GUIDEBOOK

SheTrades Invest: Raising Funds for Your Business

SHETRADES GUIDEBOOK

ITC | SheTrades

ABOUT ITC SHETRADES

SheTrades is an initiative under The International Trade Centre (ITC), a joint agency of the World Trade Organization (WTO) and the United Nations (UN). ITC is the only multilateral agency fully dedicated to supporting the Internationalization of small and medium enterprises (SMEs). Its mission is to foster inclusive and sustainable growth and development through trade and international business development.

ITC projects and programmes contribute to the global efforts to achieve the UN Global Goals for Sustainable Development and the Aid for Trade agenda.

Through the SheTrades online platform, the initiative provides women entrepreneurs across the globe with a unique space within which to strengthen their export skills, network, and connect to global markets. This includes a variety of e-learning resources and courses delivered in English, French and Spanish.

SheTrades operates an online training website targeting women entrepreneurs and SMEs. It currently offers a range of courses in English, French and Spanish.

ITC

#SheTrades

OBJECTIVE OF THE SHETRADES INVEST PROJECT

As part of the SheTrades initiative, in December 2018 ITC launched a project to facilitate the connection between eligible women-owned and women-led businesses (WOBs) to financiers. This project is called “SheTrades Invest”. Through this project, ITC aims to:

- Contribute to unlocking financial services for women entrepreneurs and small businesses benefitting women;
- Strengthen the financial and managerial capacities, investment readiness of women entrepreneurs while connecting financiers with eligible women entrepreneurs; and
- Build and support fruitful relationships between financiers and women entrepreneurs in developing markets.

The website can be accessed at https://www.shetrades.com/#/project/9 or via the QR code:

ACKNOWLEDGEMENTS

ITC thanks the following organizations for their longstanding support of ITC's SheTrades initiative:

UKaid from the British people
KOICA Korea International Cooperation Agency
Ministry for Foreign Affairs of Finland
Regeringskansliet Ministry for Foreign Affairs Sweden
Ministry for Foreign Affairs of Iceland
Norwegian Ministry of Foreign Affairs
german cooperation DEUTSCHE ZUSAMMENARBEIT
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Funded by the European Union
Ministry of Foreign Affairs of the Netherlands
From the People of Japan
Ministry of Foreign Affairs of Denmark Danida
EIF Enhanced Integrated Framework
OFID The OPEC Fund for International Development
UPS
MARY KAY

This guide is also available online:

https://www.shetrades.com/en/media-center/publications

INTRODUCTION

WHAT IS THIS GUIDE ABOUT?

Women encounter many challenges when trying to start or grow a business. One of the most difficult tasks for any female entrepreneur is to raise funds for her venture. It requires not only good business skills and high financial literacy, but also persistence, negotiation skills and a thorough understanding of the position of the financier sitting opposite her.

This guide to raising funds from ITC SheTrades covers nine topics, from understanding financial needs to managing negotiations with capital providers as well as the post-financing phase. It aims to enable women-owned businesses and women entrepreneurs to develop a better understanding of their financing landscape, how to assess their financial needs, the process of identifying the right financial institutions and of how to recognize financial instruments based on their business needs. It also endeavours to enhance their skills and capacity to confidently approach investors and raise funds.

This guide was prepared by Guillaume Lamothe, Associate E-learning content, ITC SME Trade Academy, and Marco Aletti, Access to Finance Officer (ITC), with the support, feedback and comments of Anna Zaleski Mori, Partnerships and Programme Officer (ITC), and Leticia Johnson, International Consultant (ITC), Anna Zhu, Designer.

WHO SHOULD READ AND USE THIS GUIDE?

This guide is aimed at all women-owned businesses/women entrepreneurs, business support organizations, incubators and accelerators that would like to enhance their knowledge of how best to approach capital providers and understand what SMEs need to keep in mind when looking to raise funds.

We hope that this guide will help increase the knowledge of women-owned businesses and women entrepreneurs on how to raise funds for their operations and give them the confidence to approach the right capital provider for their needs.

HOW TO USE THIS GUIDE

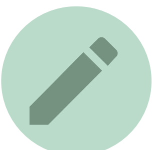
This guide is straightforward and easy to use. It is made up of nine chapters and a few questions to tickle your brain. You will come across a few icons that will highlight important information and you will have space to jot down your notes. At the end of this guide, you will find additional documents that can serve as an easy reference to your financing needs.

IMPORTANCE ICON

When you see this icon, you are dealing with an important note or tip that you should make sure to keep in mind. The text accompanying these icons is often highlighted to make it stand out.

EXERCISE ICON

When you see this icon, you are dealing with exercise questions. These are meant to test your knowledge of what you have just learned. Feel free to write in this guide and complete the exercises as you go through the content. The answers to the exercises are included in the answer key at the back of this guide.



NOTES ICON

This guide was designed so that you could write and take notes in it. There are specifically several sections of the workbook reserved for this purpose. These sections are indicated with this icon.

CONTENTS

SHETRADES INVEST:
RAISING FUNDS FOR YOUR BUSINESS

CHAPTER 1 | UNDERSTANDING YOUR FINANCIAL NEEDS

IN THIS CHAPTER, YOU WILL LEARN:

- How to use a checklist to improve your company's internal financial management;
- How to assess your company's actual financial needs; and
- How to calculate your company's financial needs using a 9-step process.

IMPROVING YOUR INTERNAL FINANCIAL MANAGEMENT

When a business is unable to come up with the cash it needs on its own, it has to rely on external funds. There are four main sources this type of funding: equity, debt, trade financing, and grants and government aid. Don't worry, we will look at all of these in more detail throughout this guide.

While all of these sources of external funds are useful, they may not necessarily be the best way for you to raise funds for your business - they all come with strings attached. Before you go jumping on any of the external fundraising options we will be presenting in this guide, have a look around! If you look closely and make a proper financial assessment of your operations, you may find ways to raise funds without resorting to borrowing. This could help you reduce the amount of external funding you will need, or even eliminate it altogether.

Even once you have confirmed that you would need external funding, financial institutions should not necessarily be your first stop. We will present several options in this guide, all of which you can consider when evaluating what approach would be best for you.

Raising external funds involves costs and tradeoffs.

This means that, before you raise funds outside of your company, you should maximize your use of internal funds. There are certain things you can do to better manage your company's resources and increase the amounts of resources that it generates.

By completing the checklist below, you can do a small assessment of your operations and financial situation in order to explore whether there might be untapped internal sources of cash in your company that could minimize your need for external financing.

If you answered "yes" to a lot of the questions in the checklist, you could likely do more to improve your internal financial management. For every item to which you answered "yes," conduct a thorough analysis to determine how you could improve the way you use your company's resources.

This exercise is a good management practice and should be done continuously, not only when you are considering whether or not to raise outside funds.

ASSESSING YOUR OPERATIONS AND FINANCIAL SITUATION

A. REDUCING ASSETS TO RAISE FUNDS			
Item	**Question**	**Yes**	**No**
Cash	Is there cash lying in deposit accounts with your bank?		
Marketable securities	Are there treasury bills, stock, bonds that can be sold?		
Accounts receivable	Can debtors be made to pay up more quickly?		
Accounts receivable	Can bad debts or written-off receivables be recovered through a collecting agency?		
Accounts receivable	Will a bank discount receivables such as invoices, post-dated checks, or promissory notes?		
Accounts receivable	Will a factor or forfaiter buy invoices with or without recourse?		
Accounts receivable	Will customers be willing to pay interest on trade credit given?		
Stock and inventories	Can stocks of raw materials and commodities be reduced?		

A. REDUCING ASSETS TO RAISE FUNDS

Item	Question	Yes	No
Stock and inventories	Should production be cut or rescheduled to avoid stockpiling of finished goods?		
Stock and inventories	Can you secure raw materials from suppliers on consignment?		
Stock and inventories	Do you keep stock of raw materials that you no longer use?		
Prepaid expenses	Can insurance premiums and other prepaid services be settled in instalments without extra cost?		
Advances to third parties	Can loans be called in?		

B. RAISING FUNDS BY REDUCING FIXED ASSETS

Item	Question	Yes	No
Land and building	Are there any lands or building spaces that can be sold and leased back?		
Land and building	Are there any unnecessary lands or building space that can be disposed off?		
Machinery and equipment	Are there any machinery and equipment that can be sold and leased back?		
Machinery and equipment	Are there any unnecessary machinery and equipment that can be disposed of?		
Investments in subsidiaries, other business	Do you have investments in subsidiaries or other businesses that do not bring in returns? Can you dispose of these investments?		

C. RAISING FUNDS BY INCREASING CURRENT LIABILITIES

Item	Question	Yes	No
Trade creditors	Will creditors extend trade credit either with interest (but lower than bank rates) or without interest?		
Taxes	Can taxes and permits be deferred or paid in instalments without penalty?		
Short-term borrowings	Can grace periods be extended?		
Short-term borrowings	Can instalments be rescheduled?		

D. RAISING FUNDS BY INCREASING EQUITY

Item	Question	Yes	No
Distribution of profits	Will shareholders or partners be willing to defer or suspend dividend payments?		
Share capital increases	Are shareholders or partners willing to put in fresh funds?		
Share capital increases	Can you bring in new shareholders or partners into the business?		
Income notes, bonds, preferred shares	Are there investors prepared to invest in these instruments?		

ASSESSING YOUR FINANCIAL NEED

To be successful in business, you need to be able to determine how many financial resources you need and when. If you underestimate your company's needs, you may run out of financial resources at a critical time, putting your business at risk. However, if you overestimate them, you can end up with more debt than you intended or having to give up more business ownership than you wanted to. In either case, this involves extra costs for your company.

THE COMPONENTS OF FINANCIAL NEED

There are several components of financial need that you should consider to estimate the funding your company needs. These include:

1. The **working capital** cycle (e.g., your day-to-day operating costs)

3. Your company's **fixed assets** (e.g., land, buildings, equipment, etc.)

3. **Marketing costs** (e.g., advertising, promotional programmes, etc.)

4. Your **financial cushion or contingency plan** (e.g., some amount of cash you need to keep in reserve in case of changes in business circumstances)

The first step to assessing your company's financial need is to put your company's financial statements (e.g., your income statements, balance sheet, and statement of retained earnings) in order. Based on these, you will be able to identify the amount of money you require in key areas. Then, using your business objectives and plans, you can determine the fixed asset expenditure you will need, as well as the amount of marketing efforts you will have to make. All of this will allow you to assess your financial need.

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A STEP-BY-STEP GUIDE TO CALCULATING YOUR FINANCING NEEDS

1. Project the amount of sales you expect your company to generate next year. The best way to project sales is to use the annual sales growth over the most recent five-year period.

2. Calculate your company's cost of goods sold and operating expenses as a percentage of sales made.

3. Subtract the cost of goods sold and operating expenses from your sales to determine your company's pre-tax income.

4. Calculate your company's taxes for next year and subtract these from its pre-tax income to determine its net income.

5. Project next year's current assets using the same method. Current assets include cash, inventory, and accounts receivable.

6. Project next year's current liabilities using the historical percentage of the cost of goods sold.

7. Subtract your company's current liabilities from its current assets to determine its working capital needs.

8. Estimate your company's projected capital expenditures using same the "percentage of sales" method.

9. Subtract your company's projected working capital needs and capital expenditures from its net income to determine the amount of external financing it needs.

10. If the total is positive, it means that your company does not need external financing. If it is negative, you will need to raise outside funding.

NOTES

CASE STUDY: WHOLESALE PHONES, LTD.

Three shareholders, Ada, Nelia and Tami have just set up a small company that buys mobile phones from Asia and sells them to wholesalers in Europe. Although their early weeks were hard, their market quickly grew. Sales were good, and everybody concentrated on further expanding the business' activities and on making a profit.

Then, one day, the business received a worrying call from the bank. Its account balance had apparently gone negative, and the bank was threatening punitive measures unless payment was made quickly. Everybody was very confused. The business had been making a profit every month, so how could this have happened?

Conclusion:

Even if a company is "officially" making a profit every month, it doesn't mean that it is actually receiving money in its account. Depending on the terms of sales and other conditions, payment from customers may be delayed, sometimes by several weeks or months. This is why even profitable businesses often have cash flow issues, which can sometimes lead to dire consequences if managers do not adequately plan for them. In this example, Ada, Nelia and Tami should have kept a much closer eye on their cash position and, if necessary, arranged to take on short-term debt to smooth over any cash flow difficulties that they could have foreseen.

CHAPTER 2 | FINANCING INSTRUMENTS AVAILABLE TO SMES

IN THIS CHAPTER, YOU WILL LEARN:

- What equity, long-term debt, short-term debt, and grants are; as well as the differences between them.

UNDERSTANDING THE DIFFERENCES BETWEEN FINANCING INSTRUMENTS

Once you have assessed your financial needs, you need to know what kind of external funds you need to raise. You will need to decide whether you require short or long-term financing in order to be able to decide where to source your funding, as well as what financial instruments might be most appropriate for your company.

FORMAL VS. INFORMAL FUNDING SOURCES

There are formal and informal sources of funding. Informal sources can include unregistered money lenders, friends, and relatives. Formal sources include banks, equity sources such as venture capitalists and business angels, trade credits from suppliers or purchasers, and government grants or aid.

In this guide, we will focus on the following formal financing instruments: equity, long-term debt, short-term debt and grants.

Keep in mind that, while there are many different financial instruments available to SMEs, not all of them might be available in your country.

