

# BEER & PARTNERS



funding for growth

>> Writing Business Plans for Business Angels

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# Writing Business Plans for Business Angels

There are many books on writing business plans - all the banks provide a handy checklist for example.

Yet business plans should always be written with the audience in mind. This short guide is therefore aimed at helping you put your message across to one particularly critical audience - the business angel.

We see several thousand plans a year and we know what our investors are looking for; more importantly perhaps, we also know the pitfalls and howlers to be avoided.

## Think of the Reader

Business angels (private investors) are not some huge anonymous corporation; they are human beings. Most private investors have run businesses before and although they want to make a profit out of their investments, usually they are more interested in the chemistry of working with people.

Whilst this can be difficult to put across in the cold pages of a plan, an experienced plan reader (and investors would have seen a lot of plans!) can learn much about the writer from the style of plan. For this reason the management team/promoters themselves should always write the main body of the plan - not their accountants, advisors, friends etc. Spreadsheets can be delegated, the plan can not.

The plan should be written in a way that enables the private investor to quickly gauge the risks and the potential rewards of the business. After all the investor wants to know what is in it for him and where the business would fit with his own particular investment criteria (and prejudices!).

Business plans are written for a variety of reasons - to clarify your own thoughts, to provide a monitoring tool or indeed as a check list of action.

However for the purpose of raising finance from private investors, the plan has one objective - to sell you and your business to an outside investor. Never forget that, whilst you may think that your proposal is a heaven sent, once in a lifetime investment opportunity, the cynical investor needs to be persuaded to your view.

## General Style

Firstly, the plan should not be too long. There is no hard and fast rule, but if you cannot put your message across in less than 30 pages (excluding appendices), then you perhaps have not organised your thoughts with enough rigour. Certainly it is unlikely that a plan of more than 50 pages will hold the reader's interest sufficiently to persuade him to meet you. It needs to move along with sufficient pace to maintain that interest. Remember that an active investor may have a dozen or so plans to read, so try to avoid turning him off through sheer boredom.

The plan should be typed, bound and properly indexed, so that the reader can easily find the salient points of particular interest to him, perhaps through the selective use of bullet points. Do not make the font size too small - we suggest 11 point as a minimum; this is particularly important in the spreadsheets - figures that are difficult to read, will simply not be read.

Avoid the use of highly technical terms of jargon. Treat the reader as an intelligent 'amateur'. Whilst some investors may know even more about your market sector than you, do not assume this! Number paragraphs and chapters - it makes referencing easier. Make sure that contact names, addresses, e-mail, phone and fax numbers can easily be seen. If you have a website give this address too. If there is an old (say more than one month) date on the plan, the investor may conclude that the plan is already stale. He wants to believe he is one of the first to have seen it.

Confidentiality can sometimes be an issue, and you should be careful to put nothing in the plan which you would not want a competitor (for example) to see. Confidentiality agreements and patents are all very well, but they cost money to enforce.

## Financial Services & Markets Act 2000

There are pitfalls for the unwary, and companies and their directors should take special care when passing the plan to someone who is not authorised under the Act ('FISMA'). Under the Act it is an offence to give the plan to a potential private investor who has not already shown you a certificate confirming that he is either a 'Sophisticated' or a 'High Net Worth' investor:

This is a simplification of copious and largely untested legislation and if in doubt you should seek specialist legal advice. This guide is intended to be a practical one however, and in reality it is highly unlikely that there will be any problems provided that:-

1. *The plan gives a fair and reasonable summary of the investment proposal, and contains no misleading statements.*
2. *Statements of fact can be substantiated*
3. *A 'wealth warning' along the following lines is included in a prominent position:*

# Financial Services & Markets Act 2000

*This Business Plan is not a prospectus and does not, and is not intended to, constitute an offer or invitation to invest in securities, nor shall it, or any part of it, be relied upon in any way in connection with an offer to subscribe for shares. Private Investor recipients are assumed to possess a certificate of 'High Net Worth' or 'Sophistication' as set out in articles 48 & 50 of the Financial Services & Markets Act 2000 (Financial Promotions) Order 2001. You should seek your own independent advice in relation to the information contained therein. Investment in a new business carries high risks as well as the possibility of high rewards; it is highly speculative and investors should be aware that no established market exists for the trading of shares in private companies.*

*Before investing in a project about which information is given, potential investors are strongly advised to take advice from an authorised person who specialises in advising on investments of this kind.*

## Executive Summary

This is the most important section of the plan and comes at the beginning. It will be read before anything else and must enable the reader to determine whether or not he should read further. It should be no longer than two pages, and cover:

- *Background/history of the business - how long it has been established, ownership, etc.*
- *the nature of the business, including its market*
- *profit forecasts*

- *brief backgrounds of management team*
- *how much finance is needed and why*
- *what is in it for the investor, in terms of shareholding, role and exit route.*

Take great care over this section. It is probably best to draft it before writing the main body of the plan, revising it after this has been done.

Check to make sure that statements in the executive summary do not contradict the main body of the plan - it does happen!

## History & Background

Even a start-up business has a history. What brought you to this particular niche? What is your own background? What have you done so far to bring the business into being?

For established businesses:

- *when was it started?*
- *where is it based?*
- *what have been the major changes in ownership?*
- *current ownership of the business - how much do they own, how much did they invest, what executive role do they have in the business?*
- *what, if any, have been the past problems and how have they been dealt with?*
- *where do you see the business going?*

## Products / Services

This section describes what the business does. What makes the business different (if only slightly) from others? What patents are held, by whom, and what licensing arrangements are in place? How will the product mix change over the next few years and why?

