](http://www.businessinsider.com.au)

### Investment Contracts

may incorporate Convertible note agreements or other type of agreement that doesn't involve share transfers

References:

#### Convertible Notes

[www.ato.gov.au](http://www.ato.gov.au)

#### How do Convertible Notes Work

[www.startupsmart.com.au](http://www.startupsmart.com.au)

### Shareholder Agreements

this document covers the funding, structure, management and direction of the business. It outlines the responsibilities and obligations of the business owners and how the relationship between those owners is managed and will be utilised if there is a transfer of shares or issuance of new shares

References:

#### Australian Shareholder Agreement An International Guide

[www.cowellclarke.com.au](http://www.cowellclarke.com.au)

[www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)

## EXIT STRATEGIES

Developing an exit strategy will be one of the cornerstone considerations and discussions that will be held between you and the external investor.

It is imperative that you discuss and agree the exit plan and the timetable for that exit. By taking this course of action, you will minimise the possibility of conflict after you have signed the investor agreements.

Reference – Book "Early Exits" author Basil Peters

### Exit Strategy Options

There are a number of exit options available to you:

- Develop the business so that it will be bought out by a larger organisation – Trade Sale
- Float the business with an initial public offering (IPO) – (Reference – Australian Investors Association – [www.investors.asn.au](http://www.investors.asn.au))
- Merger with a competitor
- Management buy-out
- Partial sale of assets – use the cash generated to buy-out the investor
- Refinancing – using traditional bank finance to buy-out the investor

For further assistance visit [www.angelinvestorreport](http://www.angelinvestorreport) – exit strategies for Angel investors

### Exit Strategies in the Event of Investor Bankruptcy or Incapacity

- Ensure a legally binding shareholder agreement is in place specifying what your rights are in the event of bankruptcy or incapacity of the investor
- Understand your rights to orchestrate a removal of a shareholder prior to entering any agreement
- Have an international law expert as part of your team (if the investor is a foreigner)

## ASSOCIATED RESOURCES & ASSISTANCE

Below is a list of resources that may assist business owners if they choose to undertake a series of allied business activities that may support an application for investment capital:

### Market Research

- Marketing Research Association  
www.marketingresearch.org
- Australian Market & Social Research Society -  
www.amsrs.com.au
- ESOMAR -  
www.esomar.org

### Foreign Investor Culture

- Australian Trade Commission –  
www.austrade.gov.au
- Department Foreign Affairs & Trade –  
www.dfat.gov.au
- Regional Development Australia –  
www.rdahc.com.au

### Investment Proposal & Business Plan Development & Review

- Executive Boards Australia –  
www.executiveboardsaustralia.com.au

### Human Resource Management

- Australian Human Resources Institute (AHRI) -  
www.ahri.com.au
- Society for Human Resource Management (SHRM) -  
www.shrm.org

### Finance & Accounting

- CPA Australia -  
www.cpaaustralia.com.au
- Chartered Accountant Australian -  
www.charteredaccountants.com.au

### Government Grants & Support

- SA Department State Development –  
www.statedevelopment.sa.gov.au
- Business Aid Centre –  
www.governmentgrantsaustralia.org
- www.business.gov.au/grantfinder
- www.grantslink.gov.au
- Entrepreneurs Infrastructure Program –  
www.australianbusiness.com.au
- Innovation Investment Fund –  
www.business.gov.au

### Exporting & Importing

- Austrade –  
www.austrade.gov.au
- Export Finance & Insurance Corporation –  
www.efic.gov.au
- Australian Quarantine & Inspection Service –  
www.aquis.gov.au
- Australian Customs & Border Protection Service –  
www.customs.gov.au

### Legal

- The Law Society of SA -  
www.lawsocietysa.asn.au

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Regional Development Australian AH, FL & KI Inc. gratefully acknowledges the financial support for Investment attraction program received from South Australian Government.