EQUITY

Equity is the most common way for new companies to raise external funds. “Raising equity” involves selling a percentage of your company to outside investors in the form of shares. Shares give the shareholder a right to an equal part of distributable profits, through the payment of dividends. It is important to note that a company with shareholders is under no obligation to pay out dividends.

Most early-stage companies do not pay dividends, as they need to reinvest all available cash for growth. In fact, paying dividends to ordinary shareholders is typically barred for as long as any other form of investment is outstanding.

This means that equity is a safer form of capital for companies to raise than debt, because dividends are only paid if the company has the profits to pay them. In contrast, interest on a debt must always be paid, regardless of profits earned. What’s more, shareholders are always paid last in any pay out (e.g., if the company was sold or liquidated), behind any other company creditors, including debt providers.

For this reason, equity is often a suitable form of capital for early-stage, high-growth companies. As a result, equity investors usually expect a higher return on their investment than debt investors because they are taking a higher risk and expect to wait longer to be paid back.

Thus, equity investors tend to only invest in companies that have excellent growth prospects and in which they believe that they can multiply their original investment.

THERE ARE TWO MAIN TYPES OF EQUITY INSTRUMENTS:

1. Ordinary shares: these get paid last in any pay out or profit distribution. They are usually granted to the founders, senior management, and key staff of a company.

2. Preferred shares: these rank ahead of ordinary shares in the event of any pay out. They may also have exclusive voting rights above ordinary shares, giving them greater control over major decisions. These are usually granted to new investors.

NOTES

LONG-TERM DEBT

Debt typically takes the form of a loan taken from a bank, fund, or directly from wealthy individuals (e.g., angel investors). Unlike equity, debt does not require giving up ownership of your company.

Debt is repaid from the cash flow of the company, plus interest, within a specified timeframe – known as the maturity of the loan – and according to a detailed repayment schedule. If you cannot meet the scheduled payment of interest or principal, you will default on the loan. As a result, the loan investor can call in the loan; leaving your company bankrupt.

Usually, there is a period of negotiation, potential loan re-scheduling, and other remedial actions that you can take before bankruptcy occurs. However, if your company does go bankrupt, it will be liquidated, its assets sold, and any remaining cash used to repay the loan first – to the extent that there are any funds left.

Debt is riskier than equity.

All of this means that taking on debt is riskier for a company than raising equity. With equity, you cannot default – if you have no profits in a given year, then no dividends need to be paid out. In addition, you do not need to repay an equity investment like you repay a loan.

Debt, on the other hand, requires repayment whether you have a profit or not; with bankruptcy being the price of non-payment. Since debt has more risk, mature companies are more likely to benefit from this financial instrument given that they have achieved stability in their cash flow and can be confident in generating enough income to repay their loans.

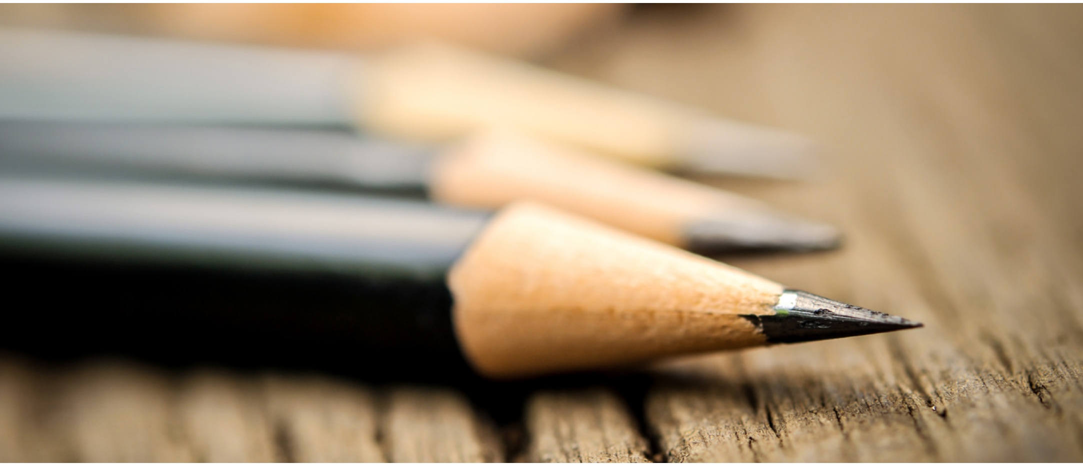
NOTES

SHORT-TERM DEBT

Short-term debt comes in different forms, but the most important is known as a "working capital facility" (e.g., a revolving line of credit). The most common type of this is a bank overdraft.

A working capital facility is designed to help smooth temporary shortfalls in cash, similar to how a credit card works for individuals.

For example: a manufacturing business might build products six months before receiving payment from its customers. This creates a short-term cash drain, which needs to be financed. A working capital facility enables



the business to draw down funds to meet the shortfall, which can be repaid once revenues are received.

Working capital facilities can be arranged with banks, and will generally have commercial interest rates. Some foundations are also starting to offer this type of financing, usually with more favourable rates. Working capital facilities can be drawn down to a specified limit and repeatedly repaid during the year (a feature known as a “revolver”).

Interest is then charged on the amount drawn, just like a credit card. However, a working capital facility must be fully repaid by the end of one year. It is not designed as a long-term source of financing, but only to help smooth cash flow needs. This can be very important for businesses that would otherwise need to hold large amounts of cash in reserve.

Many businesses fail because they temporarily run out of cash, rather than being unprofitable. A working capital facility can help prevent this as it is compatible with any of the forms of finance mentioned before.

NOTES

GRANTS

Grants usually come from an institution such as a government body or a foundation. They may be “restricted” (e.g., come with strings attached in terms of what you can do with the funds) or “unrestricted” (e.g., may be used for general purposes, including salaries and overhead). For many companies, grants are the default funding option.

In fact, many enterprises do not have a commercial business model. In other words, they do not sell goods or services to fulfil their mission. For such companies, the choice is clear: if they need to raise external funds, they can only raise grants. The other forms of investment all require a commercial business model, since they all require repayment of capital from earned revenue.

This means that, for example, if you are incorporated as a non-profit legal entity, you will not be able to raise equity since non-profits do not have shareholders and cannot issues shares. Unless a non-profit is willing to raise debt, grants are the only option in this case.

Grant funding is usually the least expensive and most accessible source of initial start-up funding. However, the supply of grant funding is limited, unpredictable, and very hard to receive year after year. It is very difficult to continuously raise and manage grants.

If your organization’s capital needs cannot be met with grants, you may need to diversify into commercial sources of funding once your operations are more established and ready to scale-up.

Companies raising their earliest funding might see grants as a good option because it is the least expensive form of funding. However, with each grant, be careful that you do not take on a series of demanding conditions that prevent you from implementing your mission in the way that you wish.

NOTES

QUESTION 1

Match the following descriptions with the correct financing instrument. The correct answers can be found in the Answer Key.

A. LONG-TERM DEBT	**1.** This instrument is designed to help companies that have temporary cash shortfalls due to imbalances in cash inflows and outflows.
B. EQUITY	**2.** This instrument involves selling a percentage of a company to outside investors in the form of shares.
C. GRANTS	**3.** Providers for this instrument expect a certain level of cash flow, and often require forms of protection, such as collateral or covenants, to minimize the risk of not getting their money back.
D. SHORT-TERM DEBT	**4.** This instrument can be restricted (e.g., conditional upon certain qualifications as to how the money can be used) or unrestricted (e.g., may be used for general purposes, including salaries and overhead).

CHAPTER 3

CHOOSING THE MOST APPROPRIATE FINANCING INSTRUMENT FOR YOUR BUSINESS

IN THIS CHAPTER, YOU WILL LEARN:

- The costs and benefits of the different financing instruments explored in Chapter 2;
- The advantages and disadvantages of debt vs. equity; and
- How to choose the financial instrument most appropriate for your business.

THE COSTS AND BENEFITS OF OUTSIDE FUNDRAISING

You should do your best to limit the amount of finances sourced from outside your company - whether it is equity, debt, trade financing, or government grants – as these sources of financing entail extra costs. That said, if you come to the conclusion that it is absolutely necessary for your business to raise outside funds, make sure that you carefully consider the pros and cons of each source.

- Debt: Borrowing funds – getting into debt – requires paying interest, which can be a substantial cost. What's more, it also often requires pledging some type of asset in proportion to the amount borrowed. If you cannot service your debt by paying interest and repaying the principal when it is due, you could lose your pledged assets.
- Equity: Giving up a portion of your company – equity – to outsiders in exchange for funds can be an attractive proposition. Indeed, small companies can often benefit from the advanced business knowledge and management skills that usually come with equity

investment. However, depending on the amount of equity you give up to outsiders, such as new partners, venture capitalists, or business angels, you may lose most, or even all, of your management control.

- Grants and government aid: Even government grants and aid that appear to have little or no cost still involve transaction costs in the form of bureaucratic, process-intensive, and time-consuming application procedures. In some cases, they also involve monitoring, reporting, and post-grant audits. What's more, relying on government aid arguably involves a long-term cost, in that such aid does not allow SMEs to build long-term relationships with financial institutions.
- Short-term debt: Short-term debt is intended to meet the financing requirements of importers and exporters and can be an excellent, cost-effective alternative to borrowing from other bank facilities. It can also be attractive for small businesses, since it does not need to directly impact the capital structure of an enterprise in the same way as debt or equity-based financing. That said, however, it is typically short-term and transaction-based, and thus not a good long-term fundraising solution.

Most companies who raise outside funds tend to end up using a mix of debt and equity-based sources.

NOTES

DEBT VS. EQUITY

Since most companies end up using a mix of equity and debt, let's look at the advantages and disadvantages of these financing instruments in more detail.

	Advantages	Disadvantages
EQUITY	The investor assumes the risk. If your business fails, you do not have to pay the money back.	Your ownership of your business is diluted. The more outside investors you bring in, the harder it will be for you to keep control of your company.
	You have access to the outside investors' business contacts and technical knowledge.	You will need to spend a lot of time and effort to find investors who share the same values and vision for the business as you do.
	You have more liquidity available since your business doesn't have a loan that it needs to pay back. This will lead to faster growth.	Raising equity capital is more complicated than getting a loan (e.g., following the regulatory frameworks).
	Advantages	**Disadvantages**
DEBT	You retain full ownership and control of your business.	Potential cash flow problems may arise, since debt must be repaid within a certain timeframe.
	Once you pay back your debt, you have no further obligations towards the lender.	If your business is carrying too much debt, it will be viewed as high-risk, making it hard to attract equity investors.
	It is often possible to deduct interest from your debts from business taxes, thus decreasing their cost.	If you take on unlimited liability, you will be personally responsible to repay your debt.

NOTES

CHOOSING A FINANCING INSTRUMENT

Even with everything we have seen here, trying to choose the best financing instrument for your business can be overwhelming. Here are a few tips to choose the best instrument for your business.

CHOOSE GRANTS IF:

- You are not selling goods or services using a commercial business model (i.e. your company is not driven by a profit motive)
- You have to exclude other forms of investments because you are legally unable or unwilling to comply with them
- Grants would be enough to cover your capital needs
- Grants are necessary to launch your social venture
- You are unwilling to renounce control of your business or to go into debt
- Your expected profits are not going to be enough to cover all of the investment costs

CHOOSE EQUITY IF:

- Your company is a legal entity with a commercial and for-profit business model
- You need external resources and expertise to develop your enterprise
- You are willing to give up some degree of ownership and control in your venture
- Selling the business, or buying back the shares from the new investors using the company's future profits, are possible strategies that you would consider implementing in the future

CHOOSE LONG-TERM DEBT IF:

- You have forms of collateral (e.g., buildings, receivables) to set against your debt
- Your company already has a stable record of positive cash flow
- You are at an early stage of development and are looking for an affordable start-up loan to develop your enterprise

CHOOSE SHORT-TERM DEBT IF:

- There is a mismatch between your company's cash inflow and outflow, due to the delay between the time you incur expenses for a product and when you cash-in the revenues

NOTES

QUESTION 2

Select the correct answer to the following questions.The correct answers can be found in the Answer Key.