What technological advances are on the horizon? How skilled are the work force, and how skilled do they need to be? How much is sub-contracted out, why, to whom? Describe briefly the operations relevant to your product / service. Indicate an ability to cope with turnover increases. Who are the main suppliers? Is supplier dependency an issue? Are there any legal issues, current or expected, to be addressed?

## The Market

This is an important section and needs a degree of thought. What market are you in and what brought you to this? Who generally are your customers, what sector are they in, what is their geographic/demographic spread? Who are your major customers, how long have they been with you and how dependent are you on them? How will this market-mix change and why? Who are your competitors? Everyone has a competitor! Why are you different, how will you stay different, what are the likely competitive pressures over the next few years?

Macroeconomic information, such as the size of the total market and your sector, is useful. What is your advertising and marketing strategy? How do prospects tend to find out about you?

Where are you going to advertise and what is the budget for this? What other processes are being used to attract and retain customers?

If a start-up or early stage business, what customers are already in place, and what is the estimated sales value? How is the sales and marketing function organised? Who are the people involved and what are their roles? Is there any after sales service or warranty liability?

## People

This is an area of great interest to private investors, since they tend to invest in people before products.

Give brief backgrounds of all Directors (including non-executives), showing their ages and function. Describe major achievements, since the investor is looking for a proven track record.

Full CVs should be included in an appendix. Similar details of key management should also be set out in this section; include also their length of service. Show also current remuneration and benefits, service contract details and any other relevant information.

If anyone in the business has had problems in the past, perhaps a personal bankruptcy or where they have been a Director of an insolvent company, this should be mentioned. Investors need however to be given comfort that this will not be repeated (exceptional circumstances, lessons learned etc). Any blots will be uncovered during the due diligence in any event.

## Financial Analysis

Highlight the key facts and figures - i.e. profit projections for the next three years. The details will be shown in an appendix. Why are future profits differing from historical performance? Investors tend to adopt a rather sceptical attitude where future profits are projected to be substantially better than in the past, and you need to deal with this firmly. A break-even analysis is useful, to help investors assess the risks; the key is to understand by how much turnover has to fall before the company makes a loss.

Explain the assumptions upon which the profit and cash flow projections are based, and justify them. After all, the projections are merely a translation of the assumptions. Show how much is required, when and why. When is the peak cash flow requirement? Can funding be received in tranches?

An investor will usually want to invest as little as possible initially, until performance demonstrates that he will feel comfortable with further investment.

What are the current actual borrowings and borrowing facilities? Is there room for some of the future funding requirement to come from a bank, factoring company etc? If so, what security will be offered?

Remember that an investor may well want to lend the money himself. Are any grants available and what steps have been taken to exploit these?

## Investor Deal

Few plans that we see deal with this adequately. Although the ultimate 'deal' with the investor is subject to negotiation, and indeed to our advice, there are some areas which need to be covered. Is the finance to be in the form of equity, loans or mezzanine? What proportion of the equity is offered, and what is the justification for this?

In our experience, investees tend to overvalue their business by almost as much as investors will undervalue them! If a loan or, say, redeemable preference shares are proposed, how are these to be repaid? An investor will always want some equity. What is the exit route? This is most likely through a trade sale. What plans do you have to build to a size where a trade buyer will become interested? Who are the potential buyers? Have any offers in fact been made for the business and why were they turned down?

Most importantly, what is the role for the investor? There is no such thing as an entirely passive investor - indeed an investor can usually be of great value to the company in terms of his skills, contacts, experience etc. What is the ideal skill profile of your investor? What role is envisaged and how many days a month are expected? Are you willing to accept a syndicate, or is a single investor preferred? What is the company's tax status - i.e. will the investor be able to obtain Enterprise Investment Scheme and/or Capital Gains Tax re-investment relief? Your accountant can advise you.

Remember that, in the right circumstances, an investor can receive substantial tax relief on his equity investment.

## Appendices

All bulky material should be relegated to an appendix, and these are likely to include most of the following:

- *PROFIT PROJECTIONS* - show profits monthly for the first year, quarterly for the next two. There is no need for profit projections further out than the next three years - no one will believe them anyway. Show actual historic profit and loss for the previous two years, tied to audited accounts if possible for comparison.
- *CASH FLOW PROJECTIONS* - again monthly in the first year, quarterly thereafter. Immediate cash flow is of particular importance, and care should be taken over this. Be prepared to demonstrate the absolute minimum of new cash that the business will need over the next six months in order to survive - that will be the start point of investor negotiations.
- *BALANCE SHEET PROJECTIONS* - less of an issue, but gives an indication of possible funding structures. Include a recent historic balance sheet if appropriate; adjust for any Directors' loans to be capitalised.
- *LATEST AUDITED ACCOUNTS* - in full if available.
- *CVs of key personnel particularly Directors*, focusing on achievements.
- *MARKETING MATERIAL* - there is nothing to beat pictures to give an understanding of what the company does.

- *ADVISORS* - i.e. accountants, solicitors, bankers, insurance brokers etc; with contact names and telephone numbers.
- For start-ups, copies of favourable reviews, indications of future orders, or indeed anything else which will give the investor comfort that forecast sales will be forthcoming.

You do not need to include certificates of incorporation (the investor may want to form a 'newco' anyway), patents etc. These and other details are best left for the due diligence that a seriously interested investor will wish to undertake.

## Finally

If you do get stuck, and writing a business plan can be daunting if you have never written one before, do not hesitate to contact us. We want to ensure that our investors receive well prepared plans, since this improves our chances of finding the right investor for you.

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