1. Which financing instrument requires you to give up some ownership and control to investors?

- **A.** Grants
- **B.** Equity
- **C.** Long-term debt
- **D.** Short-term debt

2. Which financing instrument usually requires you to use collateral?

- **A.** Grants
- **B.** Equity
- **C.** Long-term debt
- **D.** Short-term debt

3. Which financing instrument allows you to solve delays between your company’s expenses and revenues?

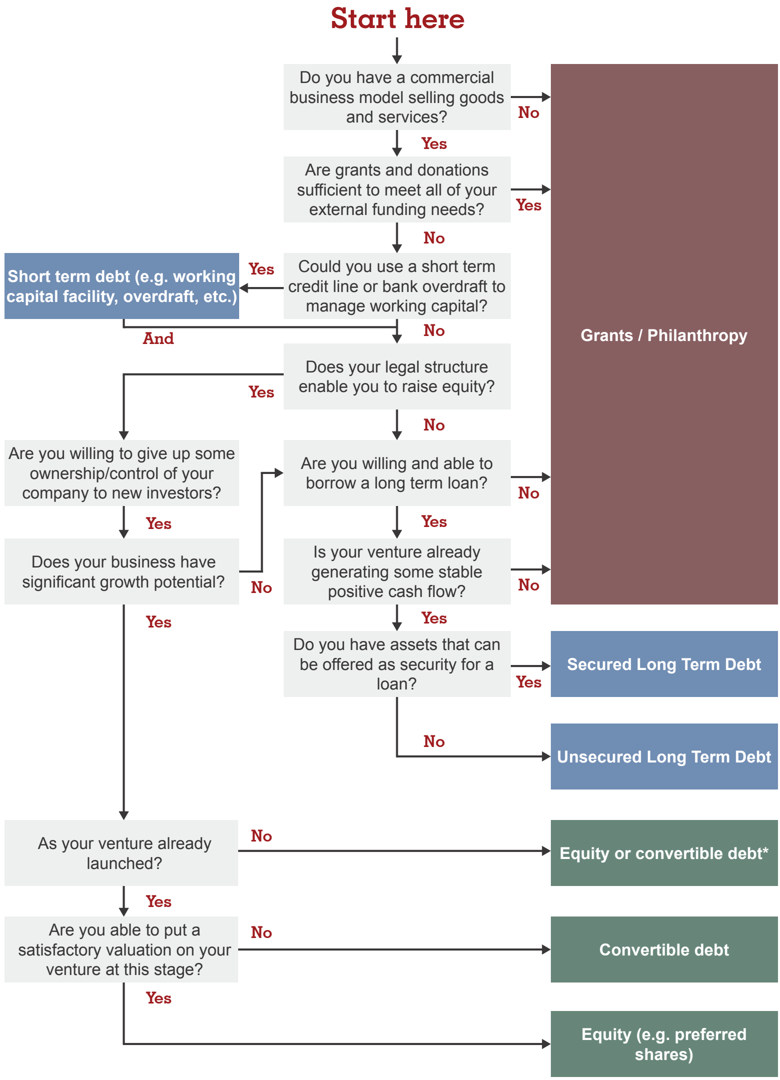
- **A.** Grants
- **B.** Equity
- **C.** Long-term debt
- **D.** Short-term debt

4. Which financial instrument is best when you do not have a commercial business model?

- **A.** Grants
- **B.** Equity
- **C.** Long-term debt
- **D.** Short-term debt

EXERCISE: WHICH FINANCE OPTION SHOULD YOU CHOOSE?

The following flow chart can be used to guide you on which financing option to choose. Please note that it cannot replace professional advice given by a certified financial advisor. All situations are different, and not all options may be available in your case.



CHAPTER 4 | INTRODUCTION TO CAPITAL PROVIDERS

IN THIS CHAPTER, YOU WILL LEARN:

- The major types of capital providers for SMEs;
- The major types of financial institutions that provide funds to SMEs; and
- The differences between capital providers and financial institutions.

IMPROVING YOUR INTERNAL FINANCIAL MANAGEMENT

Capital providers are people and organizations who lend to or invest some of their capital in companies. Many such providers are looking to invest in particular causes; such as environmental protection or to benefit a specific community or group, such as the youth. These are called impact investors. Others, however, simply want to know how much money they will be able to make from lending or investing in your business.

To find the right capital provider for your business, you need to map them by type as well as by what they are looking for.

Here are several major types of capital providers:

- Angel investors
- Investment funds (including venture capitalists and impact investors)
- Governments and development agencies
- Foundations
- Banks

We will look at all of these in more detail in the coming chapters.

THE TYPES OF FINANCIAL INSTITUTIONS

There are various types of financial institutions, each of which has its own specialty. These include:

Banking institutions, which mostly get their resources from deposits, need a license to operate and are heavily regulated.

Non-banking institutions, such as investment funds, which draw their resources, not from deposits, but from other private and public savings, and are less heavily regulated.

Banking institutions, which mostly get their resources from deposits, need a license to operate and are heavily regulated.

Non-conventional sources of financing, such as venture capitalists and business angels.

The difference between financial institutions and capital providers.

A financial institution is a corporation that provides services as intermediaries of the financial markets. As such, they do not include investors or government agencies. Capital providers, however, include all sources through which companies can raise funds (capital), including banks, foundations, venture capitalists, angel investors, etc.

Thus, for the purposes of this guide, financial institutions as a type of capital provider.

QUESTION 3

Circle whether the following statements are true or false. The correct answers can be found in the Answer Key.

A) Banking institutions mainly obtain their resources from deposits.

True or False

B) Venture capitalists (VCs) and angel investors are so-called “non-conventional” sources of financing.

True or False

C) Non-bank financial institutions draw their resources from private and public savings.

True or False

CHAPTER 5 | THE MAIN TYPES OF CAPITAL PROVIDERS

IN THIS CHAPTER, YOU WILL LEARN:

- What angel investors, investment funds, government and development agencies, foundations, and banks do in terms of helping SMEs raise funds; and
- Where to find and access each of these capital providers.

ANGEL INVESTORS

Angel investors are wealthy individuals who invest their money into enterprises that have the potential to scale-up or support social causes that they care about. They are a major source of funding for early stage companies and start-ups.

Given their diversity, there is a vast difference in the level of financial return that angel investors are looking for and in how much they are willing to invest. Some expect the same returns as they would get in a purely commercial investment. In contrast, others are willing to accept a lower return because of the social nature of the investment - such as only accepting their capital back or returns of up to 5 per cent per annum. Typical investments made by angel investors range between USD 10,000 to 50,000 per angel; however, one or two investors usually invest much more than others.

DEBT OR EQUITY INVESTMENT?

Angel investors can invest in the form of debt or equity and tend to approve terms that are more flexible than institutional funds. Unlike funds, they are also not bound by rigid time limits to exit their investment, nor by minimum financial returns. This is why angels frequently collaborate with business incubators and accelerators.

WHERE CAN YOU FIND ANGEL INVESTORS?

Angel investor networks can easily be found online. For instance, the African Business Angel Network (ABAN) website[1] lists the majority of networks found on the African continent. BANSEA[2], for its part, is the leading angel investor network for Asian companies.

1 https://abanangels.org

2 https://www.bansea.org

NOTES

INVESTMENT FUNDS

Investment funds are professional funds set up to invest in companies. They can focus on companies with high growth potential (venture capital), a strong social mission (impact funds), or at a later stage of their development (private equity funds). Although some specialize, many funds can provide both debt and equity.

Funds usually have a geographic focus (i.e. only investing in specific countries or regions) and a sector focus (i.e. renewable energy or water and sanitation). “Sector” may be defined broadly – some funds such as Acumen, for example, support social enterprises. But this could cover projects as diverse as clean cook stoves and affordable medicine.

The advantage of raising capital from an investment fund is that, compared with angel investors, they usually invest comparatively large amounts. In fact, the typical investment from a fund runs from USD 500,000 to 3,000,000.

WHAT TO EXPECT FROM AN INVESTMENT FUND

Since investment funds are set up with a finite life and need to return their capital to their investors, they will generally not hold shares in a company for more than five to seven years, but rather sell them to another fund, sell it back to you, another large company in your field or (rarely), transfer them to a listing on a stock exchange. This means that, if you raise capital from an investment fund, you need to discuss its “exit” strategy and open yourself up to the possibility that you may need to sell your company within its timeframe.

EXAMPLES OF INVESTMENT FUNDS

Examples of investment funds that invest in early-stage companies include Acumen[3], Aavishkaar[4], Bamboo Capital[5], Grofin[6], Heva Fund[7], and Alphamundi Group[8].

SHETRADES INVEST

To help entrepreneurs connect with the investment funds, ITC SheTrades has created SheTrades Invest, which is a platform that investors use to connect with entrepreneurs for potential investment. Visit the SheTrades website to apply to the project. SheTrades Invest might be for you!

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3 https://acumen.org
4 https://www.aavishkaar.in
5 http://www.bamboocp.com
6 https://grofin.com
7 http://www.hevafund.com
8 https://www.alphamundi.ch

NOTES

GOVERNMENTS AND DEVELOPMENT AGENCIES

Development institutions are governmental or quasi-governmental organizations set-up to finance regional development projects. They include large multilateral agencies such as the International Finance Corporation, the Asian Development Bank, and the European Investment Bank; as well as many other regional and local development agencies.

These agencies usually have substantial amounts to invest and are ideal for supporting larger-scale projects, particularly in infrastructure, that can be tied to a goal for developing a particular region. If your project falls into this category, looking at the websites of suitable development institutions might be a useful research option for you.

Many agencies will list how to apply and what kinds of funds they manage. However, development institutions typically run rigorous application processes that may take a considerable amount of time.

NOTES

FOUNDATIONS

Foundations are charitable institutions set up to make grants or directly engage in social impact work. Some are set-up by individuals, while others have been set-up by institutions, companies, or even governments. The typical foundation has an endowment; which is an amount of capital that it has been gifted to generate income that it can use to fund its operations and make grants. Normally, foundations are set-up to make grants, but some foundations are now experimenting with using a portion of their endowment to make social investments into projects that are aligned with their social mission and values (e.g., “Mission Related Investing” or MRI).

Foundations that are active in your country will state it on their website and typically have a way for entrepreneurs to apply online for grants. You may also be able to make inquiries through your donor networks to see if any foundations might be interested in experimenting with a loan rather than a grant. Some foundations can do both (e.g., provide a grant to help cover set-up costs, as well as a loan for working capital) which is even more attractive for early-stage start-ups.

Foundations that are active in supporting entrepreneurs in emerging markets include Shell Foundation[9], Argidius[10], Lemelson Foundation[11], Mastercard Foundation[12], Syngenta Foundation[13] for sustainable agriculture, and the Tony Elumelu Foundation[14]. Small business owners usually turn to banks for their financial needs. Banks come in various sizes, from massive multinational banks to large, domestic banks to small, niche banks.

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9 https://shellfoundation.org
10 https://www.argidius.com
11 https://www.lemelson.org/
12 https://mastercardfdn.org
13 https://www.syngentafoundation.org
14 https://www.tonyelumelufoundation.org

NOTES

BANKS

MULTINATIONAL COMMERCIAL BANKS

Multinational commercial banks represent the largest single group of financial institutions in most countries. They have the biggest capitalization and offer a wide variety of banking services. The advantage of commercial banks is that they usually have international recognition, which is useful in trade finance. For example, if you open a letter of credit with a foreign bank subsidiary, you may not need to incur the extra cost of having the letter of credit confirmed by another bank.

The disadvantage of dealing with these banks is that transactions are usually done at a distance, using strict procedures and processes to analyse your credit risk through impersonal, risk-rating technology like credit scoring. You will have little opportunity to build a personal relationship with a universal commercial bank.

DOMESTIC COMMERCIAL BANKS

Smaller, domestic, commercial banks usually have a limited menu of services. However, they are typically easier to do business with. Often, they offer more competitive terms than their larger competitors and are able to be more flexible and quicker with their decision-making.

Thus, while their services are more limited, smaller commercial banks located in your country will tend to have a more intimate knowledge of local commercial and financial practices, and will probably be more eager to support domestic SMEs.

DEVELOPMENT BANKS

Development banks are specific types of commercial banks that usually provide targeted forms of financing. Typically, development banks provide medium to long-term financing to industrial, agricultural, or mining projects in keeping with their development mission. However, some development banks have expanded their lending portfolios to include trade finance, especially when it comes to providing short-term working capital for exporters. Additionally, many development banks offer loans on concessionary terms, which is a plus for SMEs.

Examples of development banks include the Development Bank of Rwanda[15], Development Bank of Nigeria[16], Development bank of Kenya[17], and the Development Bank of Zambia[18].

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15 https://www.brd.rw/brd/

16 https://www.devbankng.com

17 https://www.devbank.com

18 http://www.dbz.co.zm

NOTES

QUESTION 4

Match the following descriptions with the type of capital provider to which they refer. The correct answers can be found in the Answer Key.

A. ANGEL INVESTORS	**1.** Their main purpose is to finance regional development projects. These institutions provide information on their websites advertising and explaining the rigorous application processes that they conduct to screen for suitable ventures.
B. BANKS	**2.** Wealthy, private individuals that aim to help entrepreneurs succeed with a business idea by investing their own money. Many of them see impact investment as a sustainable alternative to philanthropy: if the investment succeeds, they will be able to re-invest their returns, doubling or tripling their social impact through new investments.
C. INVESTMENT FUNDS	**3.** These institutions come in various sizes. SMEs can open letters of credit with them and can choose between multinational, domestic, or development (targeted) institutions.
D. GOVERNMENT & DEVELOPMENT AGENCIES	**4.** Groups of investment professionals that apply pools of capital from affluent individuals, pension funds, insurance firms, endowment funds, and other sources towards investing in businesses that have the potential to grow. These institutions use their equity holdings to carry out a variety of functions for their investors, the businesses in which they invest, as well as themselves.

CHAPTER 6 | CHOOSING THE RIGHT CAPITAL PROVIDER

IN THIS CHAPTER, YOU WILL LEARN:

- How to use a 3-step process to decide which capital provider to approach;
- The stages of the loan credit process; and
- The stages of the equity investment process.

HOW TO DECIDE WHICH CAPITAL PROVIDER TO APPROACH?

WHAT HAVE WE SEEN SO FAR

In the previous chapters, we looked at the components of your financial needs. We thus saw that your financial needs can be made up of several components, necessity for working capital, fixed asset acquisition, a financial cushion, or meeting committed cash outflows.

Then, we saw that you could meet this financial need through long-term or short-term debt, equity or grants.

The next steps is how to decide which financial institution to approach in order to obtain the funding you need.

Step 1: Make a list of the available capital providers in your country

Many SMEs in developing countries do not have access to the full range of capital providers or financing instruments, usually because of a lack of proper infrastructure facilities and conducive legal environments. This means that, notwithstanding what we have presented thus far in this course, you may not have all the choices available in your country.

Thus, the first step to deciding which capital provider to approach in order to raise funds for your business is to make a list of all of the potential capital providers that you could approach. You can get this information by asking friends and colleagues that have dealt with these providers, by looking at the website of your country's central bank or development bank, or simply by searching online for foundations and investors that are active in your country.

Step 2: Find out the providers' priorities, conditions, and preferred client profiles

Capital providers may have different criteria for selecting clients, different tolerances to risks, and various likes and dislikes. Once you have created a list of the providers available in your country, you need to determine whether your company fits their client profile and whether you can comply with their requirements regarding collateral, covenant articles, loan duration, and grace period; as well as interest rates and other fees.

Try building a long-term relationship.

When choosing a capital provider, consider building a long-term relationship with them. Sometimes, both the SME borrower and the capital provider focus on short-term concerns, such as the maximum loan amount, affordable interest rates, or a convenient repayment schedule; with little regard for continuous and repeat business. In choosing the right capital provider, remember that the least expensive one may not necessarily be the best option for you in the long-term.

Step 3: Do your homework!

Once you have selected the capital provider that you want to approach, you need prepare for their credit or investment process. Every provider has its own set of guidelines, criteria, document requirements, etc., on which it bases a financing application decision. Some banks are conservative with very high thresholds for safety, while others – such as development banks – are willing to take on more risk. However, even these institutions follow certain procedures and impose various requirements for loan applications.

The procedures and guidelines of a capital provider exist to safeguard its interests and resources against the risks involved in financing transactions. As part of the credit process, banks first and foremost look to your business' profitability or potential, the prospect of making money, and your competence to operate and manage your business. To increase the likelihood that they will not lose in the transaction, financial institutions usually ask for security, known as collateral.

You will need to have a working knowledge of the loan or financing facility you are looking to get. You should also have a good understanding of the capital provider's culture, philosophy, and reputation. Only then will you be prepared to apply for financing.

Different financing facilities have different guidelines and procedures.

Lenders and investors have different guidelines and procedures for different types of financing facilities. For instance, a short-term loan for a relatively small amount will likely require less review and investigation than a long-term loan for a large amount. There are also financing facilities for types of financing other than traditional loans, such as accounts receivable and inventory financing. The application for these financing facilities will have procedures and requirements that are different from standard loans.

NOTES

THE LOAN CREDIT PROCESS

Although the end goal is the same, investors and banks follow different processes. You should be aware of these, since the timelines for each can be very different. For example, while loan requests can be processed in a few weeks, equity investors can take between three to six months to approve an investment.

THE STEPS OF THE LOAN CREDIT PROCESS:

1. **Application:** The credit application is the primary step that drives the credit process. It provides the historical information used by the lender to conduct assess and measure your business' credit risk. It is at this stage that lender get to know you, the borrower. This means that it is critical to provide truthful information about yourself and your business. The quality of the business plan you present is also crucial.

2. **Evaluation:** Once you have submitted all the required documents, the lender undertakes a credit risk assessment to identify and control its risks. It performs a standard credit analysis from your financial statements, along with a review of your character and capacity. It also identifies the primary source of debt repayment and evaluates the availability of secondary sources, such as collateral. Note that lenders tend to place a large emphasis on the quality of collateral.

3. **Negotiation:** In loan negotiations, lenders aim to get a reasonable interest rate on their money, with low risk, and try to obtain the best collateral possible. They will probably prefer the types of facilities and payment methods with which their staff is most familiar, and which do not require too much back-office effort or time. As their time is precious, lenders will try to obtain fees for services rendered.

4. **Approval:** Lenders take their loan-making business seriously! No loans are disbursed without having been studied and approved by many people, up lender's the "chain of command."

5. **Documentation and disbursement:** If the loan has been approved, it may be documented in a formal contract or in a simple letter, to be acknowledged by the other party (i.e. you, the borrower.) Make sure that you examine the agreement carefully before signing, and be cautious with some of the clauses, even if they appear harmless. If you breach any of them, the lender can use the breach to call in the loan!

6. **Credit administration:** If you want to create a long-term relationship with your lender, you need to establish your reputation as a good borrower. This means abiding by your loan agreement and paying on time. In this way, any subsequent requests for financing that you make will be easier, and may even cost you less because you will have additional collateral: your good reputation.

NOTES

QUESTION 5

Place the steps of the loan credit process in order. The correct answers can be found in the Answer Key.

Credit administration

Approval

Application

Documentation and disbursement

Negotiation

Evaluation

THE EQUITY INVESTMENT PROCESS

The equity investment process is different from the standard loan credit process. It includes the following steps:

1. Investor mapping: This step involves actively seeking – "mapping" – potential investors. It involves working out which typically invest in your type of venture, how much they invest, what kind of investment they make (e.g., debt, equity, or grant) and what requirements they might ask for, such as a board seat. The outcome of your investor mapping should be a "short list" of candidates. Make sure to be selective with this, otherwise, you will be wasting your time!

2. Approach: Once you have a carefully chosen a shortlist of potential investors, it is time to approach them. Sometimes, this involves sending in an online application. That said, though, the best opportunities often come about through personal introduction.

3. Pitch: If your approach is successful, you will be invited to meet with the potential investor and to make an investment pitch. This

will usually be in the form of a short twenty-minute presentation, backed up by slides and followed by a question-and-answer session.

4. Follow-up: After your investment pitch, you will need to follow-up with the investor by sending them more detailed information about your venture, including any specific answers to questions that the investor asked you during your pitch session.

5. Expression of interest: Hopefully, once the follow-up is completed you will receive an expression of interest from the investor. Here, make sure that you clarify whether the investor you have approached is actively considering whether to invest in your company or not. There is no need to engage in lengthy discussions with investors that are not seriously looking at your business.

6a. Due diligence: Once you receive an expression of interest and agree to it, the discussion can move into negotiating the exact details of the investment. At this stage, the process splits into two paths that run in parallel: due diligence and the negotiation of terms. In the due diligence part of the investment process, the investor will aim to learn about your company in detail in order to feel confident in your professionalism, skills and vision. In short, the investor will want to make sure that you are not only telling the truth, but also that you are ready and capable of receiving investment.

6b. Negotiation of terms: In parallel with the due diligence process, you will enter into negotiations with the investor on the actual terms of the investment. If you are selling equity, how many shares will you sell and at what price? What rights are you willing to offer the investor? At this stage, the investor and you will discuss the main terms of the transaction that will be included in the term sheet, which is a non-binding legal agreement that highlights the key points that were agreed upon.

7. Documentation: Once the term sheet has been agreed upon and signed, the deal moves into its final phase: formal legal documentation. Your lawyers will be responsible for this part of

the process. They should prepare the final investment agreement based on the term sheet. The Documentation step will end with a specific signing date on which all signatories will sign the final document. This is also the moment when you can finally celebrate!

8. Financial close: Once the documents have been signed, the deal officially closes when the funds have been transferred into your venture's bank account.

Tip: Since it is a very laborious process, you shouldn't try to raise funds more than once every two or three years. This means that it is a good idea to plan to have an important milestone every three years in your business; that way, you will have something to "show off" to potential capital providers.

Remember to build a relationship with your capital provider by keeping an open communication line. By asking relevant questions and submitting the required documents on time, you can build trust and increase the chances of receiving financing.

NOTES

QUESTION 6

Place the steps of the equity investment process in order. The correct answers can be found in the Answer Key.

Negotiation of terms

Pitch

Investor mapping

Approach

Financial close

Follow-up

Documentation

Expression of interest

Due diligence

CHAPTER 7 | PREPARING TO APPROACH A CAPITAL PROVIDER

IN THIS CHAPTER, YOU WILL LEARN:

- How to prepare a teaser for your business;
- A few tips to prepare a pitch deck to present your company; and
- A few tips to preparing a clear and effective business plan.

PREPARING A TEASER

Before you approach a capital provider, it is a good idea to prepare a "teaser" to send them and gauge their interest. Essentially, a teaser is a very short summary of your venture's key features. You can see an example of a teaser on page 76.

Your teaser should include:

- A description of how much and what type (e.g. debt, equity, grant) of funding you are looking for
- An explanation of what you do and the social impact that your venture creates
- The key terms of the deal that you would like (e.g. equity: valuation of shares, debt: interest rate and loan maturity)

The teaser or is not intended to be a business plan or full investment pitch. Rather, it is simply a short summary of your venture. It is designed to be sent to prospective capital providers to see if there might be initial interest.

MEETING CAPITAL PROVIDERS

Once you have finished your teaser, it is time to approach prospective capital providers.

The most powerful way to meet a capital provider is to be introduced by someone who knows both of you personally. A personal introduction from a credible source (e.g. a board member, another investor, or an investee who has raised funds from the investor) instantly gives you an advantage compared to businesses that rely on cold calling or have not been given a personal introduction.

Your existing funders are great sources to go to for help, as they are often well connected in networks of investors and capital providers. A recommendation from someone who has previously provided financial support to your business is one of the most powerful introductions that you can receive. Your existing funders are your best ambassadors.

NOTES

PITCHING TO INVESTORS

Some capital providers, such as banks or government institutions, may start the funding process based on their reaction to your teaser and initial approach.

Investors, however, will usually want you to “pitch” to them before agreeing to invest in your venture.

WHAT IS A PITCHING SESSION?

The investor will invite you to a meeting where you will make a short presentation on your venture, also called an “investment pitch”. Generally, this will be in the form of a short presentation (approximately 5 minutes), followed by a short question and answer session. You need to be absolutely confident and comfortable in giving your pitch.

WHAT ABOUT A “PITCH DECK”?

A pitch is usually delivered alongside a “pitch deck” made up of a series of slides, generally made using the PowerPoint software. You can view some examples of famously excellent pitch decks in the annexes on pages 78-81. Hopefully they will inspire you when you build your own pitch deck!

A FEW TIPS TO PREPARE YOUR PITCH

Have you ever prepared a 3-5-minute investment pitch? Here are a few tips that ITC gives to the entrepreneurs it prepares for its World Export Development Forum annual pitching competition:

A FEW TIPS TO PREPARE YOUR PITCH

Have you ever prepared a 3-5-minute investment pitch? Here are a few tips that ITC gives to the entrepreneurs it prepares for its World Export Development Forum annual pitching competition:

The goal of the pitch: the goal of an investment pitch is to get the investor interested in your business. Because time is short, you should prepare a script and memorize it.

The structure of the pitch: A 3-5-minute pitch should have 3 parts:

> a. Opening (max 1 minute): this is where you grab the investor’s attention. To do so, you need a “hook”. Try to use a personal story, an analogy or a metaphor. This will make your pitch more memorable!
>
> b. Middle (max 3 minutes): here, you give information on your business, your team, your product, and any other interesting (and relevant!) background tidbit. Try presenting the information in the following order. You should also use this order for your slides

when building your pitch deck:

i. Product: What is your product or service?

ii. Clients: Who are your clients? How you are reaching them?

iii. Revenue model: How will you make money?

iv. Team: Who is behind the company? (team and shareholders)

v. Competition: Who are your competitors?

vi. Differentiation: What is your competitive advantage? What makes your business unique?

vii. Show them the exit! Demonstrate your exit strategy and the investors' ROI.

viii. Remember: don't share every detail! Use a maximum of one sentence for each point.

c. Close (max 1 minute): This is where you ask for funding and give reasons why they should fund your venture. Find a way to close that makes your pitch memorable – make them laugh, share a personal story, form a human connection!

Highlight your passion and enthusiasm for your business. Don't just think about what you are presenting, but also about how you are presenting it.

NOTES

CREATING A BUSINESS PLAN

You are probably already familiar with business plans. They are key, not just to raising funds, but also to running your business. A business plan is like a compass. Without it, you do not know where you are going!

Generally, a business plan includes the following 10 elements:

1. **Executive summary:** This should summarize what you expect your business to accomplish.

2. **Company description:** Here, you should include key information about your business, your goals and the customers you plan to serve.

3. **Market analysis:** Ideally, your market analysis should show that you know the ins and outs of the industry, as well as the market(s) you plan to enter.

4. **Competitive analysis:** A good business plan presents a clear comparison of your business to your direct and indirect competitors.

5. **Management and organization:** Here, you should introduce your company managers and summarize their skills and primary job responsibilities.

6. **Your products:** Here, include pertinent information about your product offering.

7. **Marketing plan:** Detail how you will generate market awareness of your business and products.

8. **Sales strategy:** Lay out how you are planning to go about selling the products that you are building.

9. **Request for funding:** This is where you ask for money. Make sure to clearly state the amount of funds that your business needs, and how you plan to use these.

10. **Financial projections:** Here you need to outline the financial goals and expectations that you have set for your business, based on market research. You should also report your anticipated revenue from the last 12 months and your annual projected earnings for the future of the business.

If you find preparing your business plan to be challenging, ask for help from an expert advisor. That said, remember to work together with them. Don't let them do all the work! You need to own your business plan!

Pay extreme attention to your financial projections, as these will form the basis of your company valuation.

NOTES

If you would like more information on how to build an effective business plan for your venture, the SME Trade Academy offers a course on business plans, for which you can sign up here:

https://learning.intracen.org/course/info.php?id=304

QUESTION 7

Circle whether the following statements are true or false. The correct answers can be found in the Answer Key.

A) *"You should not approach your existing funders to try and get more funds from them. They have already helped to fund your business and will not be able to provide you with further assistance."*

True or False

B) *"You don't have to convince investors that your business solves any social or market problem. The only thing that investors care about are the terms of the financing you are asking for."*

True or False

C) *"When you pitch, you should avoid using long, text-filled slide decks. Investors want to hear from you; not read a presentation!"*

True or False

CHAPTER 8 | HOW TO MANAGE THE DUE DILIGENCE PROCESS WITH CAPITAL PROVIDERS

IN THIS CHAPTER, YOU WILL LEARN:

- How investors will conduct their legal, financial, and commercial due diligence, and what they will be looking for in these processes.

BEGINNING THE DUE DILIGENCE PROCESS

Since the due diligence process can be time consuming, it usually starts before you even pitch your business. It will start with a request from the capital provider to provide them with a list of documents, also called "the check list". Once you receive it, you will need to start collecting, preparing, and organizing all the documents requested from you. As you are preparing everything, a good idea is to store all of the documents together in an online folder. This will be your "Due Diligence Data Room"!

The due diligence process can be segmented into three areas: legal, financial and commercial. We will discuss each of these separately in the following slides.

WHAT DO INVESTORS WANT TO KNOW FROM THE DUE DILIGENCE PROCESS?

In the due diligence process, an investor is trying to understand:

1. The potential levels of return that they can expect to see from their investment, from both a social and a financial perspective;

2. How their investment will be used (they don't want to waste their money!);

3. The risks of investing in your venture (i.e. what could go wrong and how likely is it to go wrong);

4. The potential routes out the investment, once the business becomes financially self-sustaining or profitable. This is known as the "exit" and it will enable investors to pursue other projects.

Equity investors (such as venture capitalists or impact investors) tend to be more stringent in the way in which they assess investment opportunities. Lenders and grant providers may be less demanding when it comes to due diligence.

Here, then, we will take the perspective of equity investors, since theirs tend to be the most difficult due diligence processes to go through successfully. Keep in mind, however, that what we will see here can apply to the due diligence processes of lenders and grant providers as well.

NOTES

LEGAL DUE DILIGENCE

Legal due diligence is a review of all of the key legal documentation pertinent to your venture. This includes documents of incorporation and governance, as well as the regulations governing your venture and its legal rights to operate.

The purpose of legal due diligence is to ensure that your venture is legally authorized to operate and receive investment. This involves a basic check that you are correctly incorporated, that your venture is authorized to enter into an Investment Agreement, and that you have all permits, licenses and contracts needed to operate.

If your venture relies on specific or proprietary intellectual property, the legal due diligence process will verify that you are entitled to ownership of that intellectual property (i.e. through a registered patent or license).

The Legal Due Diligence process will also check whether there is currently legal action being taken against your business.

Is anyone suing you for any reason? If so, you will need to disclose the nature of the lawsuit, and potential damages to your business if you fail to win the lawsuit.

Conflicts of interest will also be reviewed by investors in their legal due diligence process. Potential conflicts of interest sometimes arise in the course of business, and need not necessarily be a problem for investors, depending on the context. The importance here is that they are noted and disclosed to investors. You don't want these potential conflicts to come out after an investment has been raised, as this may expose you to liability.

NOTES

FINANCIAL DUE DILIGENCE

Financial due diligence involves a review of all of your business' key financial information, in order for investors to understand your current financial health.

THE FOLLOWING DOCUMENTS ARE TYPICALLY REQUESTED AS PART OF THE FINANCIAL DUE DILIGENCE PROCESS:

- Audited financial statements for the past 2-3 years (or since the business' inception)
- The most recent management accounts (unaudited)
- Budget for the current fiscal year
- Copies of bank account statements for past 3 years
- A "capital table" listing current shareholders and investors, the number of shares they own, their percentage of shareholding, the amount they initially invested and the current value of those shares
- Details of any borrowing made by the company (from whom, how much, on what terms)

If your company has been operating for more than a couple of years, audited financial statements will be required as part of the financial due diligence process. If your venture is at a very early stage and does not yet have a full year of audited accounts, you will still be asked to provide whatever accounts you do have to the prospective investors. Keep in mind, though, that whether or not to accept unaudited accounts is up to the investors' discretion.

If you are planning to raise capital in the next 24 months and don't yet have audited accounts, we recommend that you hire an auditor as early as possible, as the auditing process can take several months.

Remember, not having an audited set of accounts can prevent you from raising capital!

COMMERCIAL DUE DILIGENCE

Commercial due diligence is about understanding the nature of your operations. Do you have a strong team, with good systems in place for managing customers, suppliers, partners and cash? What are the key risks that your venture faces that might threaten your ability to operate?

Are you dependent on any particular parties, such as a distribution partner? What would happen if any of your partners were to go under? How resilient would your venture be in the face of such business risks?

The nature of the commercial due diligence depends on your type of business. You should think in advance of the key operating risks that you might be exposed to, and then prepare a list of items to discuss with investors to show that you are aware of these risks and know how to manage them.

COMMERCIAL DUE DILIGENCE MAY INCLUDE REVIEWING:

- Copies of your venture's key contracts (e.g. supplier agreements, licenses, key customer contracts), your senior management team's CVs and employment contracts and your board's CVs (some investors may also request to interview the board members)
- Your customer management system, information management system and cash management system

In addition to written materials, you should ideally offer investors the opportunity for a site visit. This will give your prospective investors a chance to see your business at work and to meet with customers and staff on site, as well as to meet with your beneficiaries and understand the direct impact of your work.

NOTES

QUESTION 8

Match the following descriptions with the type of due diligence to which they refer. The correct answers can be found in the Answer Key.

A. FINANCIAL DUE DILIGENCE	**1.** Involves understanding the nature of your operations and the quality of your team and company systems.
B. COMMERCIAL DUE DILIGENCE	**2.** Involves a review of your business' key financial information in order to establish your venture's financial health.
C. LEGAL DUE DILIGENCE	**3.** Involves a review of your venture's documents of incorporation and governance, as well as the regulations governing your venture and its rights to operate.

CHAPTER 9 | MANAGING THE NEGOTIATION AND POST-FINANCING PHASE

IN THIS CHAPTER, YOU WILL LEARN:

- The Golden Rules of managing the negotiation process with an investor; and
- How to manage your ongoing relationship with your investors.

THE GOLDEN RULES OF MANAGING THE NEGOTIATION PROCESS WITH AN INVESTOR

Some investors might be rather slow in their decision-making process. When managing the negotiation process, you will need to follow a few "golden rules"

1. Set a deadline: We recommend setting a specific deadline for each of your key milestone events: signing the Term Sheet, approving final documentation, and closing the deal. This deadline should also be agreed upon by the investors. This is important as you will need some degree of certainty on when you will receive funds.

2. Use a Term Sheet: The Term Sheet is the official record of the current state of discussions. The starting Term Sheet should be prepared by you with help from your lawyers and/or advisers. This Term Sheet will represent your starting position for the negotiations. **An example of a term sheet has been included as part of the annexes.**

3. Conduct investor negotiations in parallel: Assuming you have more than one investor, you will be negotiating with several investors at the same time. The advantage of this is that you have a back-up if some investors drop out.

4. Use the same information for all investors: It is important to send the same information to all potential investors so that everyone is on the same page. Ultimately, all investors will be signing up for the same deal on the same terms. This is why it's essential to have just one Term Sheet and a single set of Due Diligence documents to share with investors.

5. Know what you are willing to negotiate: You should be very clear in your own mind about your critical "red lines" in any negotiation with an investor. Which items are you prepared to be flexible on? Which items are final? For example, what is the maximum shareholding in your company that you would be willing to sell, and at what price? If raising debt, what is the maximum interest rate that you would be willing to pay?

6. Treat every investor as a future business partner: Don't go into an investor negotiation thinking that it's a zero-sum game where you win and they lose. Everyone must come out of the deal feeling that they got a good deal. Remember that you will need to work with these investors for many years after the deal has closed. Instead, view the investor as a new business partner.

FINALIZING THE LEGAL DOCUMENTATION

The final legal document will either be a shareholder agreement - if you are raising equity - or a loan agreement - if you are raising debt.

In both cases, you should seek legal advice, as a lawyer can help you to fully understand the document and its clauses prior to signing.

Do you know that some international legal firms provide pro-bono (free) advice to SMEs from emerging markets? You may want to consider reaching out and asking for their help. Some companies known for doing this include:

- Sidley Austin Pro-Bono Program[19]
- Latham and Watkins Pro-Bono Program[20]

19 https://www.sidley.com/en/us/probonolanding/

20 https://www.lw.com/probono

NOTES

MANAGING YOUR ONGOING RELATIONSHIP WITH INVESTORS

The final process to put in place as your deal closes is an agreed method for managing all of your new investors. It's worth preparing this before closing the deal, so that you will have a clear protocol for how to treat investors on an ongoing basis.

Investors will expect to be regularly updated on the status and progress of your business. You should agree with your investors in advance on how frequently they would like to be updated (monthly, quarterly or annually) and in what form they would like to receive their updates (email, monthly call, etc.) quarterly reporting is typically recommended.

Above all, you should view investors as your allies and business partners. It is important to maintain good relations with them and to openly discuss current and future business plans throughout the relationship. Investors want you to succeed and have invested in you because they believe in you and your vision.

It's likely that you may wish to ask the same investors again for more funding in the future. Your investors can also help you to find new investors, help you to solve ongoing business challenges and, when you look to raise more capital in future, new investors will look to existing investors for their feedback on your business. For all of these reasons, maintaining good relationships with investors is highly important.

PREPARING AN INVESTOR REPORT

To make your reporting easier, you should prepare an "Investor Report" with a standard format that you can update regularly and send to all of your investors. This report doesn't have to be very long. A well-designed one-pager summarizing your key metrics (sales to date, costs to date, expected revenue pipeline, cash in bank, beneficiaries reached, key impact metrics, etc.), as well as successes, and challenges from the last quarter would be sufficient.

QUESTION 9

Circle whether the following statements are true or false. The correct answers can be found in the Answer Key.

A) "*You shouldn't set deadlines for the negotiation process, as this might annoy busy investors. It is best to leave the timing flexible."*

True or False

B) *"It is important to use the term sheet as it is the official record of the current state of discussion."*

True or False

C) *"You shouldn't conduct negations with multiple investors in parallel."*

True or False

NOTES

We hope this guide will give you the knowledge and confidence to approach financiers and raise funds for your business. To facilitate capital for women entrepreneurs to scale and grow internationally, SheTrades Invest aims to strengthen the financial and managerial capacity and investment readiness of women entrepreneurs through ITC's full range of online tools, boot camps, market intelligence, and webinars. For more business guides, courses, information on markets, trade fairs and events, create your account on SheTrades.com!

ANSWER KEY

QUESTION 1

Match the following descriptions with the correct financing instrument.

A.3.; B.2.; C.4.; D.1.

QUESTION 2

Select the correct answer to the following questions.

1.B. Equity

Feedback: Equity involves giving up a certain percentage of your company to outside investors in exchange for cash (i.e. selling shares) and/or expertise.

2.C. Long-term debt

Feedback: Taking on long-term debt will usually require you to put up collateral to secure the amount borrowed.

3.D. Short-term debt

Feedback: Short-term debt is an appropriate instrument to "smooth" any delays between your company's expenses and revenues, thus ensuring a more stable cash flow.

4.A. Grants

Feedback: Grants are best for those companies that do not operate on a for-profit business model.

QUESTION 3

Circle whether the following statements are true or false.

A) True

Feedback: This is true. Banking institutions mostly get their resources from deposits, need a license to operate and are heavily regulated.

B) True

Feedback: This is true. While banks and other financial institutions are often referred to as “conventional” source of financing, other capital providers such as VCs and angel investors are typically referred to as “non-traditional.”

C) True

Feedback: This is true. Non-bank financial institutions, such as insurance companies, pension funds, etc. draw their resources from savings, and are less heavily regulated than banks.

QUESTION 4

Match the following descriptions with the type of capital provider to which they refer.

A.2.; B.3.; C.4.;D.1.

QUESTION 5

Place the steps of the loan credit process in order.

1. Application
2. Evaluation
3. Negotiation
4. Approval
5. Documentation and disbursement
6. Credit administration

QUESTION 6

Place the steps of the equity investment process in order.

1. Investor mapping

2. Approach
3. Pitch
4. Follow-up
5. Expression of interest
6. Due diligence
7. Negotiation of terms
8. Documentation
9. Financial close

QUESTION 7

Circle whether the following statements are true or false.

A) False

Feedback: Actually, your existing funders are your best ambassadors and should be your first point of contact when trying to raise funds! Someone who has previously provided financial support to your business is likely well connected to networks of other capital providers. An introduction by one of your existing funders is one of the most powerful introductions you can receive.

B) False

Feedback: Actually, discussions on financing terms are the last part of investor meetings. Before you even get to talking about terms, you will need to convince potential investors of the following:

1. A meaningful social or market problem exists;
2. Your venture addresses this problem; and,
3. You have the right team to implement the best solution possible.

C) True

Feedback: Be brief! Try to reduce text where possible by using graphics, pictures or charts. Each slide should make just one point. Most of all, make sure to never read from your slides! This will help to keep your audience engaged and listening to what you are saying.

QUESTION 8

Match the following descriptions with the type of due diligence to which they refer.

A.2.; B.1.; C.3.

QUESTION 9

Circle whether the following statements are true or false.

A) False

Feedback: It is generally a good idea set a specific deadline for each of the four key milestones in the negotiation process. Deadlines should be set for: signing the Term Sheet, agreeing on final documentation and closing the deal.

B) True

Feedback: The Term Sheet is very important. Make sure that you prepare it with help from a lawyer and/or advisor. It represents your starting position in the negotiations.

C) False

Feedback: There are advantages to negotiating with multiple different investors at once. For one, it gives you a back-up if one investor drops out.

Some Impact Investment Funds will wish to lock you into an exclusive negotiation period. You should only agree to this if you believe the Fund will likely invest the entire amount you are looking for or if you wish to secure investment from this Fund first before looking into others.

ANNEXES

CHECKLIST

STATUS DOCUMENT NAME PROVIDED

☒ ☒

LEGAL

- ☐ ☐ Registration Documents
- ☐ ☐ By-Laws
- ☐ ☐ Shareholder Registry
- ☐ ☐ Trademarks
- ☐ ☐ Intellectual Property
- ☐ ☐ Lease agreements with the landlords
- ☐ ☐ Agreements & Contracts with partners
- ☐ ☐ Latest copies of PAYE return, incometax return, withholding tax return and tax compliance

PEOPLE AND PARTNERS

- ☐ ☐ CVs of top managers
- ☐ ☐ 200-word biographies of each board member
- ☐ ☐ 200-word profiles of top 5 institutional partners
- ☐ ☐ List of staff names and functions with corresponding FTE
- ☐ ☐ List of key institutional partners including counterpart contact information

ORGANIZATIONAL STRUCTURE

- ☐ ☐ Organizational Chart
- ☐ ☐ Management information system data and related reports
- ☐ ☐ Board meeting minutes of the last 12 months
- ☐ ☐ Sub-Committee Minutes (H.R., Audit Committee etc)
- ☐ ☐ Shareholder meeting minutes of the last 36 months
- ☐ ☐ Senior management meeting minutes of the last 12 months

BUSINESS ACTIVITIES

- ☐ ☐ Business plan including 3-year forecasts and 10-year outlook
- ☐ ☐ List of competitors in-country
- ☐ ☐ List of similar business models internationally
- ☐ ☐ Market Research
- ☐ ☐ Operations Manual

- ☐ ☐ Research Methodology for entry/pilot into new markets
- ☐ ☐ System/Tech operation manual and future development
- ☐ ☐ Storage & Logistics (Agriculture)
- ☐ ☐ Processing Procedure (Agriculture)
- ☐ ☐ Quality Standards and Control
- ☐ ☐ HR, Finance, marketing (policy, manuals & strategy)
- ☐ ☐ Sales & Distribution Strategy
- ☐ ☐ Value Additon (Agriculture)
- ☐ ☐ Auditors details
- ☐ ☐ Certifications (Processes, Procedurers, Products & Services)
- ☐ ☐ Cooperative/Farmer Acquisition Process/Methodology
- ☐ ☐ Supply Chain (Member Supply, Member Training, Procurement of inputs)

SOCIAL IMPACT

- ☐ ☐ Beneficiary Story
- ☐ ☐ Environmental Sustainability (Waste management, Water Management, Agrochemical Use)
- ☐ ☐ Current beneficiary situation and 5-year vision
- ☐ ☐ Social impact measurement system (Total Employees, Female Employees, Employee benefits, Hours worked, Total wages)
- ☐ ☐ Monthly, quarterly and yearly social impact reporting capacity

CAPITAL NEED

- ☐ ☐ Un-Audited accounts for the last year
- ☐ ☐ Current year management accounts
- ☐ ☐ Audited accounts
- ☐ ☐ Financial forecasts for the next three years (Latest)
- ☐ ☐ Current Sources of Funding
- ☐ ☐ Current Capital Need
- ☐ ☐ Valuation report and analysis
- ☐ ☐ Contracts with other investors

April 25, 2018

INVESTMENT OPPORTUNITY

Guano Fertilizantes Moçambique Lda.

Mozambique

Overview

Guano Fertilizantes Moçambique Lda. (GuanoMoz) is a company dedicated to the extraction, processing, and commercialization of guano, an organic fertilizer. Given the global concern about environmental issues and interest in organic agriculture and farming, guano is in great demand as a viable alternative to chemical fertilizers. GuanoMoz is seeking to raise capital to expand its growth on national and international levels (Southern Africa, Europe, Asia and the US).

The product

Guano is the excrement of cave-dwelling bats. It is an extremely effective fertilizer due to its high levels of nitrogen, phosphate, potassium and calcium content, as well as microorganisms and organic matter, all critical for effective plant growth. It has a variety of uses in agriculture and gardening including improving topsoil, lawn treatments, as a fungicide, nematocide, and composting activator. The process of production is easy and involves extraction from caves, removing impurities and
heating or ultraviolet treatment to kill bacteria. It is sellable in powder, pellet, or liquid form. Guano is an excellent organic fertilizer with high value in international markets. The company plans to expand its product portfolio to include also blends of guano with coconut fibres, cassava, and others.

The market

In 2014, Mozambique consumed approximately 200,000 tons of fertilizer in agriculture. Only 8% of farmers used fertilizers and 90% of the demand came from the tobacco and sugar cane industry.

The demand is now growing due to the push from the international donors' agriculture projects that prefer working with organic products. In addition, the regional agricultural market, in particular South Africa, is growing.

The company targets the following clients:

- National organic and traditional farmers;
- Regional organic farmers;
- Mozambique government (agricultural programs);
- Households.

The competition

There are currently no other licensed guano exploration companies in Mozambique. Resellers of more expensive international fertilizers and local resellers of lower quality chicken and cow manure represent the competitors.

Key facts

Name of Organization	Guano Fertilizantes Moçambique Lda.
Headquarters	HQ: Maputo OP: Inhassoro
Country of operation	Mozambique
Website	www.guanomoz.com
Year operational	2016
Sector	Agro-processing: Organic fertilizers
Legal structure	LLC (Mozambique)
Number of employees	16
Stage	Early stage

Proposed investment structure

Proposed investment amount	USD 650,000
Type of investment	Equity or Medium term loan (5 years)
Type of investor	Long/medium-term active investor with qualified minority ownership. It should help in international expansion
Use of proceeds	• Setup of a processing factory • International expansion • Technical consultancy

Management & Advisors

- **Mulweli Rebelo, Founder & GM** - Mulweli is a Mozambican entrepreneur with 15 years' work experience in South Africa and Mozambique. He worked as consultant for the World Bank, UNDP, and the Finnish government. He holds a degree in IT from Cape Town University.
- **Vitoriano Cabrita, Founder & Investor** - Vitoriano is a Mozambican national with 40 years of experience in fishery, tourism, and real estate.
- He is in charge of local management of the project and liaison with local provincial authorities and stakeholders.
- **Domingos Mutombene, Founder & COO –** Domingos is a Mozambican product expert. He is responsible of administration and working with government authorities.
- **Percilia Muianga, Founder & CFO –** Percilia is a Mozambican woman entrepreneur with +20 years' experience in management, finance, and HR. She is responsible for ISO9001 compliance in the company.
- **João Freitas, Advisor -** João has over 40 years of experience in marketing and agriculture sector, having lived and worked in Brazil, US. He assists GuanoMoz with the implementaton the business model which consists of a network of cooperatives through the coutry

Investment Opportunity

The company is raising USD 650,000 in equity, or medium-term debt, to:

- Construct a processing plant, including warehouse;
- Source from new caves and obtain the necessary licences;
- Conduct R&D to design new products and blending with other organic fertilizers;
- Expand to additional national and international markets;
- Source raw material from other African countries.

The ideal partner should be an active equity investor with a qualified minority or a medium-term lender for a five years commitment.

An equity investor's IRR is expected to be around 12% with a 5 years exit in the form of a buy-back. Exit strategy should be negotiated taking into account the requirements of the partner and the realities of the company.

Social Impact

The company has a large social and economic impact as it creates employment for rural people. In addition, the product improve food security as it increases crops' production yields.

Financial details

Company's financials are available upon request.

VETTERY PITCH DECK

Fundraising in 9 slides-Vettery- May 2016

Vettery:	Hiring marketplace startup that helps match a job seeker with the best possible employer
Country:	USA
Year Founded:	2013
Founders:	Brett Adcock and Adam Goldstein
Funds raised:	US$ 9 Million
Round:	Series A
Investors:	Greycroft Partners and Raine Ventures
Business Insider article:	This 25-person startup just raised $9 million using these 9 slides

Commentary on individual slides from the Business Insider article:

Slide 1: Vettery was founded in 2013. This slide deck was last updated in May 2016.

Slide 2: The deck starts with Vettery's company vision — in one simple sentence.

Slide 3: The next slide gives a more detailed overview of the business. Basically, Vettery is a marketplace for job seekers and employers. It also has an in-house "talent executive" who works through the whole job-searching process, making it easier for the candidate and employers.

Slide 4: "We decided to describe the problem through a user story. We told the story of how a hiring manager struggles to find talent, and how Vettery solves this problem," Vettery cofounder Adam Goldstein tells us.

Slide 5: It immediately backs up the story with hard data, showing the traction it's seeing and validating its vision.

Slide 6: And then it jumps straight into its financial numbers.

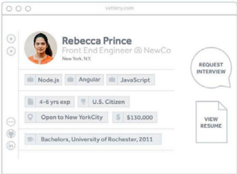
Slide 7: And explains that there's a huge market opportunity.

Slide 8: It clearly shows who the competitors are and what the whole market landscape looks like.

Slide 9: More numbers that show its fast growth. Investors love data and hard numbers. "Whatever direction you take in your pitch, you will need historical financials and projections and strong customer references," Goldstein says.

Slide 10: More details around how Vettery's technology stands out from the rest and where it sees it in the future.

Vettery Overview



Vettery is a two-sided marketplace that allows companies to discover candidates and request interviews.

The marketplace provides transparency, price discovery, intent, and ease.

Over 1,700 hiring managers have signed up in the 57 weeks since we launched connecting with over 4,700 candidates.

Why It's Working

The Hiring Manager

VP of Technology @

- Intent
- Access & Transparency
- Control
- Ease of Use
- Cost Effective

The Candidate

Software Engineer placed @

- Ease of Use
- Access
- Price Discovery
- Control

KPI Dashboard

Revenue Growth

TAKEAWAYS

Market Size

Annual U.S. Staffing Industry is

$120 billion , $500 billion Globally

14 U.S. Staffing Firms generate

>$1 billion in revenue per year

Competition

Job Boards	Marketplaces	Full Service Incumbents
MONSTER	VETTERY	betts recruiting
LinkedIn	HIRED	daversa partners
careerbuilder	indeed prime	GLOCAP
indeed		Michael Page
Dice		Riviera Partners
		Robert Half

Price →

Strong Business Model

Vettery is building a large and highly profitable business

In April we had a 90.3% Gross Margin

In May, we estimate we will be profitable and cash flow positive

Long term, we believe this to be a very high margin business

Very high return on investment
(Candidate Acquisition Cost: $77 | Average Revenue/Placement: $15,960)

Technology Roadmap

Data
- Better Matching
- Data driven curation
- Candidate Targeting & Acquisition

Scaling
- Employer On-Boarding
- Candidate Registration and Activation
- Streamlining the Interview Funnel

HR Ecosystem Integrations
- Integrations with Applicant Tracking Systems
- Workflow Management Tools
- Real Time Hiring Intelligence

Welcome 1

AirBed&Breakfast

Book rooms with locals, rather than hotels.

This is a PowerPoint reproduction of an early AirBnB pitch deck via Business Insider @ http://www.businessinsider.com/airbnb-a-13-billion-dollar-startups-first-ever-pitch-deck-2011-9

Problem 2

Price is an important concern for customers booking travel online.

Hotels leave you disconnected from the city and its culture.

No easy way exists to book a room with a local or become a host.

Solution 3

A web platform where users can rent out their space to host travelers to:

SAVE MONEY	MAKE MONEY	SHARE CULTURE
when traveling	when hosting	local connection to the city

Market Validation 4

630,000	17,000
on temporary housing site couchsurfing.com	temporary housing listings on SF & NYC Craigslist from 07/09 – 07/16

Market Size 5

1.9 Billion+

TRIPS BOOKED (WORDLWIDE)
Total Available Market

532M

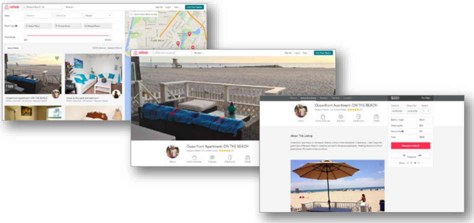
BUDGET & ONLINE TRIPS
Serviceable Available Market

10.6M

TRIPS W/AB&B
Market Share

Product 6

SEARCH BY CITY ⟶ REVIEW LISTINGS ⟶ BOOK IT!



Business Model 7

We take a 10% commission on each transaction.

10.6M ⟶ $20 ⟶ $200M

TRIPS W/AB&B
Share of Market

AVG FEE
$70/night @ 3 nights

REVENUE
2008-2011

Market Adoption 8

EVENTS
target events monthly

Octoberfest (6M)
Cebit (700,000)
Summerfest (1M)
Eurocup(3M+)
Mardi Gras (800,000)

with listing widget

Widget screenshot

PARTNERSHIPS
cheap/alternative travel

GoLoco
KAYAK
ORBITZ

CRAIGSLIST
dual posting feature

AirBnB screenshot

Craigslist screenshot

Competition 9

AFFORDABLE

CouchSurfing
craigslist
BedandBreakfast.com

AirBed&Breakfast
Hostels.com Every Hostel, Everywhere!

OFFLINE TRANSACTION ⟵

ONLINE TRANSACTION ⟶

rentobi.com
VRBO

hotels.com

EXPENSIVE

Competitive Advantages 10

1st TO MARKET
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Integer nec odio. Praesent libero.

HOST INCENTIVE
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Integer nec odio. Praesent libero.

LIST ONCE
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Integer nec odio. Praesent libero.

EASE OF USE
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Integer nec odio. Praesent libero.

PROFILES
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Integer nec odio. Praesent libero.

DESIGN & BRAND
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Integer nec odio. Praesent libero.

PitchDeckCoach

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http://pitchdeckcoach.com/pitch-deck

Version 1.0

POST-MONEY VALUATION CAP

THIS INSTRUMENT AND ANY SECURITIES ISSUABLE PURSUANT HERETO HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT AS PERMITTED IN THIS SAFE AND UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR AN EXEMPTION THEREFROM.

[COMPANY NAME]

SAFE
(Simple Agreement for Future Equity)

THIS CERTIFIES THAT in exchange for the payment by [Investor Name] (the "**Investor**") of $[_____________] (the "**Purchase Amount**") on or about [Date of Safe], [Company Name], a [State of Incorporation] corporation (the "**Company**"), issues to the Investor the right to certain shares of the Company's Capital Stock, subject to the terms described below.

This Safe is one of the forms available at http://ycombinator.com/documents and the Company and the Investor agree that neither one has modified the form, except to fill in blanks and bracketed terms.

The "**Post-Money Valuation Cap**" is $[_____________]. See **Section 2** for certain additional defined terms.

1. *Events*

(a) **Equity Financing**. If there is an Equity Financing before the termination of this Safe, on the initial closing of such Equity Financing, this Safe will automatically convert into the greater of: (1) the number of shares of Standard Preferred Stock equal to the Purchase Amount divided by the lowest price per share of the Standard Preferred Stock; or (2) the number of shares of Safe Preferred Stock equal to the Purchase Amount divided by the Safe Price.

In connection with the automatic conversion of this Safe into shares of Standard Preferred Stock or Safe Preferred Stock, the Investor will execute and deliver to the Company all of the transaction documents related to the Equity Financing; *provided,* that such documents are the same documents to be entered into with the purchasers of Standard Preferred Stock, with appropriate variations for the Safe Preferred Stock if applicable, and *provided further,* that such documents have customary exceptions to any drag-along applicable to the Investor, including, without limitation, limited representations and warranties and limited liability and indemnification obligations on the part of the Investor.

(b) **Liquidity Event**. If there is a Liquidity Event before the termination of this Safe, this Safe will automatically be entitled to receive a portion of Proceeds, due and payable to the Investor immediately prior to, or concurrent with, the consummation of such Liquidity Event, equal to the greater of (i) the Purchase Amount (the "**Cash-Out Amount**") or (ii) the amount payable on the number of shares of Common Stock equal to the Purchase Amount divided by the Liquidity Price (the "**Conversion Amount**"). If any of the Company's securityholders are given a choice as to the form and amount of Proceeds to be received in a Liquidity Event, the Investor will be given the same choice, *provided* that the Investor may not choose to receive a form of consideration that the Investor would be ineligible to receive as a result of the Investor's failure to satisfy any requirement or limitation generally applicable to the Company's securityholders, or under any applicable laws.

Notwithstanding the foregoing, in connection with a Change of Control intended to qualify as a tax-free reorganization, the Company may reduce the cash portion of Proceeds payable to the Investor by the amount determined by its board of directors in good faith for such Change of Control to qualify as a tax-free reorganization for U.S. federal income tax purposes, provided that such reduction (A) does not reduce the total Proceeds payable to such Investor and (B) is applied in the same manner and on a pro rata basis to all securityholders who have equal priority to the Investor under Section 1(d).

(c) **Dissolution Event**. If there is a Dissolution Event before the termination of this Safe, the Investor will automatically be entitled to receive a portion of Proceeds equal to the Cash-Out Amount, due and payable to the Investor immediately prior to the consummation of the Dissolution Event.

(d) **Liquidation Priority**. In a Liquidity Event or Dissolution Event, this Safe is intended to operate like standard non-participating Preferred Stock. The Investor's right to receive its Cash-Out Amount is:

(i) Junior to payment of outstanding indebtedness and creditor claims, including contractual claims for payment and convertible promissory notes (to the extent such convertible promissory notes are not actually or notionally converted into Capital Stock);

(ii) On par with payments for other Safes and/or Preferred Stock, and if the applicable Proceeds are insufficient to permit full payments to the Investor and such other Safes and/or Preferred Stock, the applicable Proceeds will be distributed pro rata to the Investor and such other Safes and/or Preferred Stock in proportion to the full payments that would otherwise be due; and

(iii) Senior to payments for Common Stock.

The Investor's right to receive its Conversion Amount is (A) on par with payments for Common Stock and other Safes and/or Preferred Stock who are also receiving Conversion Amounts or Proceeds on a similar as-converted to Common Stock basis, and (B) junior to payments described in clauses (i) and (ii) above (in the latter case, to the extent such payments are Cash-Out Amounts or similar liquidation preferences).

(e) **Termination**. This Safe will automatically terminate (without relieving the Company of any obligations arising from a prior breach of or non-compliance with this Safe) immediately following the earliest to occur of: (i) the issuance of Capital Stock to the Investor pursuant to the automatic conversion of this Safe under Section 1(a); or (ii) the payment, or setting aside for payment, of amounts due the Investor pursuant to Section 1(b) or Section 1(c).

2. ***Definitions***

"**Capital Stock**" means the capital stock of the Company, including, without limitation, the "**Common Stock**" and the "**Preferred Stock**."

"**Change of Control**" means (i) a transaction or series of related transactions in which any "person" or "group" (within the meaning of Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of more than 50% of the outstanding voting securities of the Company having the right to vote for the election of members of the Company's board of directors, (ii) any reorganization, merger or consolidation of the Company, other than a transaction or series of related transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction or series of related transactions retain, immediately after such transaction or series of related transactions, at least a majority of the total voting power represented by the outstanding voting securities of the Company or such other surviving or resulting entity or (iii) a sale, lease or other disposition of all or substantially all of the assets of the Company.

"**Company Capitalization**" is calculated as of immediately prior to the Equity Financing and (without double-counting):

- Includes all shares of Capital Stock issued and outstanding;
- Includes all Converting Securities;
- Includes all (i) issued and outstanding Options and (ii) Promised Options;
- Includes the Unissued Option Pool; and
- Excludes, notwithstanding the foregoing, any increases to the Unissued Option Pool (except to the extent necessary to cover Promised Options that exceed the Unissued Option Pool) in connection with the Equity Financing.

"**Converting Securities**" includes this Safe and other convertible securities issued by the Company, including but not limited to: (i) other Safes; (ii) convertible promissory notes and other convertible debt instruments; and (iii) convertible securities that have the right to convert into shares of Capital Stock.

Version 1.0

POST-MONEY VALUATION CAP

"**Dissolution Event**" means (i) a voluntary termination of operations, (ii) a general assignment for the benefit of the Company's creditors or (iii) any other liquidation, dissolution or winding up of the Company (**excluding** a Liquidity Event), whether voluntary or involuntary.

"**Dividend Amount**" means, with respect to any date on which the Company pays a dividend on its outstanding Common Stock, the amount of such dividend that is paid per share of Common Stock multiplied by (x) the Purchase Amount divided by (y) the Liquidity Price (treating the dividend date as a Liquidity Event solely for purposes of calculating such Liquidity Price).

"**Equity Financing**" means a bona fide transaction or series of transactions with the principal purpose of raising capital, pursuant to which the Company issues and sells Preferred Stock at a fixed valuation, including but not limited to, a pre-money or post-money valuation.

"**Initial Public Offering**" means the closing of the Company's first firm commitment underwritten initial public offering of Common Stock pursuant to a registration statement filed under the Securities Act.

"**Liquidity Capitalization**" is calculated as of immediately prior to the Liquidity Event, and (without double-counting):

- Includes all shares of Capital Stock issued and outstanding;
- Includes all (i) issued and outstanding Options and (ii) to the extent receiving Proceeds, Promised Options;
- Includes all Converting Securities, **other than** any Safes and other convertible securities (including without limitation shares of Preferred Stock) where the holders of such securities are receiving Cash-Out Amounts or similar liquidation preference payments in lieu of Conversion Amounts or similar "as-converted" payments; and
- Excludes the Unissued Option Pool.

"**Liquidity Event**" means a Change of Control or an Initial Public Offering.

"**Liquidity Price**" means the price per share equal to the Post-Money Valuation Cap divided by the Liquidity Capitalization.

"**Options**" includes options, restricted stock awards or purchases, RSUs, SARs, warrants or similar securities, vested or unvested.

"**Proceeds**" means cash and other assets (including without limitation stock consideration) that are proceeds from the Liquidity Event or the Dissolution Event, as applicable, and legally available for distribution.

"**Promised Options**" means promised but ungranted Options that are the greater of those (i) promised pursuant to agreements or understandings made prior to the execution of, or in connection with, the term sheet for the Equity Financing (or the initial closing of the Equity Financing, if there is no term sheet), or (ii) treated as outstanding Options in the calculation of the Standard Preferred Stock's price per share.

"**Safe**" means an instrument containing a future right to shares of Capital Stock, similar in form and content to this instrument, purchased by investors for the purpose of funding the Company's business operations. References to "this Safe" mean this specific instrument.

"**Safe Preferred Stock**" means the shares of the series of Preferred Stock issued to the Investor in an Equity Financing, having the identical rights, privileges, preferences and restrictions as the shares of Standard Preferred Stock, other than with respect to: (i) the per share liquidation preference and the initial conversion price for purposes of price-based anti-dilution protection, which will equal the Safe Price; and (ii) the basis for any dividend rights, which will be based on the Safe Price.

"**Safe Price**" means the price per share equal to the Post-Money Valuation Cap divided by the Company Capitalization.

"S**tandard Preferred Stock**" means the shares of the series of Preferred Stock issued to the investors investing new money in the Company in connection with the initial closing of the Equity Financing.

"**Unissued Option Pool**" means all shares of Capital Stock that are reserved, available for future grant and not subject to any outstanding Options or Promised Options (but in the case of a Liquidity Event, only to the extent Proceeds are payable on such Promised Options) under any equity incentive or similar Company plan.

3. ***Company Representations***

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation, and has the power and authority to own, lease and operate its properties and carry on its business as now conducted.

(b) The execution, delivery and performance by the Company of this Safe is within the power of the Company and has been duly authorized by all necessary actions on the part of the Company (subject to section 3(d)). This Safe constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity. To its knowledge, the Company is not in violation of (i) its current certificate of incorporation or bylaws, (ii) any material statute, rule or regulation applicable to the Company or (iii) any material debt or contract to which the Company is a party or by which it is bound, where, in each case, such violation or default, individually, or together with all such violations or defaults, could reasonably be expected to have a material adverse effect on the Company.

(c) The performance and consummation of the transactions contemplated by this Safe do not and will not: (i) violate any material judgment, statute, rule or regulation applicable to the Company; (ii) result in the acceleration of any material debt or contract to which the Company is a party or by which it is bound; or (iii) result in the creation or imposition of any lien on any property, asset or revenue of the Company or the suspension, forfeiture, or nonrenewal of any material permit, license or authorization applicable to the Company, its business or operations.

(d) No consents or approvals are required in connection with the performance of this Safe, other than: (i) the Company's corporate approvals; (ii) any qualifications or filings under applicable securities laws; and (iii) necessary corporate approvals for the authorization of Capital Stock issuable pursuant to Section 1.

(e) To its knowledge, the Company owns or possesses (or can obtain on commercially reasonable terms) sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, processes and other intellectual property rights necessary for its business as now conducted and as currently proposed to be conducted, without any conflict with, or infringement of the rights of, others.

4. ***Investor Representations***

(a) The Investor has full legal capacity, power and authority to execute and deliver this Safe and to perform its obligations hereunder. This Safe constitutes valid and binding obligation of the Investor, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity.

(b) The Investor is an accredited investor as such term is defined in Rule 501 of Regulation D under the Securities Act, and acknowledges and agrees that if not an accredited investor at the time of an Equity Financing, the Company may void this Safe and return the Purchase Amount. The Investor has been advised that this Safe and the underlying securities have not been registered under the Securities Act, or any state securities laws and, therefore, cannot be resold unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Investor is purchasing this Safe and the securities to be acquired by the Investor hereunder for its own account for investment, not as a nominee or agent, and not with a view to, or for resale in connection with, the distribution thereof, and the Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. The Investor has such knowledge and experience in financial and business matters that the Investor is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment without impairing the Investor's financial condition and is able to bear the economic risk of such investment for an indefinite period of time.

5. *Miscellaneous*

(a) Any provision of this Safe may be amended, waived or modified by written consent of the Company and either (i) the Investor or (ii) the majority-in-interest of all then-outstanding Safes with the same "Post-Money Valuation Cap" and "Discount Rate" as this Safe (and Safes lacking one or both of such terms will be considered to be the same with respect to such term(s)), *provided that* with respect to clause (ii): (A) the Purchase Amount may not be amended, waived or modified in this manner, (B) the consent of the Investor and each holder of such Safes must be solicited (even if not obtained), and (C) such amendment, waiver or modification treats all such holders in the same manner. "Majority-in-interest" refers to the holders of the applicable group of Safes whose Safes have a total Purchase Amount greater than 50% of the total Purchase Amount of all of such applicable group of Safes.

(b) Any notice required or permitted by this Safe will be deemed sufficient when delivered personally or by overnight courier or sent by email to the relevant address listed on the signature page, or 48 hours after being deposited in the U.S. mail as certified or registered mail with postage prepaid, addressed to the party to be notified at such party's address listed on the signature page, as subsequently modified by written notice.

(c) The Investor is not entitled, as a holder of this Safe, to vote or be deemed a holder of Capital Stock for any purpose other than tax purposes, nor will anything in this Safe be construed to confer on the Investor, as such, any rights of a Company stockholder or rights to vote for the election of directors or on any matter submitted to Company stockholders, or to give or withhold consent to any corporate action or to receive notice of meetings, until shares have been issued on the terms described in Section 1. However, if the Company pays a dividend on outstanding shares of Common Stock (that is not payable in shares of Common Stock) while this Safe is outstanding, the Company will pay the Dividend Amount to the Investor at the same time.

(d) Neither this Safe nor the rights in this Safe are transferable or assignable, by operation of law or otherwise, by either party without the prior written consent of the other; *provided, however*, that this Safe and/or its rights may be assigned without the Company's consent by the Investor to any other entity who directly or indirectly, controls, is controlled by or is under common control with the Investor, including, without limitation, any general partner, managing member, officer or director of the Investor, or any venture capital fund now or hereafter existing which is controlled by one or more general partners or managing members of, or shares the same management company with, the Investor; and *provided, further*, that the Company may assign this Safe in whole, without the consent of the Investor, in connection with a reincorporation to change the Company's domicile.

(e) In the event any one or more of the provisions of this Safe is for any reason held to be invalid, illegal or unenforceable, in whole or in part or in any respect, or in the event that any one or more of the provisions of this Safe operate or would prospectively operate to invalidate this Safe, then and in any such event, such provision(s) only will be deemed null and void and will not affect any other provision of this Safe and the remaining provisions of this Safe will remain operative and in full force and effect and will not be affected, prejudiced, or disturbed thereby.

(f) All rights and obligations hereunder will be governed by the laws of the State of [Governing Law Jurisdiction], without regard to the conflicts of law provisions of such jurisdiction.

(g) The parties acknowledge and agree that for United States federal and state income tax purposes this Safe is, and at all times has been, intended to be characterized as stock, and more particularly as common stock for purposes of Sections 304, 305, 306, 354, 368, 1036 and 1202 of the Internal Revenue Code of 1986, as amended. Accordingly, the parties agree to treat this Safe consistent with the foregoing intent for all United States federal and state income tax purposes (including, without limitation, on their respective tax returns or other informational statements).

(*Signature page follows*)

IN WITNESS WHEREOF, the undersigned have caused this Safe to be duly executed and delivered.

[**COMPANY]**

By:______________________________

[*name*]
[*title*]

Address:__________________________________

____

Email:_____________________________________

INVESTOR:

By: ______________________________________

Name:_____________________________________

Title:______________________________________

Address:___________________________________

____

Email:__________________________________

	Total **CHF [*amount*]**
Employee Participation / Option Pool	[*Information about existing employee participation / option pool, if any, as well as information about employee participation / option pool to be implemented together with Series A Capital Round*]
Shareholder Structure after Series A Capital Round	As of completion of the Series A Capital Round the Company shall have an issued share capital of CHF [*amount*] divided into [*number*] common shares and [*number*] Preferred A Shares with a nominal value of CHF [*amount*] each and the ownership structure of the Company [on a fully diluted basis] and the holdings of each shareholder in the respective class of shares shall be as set forth in Appendix 1.
Use of Proceeds	[All corporate purposes/activities consistent with the business plan]
Ranking	Up to the Preferred A Amount the Preferred A Shares will rank senior to the common shares of the Company with respect to liquidation and dividends.
Preference A Amount	Preference A Amount shall mean the sum of (i) the aggregate Issue Price paid by the respective holder of Preferred A Shares and (ii) interest of [*%*]% per year on the Issue Price (to be calculated on the basis of the Issue Price paid and not yet compensated by a preferred repayment) since payment of the Issue Price until payment of the Preference A Amount in full.
Dividends	Dividends which will be payable when, as and if declared by the shareholders upon proposal by the Board of Directors, shall be paid in first priority to the holders of Preferred A Shares pro rata to their holdings in the Preferred A Shares. The maximal amount of preferred dividends shall not exceed the Preference A Amount less any proceeds received by a holder of Preferred A Shares resulting from a liquidation or Sale of the Company. Further dividends to be paid to all holders of Preferred A Shares and common shares pro rata to their respective aggregate holdings of shares in the then issued share capital of the Company will be paid only provided the Preference A Amount has been fully paid.
Liquidation Preference	In the event a voluntary or non-voluntary liquidation, a dissolution or winding up or a Sale of the Company occurs, the proceeds resulting therefrom shall be allocated as follows: In first priority and up to the Preference A Amount to the holders of

TERM SHEET

Proposed Investment in
[*Name of the company*] (the "**Company**")

This Term Sheet summarizes the principal terms of a potential investment (the "**Series A Capital Round**") in the Company, a stock corporation having its registered office at [*address*], Switzerland. It is for discussion purposes only, and except as specifically set forth below there is no legally binding obligation on the part of any negotiating party until definitive agreements are signed and delivered by all parties. This Term Sheet does not constitute an offer to sell nor an offer to purchase securities in the Company.

Company / Issuer	[*Name of the company*]
Investment Amount	[*amount*]
Investors	[*Investor 1*] CHF [*amount*] [*Investor 2]* CHF [*amount*] [*Investor 3]* CHF [*amount*] ______ **Total CHF [*amount*]**
Type of Security	[*number*] of newly issued preferred A shares with a nominal value of CHF [*amount*] each ("**Preferred A Shares**")
Issue Price per Preferred A Shares	CHF [*amount*]
Pre money Valuation	CHF [*amount*] fully diluted pre money valuation (including the effects of shares issuable to holders of options, warrants and other convertible securities of the Company, if any)
Pre-Closing Shareholder Structure	[*Founders*] [*number*] shares [*%*]% of issued share capital [*Other Shareholders*] [*number*] shares [*%*]% of issued share capital [*Management*] [*number*] shares [*%*]% of issued share capital ______

	Preferred A Shares pro rata to their holdings in the Preferred A Shares. The maximal amount payable to holders of Preferred A Shares shall not exceed the Preference A Amount less any proceeds received by a holder of Preferred A Shares resulting from a previous Sale or preferred dividends. In second priority, if and to the extent the Preference A Amount has been fully paid, to all holders of Preferred A Shares and common shares pro rata to their respective aggregate holdings of shares. A "Sale" shall mean the sale, transfer or other disposal (whether through a single transaction or a series of related transactions) of shares in the Company that result in a change of control or the sale of all or [substantially all] [a major part] of the Company's assets.
Conversion	Voluntary Conversion: Holders of Preferred A Shares may convert their Preferred A Shares at any time into common shares at the conversion rate of [*rate*]. Mandatory Conversion: Each Preferred A Share will be automatically converted into common shares of the Company [at the then applicable conversion rate] upon (i) an IPO with a firm underwriting commitment of the underwriter(s)/global co-ordinator(s) in respect of newly issued Shares representing an aggregate issue price in excess of CHF [*amount*], or (ii) a Sale that values the Company in excess of CHF [*amount*], or (iii) the consent of [each of the Investor Directors]/[the majority of the Investor Directors]/[the affirmative vote of the Investors holdings more than [•]% of the then outstanding Preferred A Shares].
Anti-Dilution	[Weighted average / Full ratchet.] [By transfer of shares for no consideration.] [By issuance of shares at nominal value.]
Voting Rights	Each Preferred A Shares carries one vote; i.e. the same vote as each common share.
Qualified Majorities	Important Shareholders Matters as listed in Appendix 2 shall be subject to the following approval requirements: [(i) two thirds (66 2/3 % of shareholder votes [and the absolute majority of the then issued nominal share capital] of the Company and (ii) two thirds (66 2/3 %) of shareholder votes of the

	holders of Preferred A shares] Important Board Matters as listed in Appendix 2 shall be subject to the following approval requirements: Besides the consent of the majority of the board members present at the meeting [consent of [each]/[at least [number]] of the directors nominated by the Investors.
Board Composition	The Board shall comprise a maximum of [*number*] Directors. Each Investor shall have the right to be represented on the Board by [*number*] Director[s] nominated by [each of]/[the absolute majority of the voting rights represented by the] Investors[, if and as long as the aggregate shareholdings of [such Investor]/[all Investors] reach or exceed [number] percent of the Company's then issued and outstanding share capital] (each an "**Investor Director**"). The [Founders]/[Other Shareholders] shall have the right to be represented on the Board by [*number*] Director[s] nominated by [the absolute majority of the voting rights represented by] the holders of Common Shares[, if and as long as the aggregate shareholdings of all Common Shareholders reach or exceed [number] percent of the Company's then issued and outstanding share capital] (each a "**Common Shareholder Director**"). The [Board]/[Shareholders collectively by [the majority] of voting rights represented by the Shareholders] shall from time to time nominate [*number*] independent Director[s] (each an "**Independent Director**").
Information Requirements	Each [Investor]/[shareholder holding at least [*number*]% of Preferred A Shares] will receive the information listed below and will have the right (i) to discuss any issues relating to its investment and the Company with the Company and (ii) to periodically inspect the books, records and facilities of the Company. within [90 days] of the end of each financial year, audited financial statements; within [30] of the end of each fiscal quarter, unaudited quarterly financial statements[, and a 12 month rolling forecast]; within [20 days] of the end of each month, monthly management accounts (i.e. balance sheet, profit and loss statement, cash flow state-

	ment); and no later than [60 days] prior to the end of each financial year, the proposed budget for the next following financial year.] [*Alternative*: The Investor[s] will have customary financial and other information rights.]
Subscription Preference	Except for shares to be delivered under Employee Participations each holder of Preferred A Shares shall have a [preferential] right to subscribe for any new equity or equity related securities offered by the Company at the same terms and conditions as specified in such offer, i.e. that new equity or equity related securities offered shall be available to holders of Preferred A Shares in their entirety[, if and to the extent necessary to effect the anti-dilution protection of each holder of Preferred A Shares].
General Transfer Restrictions	No transfer other than transfers in accordance with the transfer restrictions foreseen in the Series A Shareholders Agreement.
Right of First Refusal	In first priority the Investors, in second priority the Company and in third priority all other shareholders will have the right of first refusal to purchase any shares any shareholder wishes to transfer to another shareholder or a third party in any transaction other than a transfer of an Investor to an affiliate of such Investor.
Tag-Along Right	Each of the shareholders shall have the right to participate, on a pro rata basis on identical terms, in any transfer or sale of shares by other shareholders provided such transfer or sale of shares would relate to [[%]% of all shares] / [[%]% of all Preferred A Shares] / [result in a Change of Control]
Drag-Along Right	In the event [a holder of Preferred A Shares]/[a group of holders of more than [50]% of Preferred A Shares]/[all holders of Preferred A Shares] wish[es] to transfer 100% of [its]/[their] aggregate shareholdings in the Company in one or a series of related transactions to a proposed acquirer (including another Shareholder) who wishes to acquire all (but not less than all) Shares in the Company pursuant to a bona fide purchase offer, [that holder]/[that group of holders]/[all holders] of Preferred A Shares (the "**Relevant Selling Shareholder[s]**") shall, [subject to customary exclusions] have the right (but not the obligation) to require all other shareholders to sell, and the other shareholders hereby irrevocably agree to sell, all of their Shares then held to the proposed acquirer for the same consideration per Share and otherwise at the same terms and conditions as applicable to the Relevant Selling

	Shareholder[s].
Purchase Option	Each [shareholder]/[holder of Preferred A Shares] shall have an option to purchase the shares of another shareholder [in proportion to the nominal value of such shareholder's shareholdings in the Company][pro rata to such shareholder's holding of Preferred A Shares] upon the occurrence of [certain events to be defined in the Series A Shareholders Agreement and subject to the terms and conditions agreed in the Series A Shareholders Agreement]/[the following events: 1. such shareholder dies, becomes incapable to act or otherwise loses its capacity to exercise its rights and obligations under the Series A Shareholder Agreement; 2. such shareholder becomes insolvent, bankrupt or petitions or applies to any court, tribunal or other authority for creditor protection or for the appointment of, or there shall otherwise be appointed a liquidator, trustee or other similar officer; 3. such shareholder commits a criminal act against the interests of another shareholder, of the Company or of any of its subsidiaries; 4. such shareholder materially breaches a provision of the Series A Shareholders Agreement (unless such breach and its effects are fully cured within an agreed period of days); or 5. any board membership, employment or consultancy agreement, as the case may be, between such shareholder and the Company is terminated. Other than in (i) and a good leaver situation in (v) above, the purchase price shall be the lower of the fair market value and the nominal value of the Shares.]
Related Party Transactions	All transactions and dealings between Company and its shareholders and/or members of senior management will reflect market conditions and be made at arm's length terms.
Confidentiality	The terms and existence of this Term Sheet are confidential and will not be disclosed by the undersigned except as otherwise agreed in advance by each of the parties hereto.
Exclusivity	From the date hereof until [date], or such earlier date upon which the Investor[s] and the Company agree in writing to terminate discussions

	contemplated by this Term Sheet, the Company [and the members of the senior management]/[and Founders] will not, directly or indirectly, solicit or participate in any way in negotiations with, or knowingly provide any information to, any person (other than the Investor[s] or any representative of the Investor) concerning any potential investment in the debt or equity securities of the Company (an "**Alternative Proposal**") or otherwise facilitate any effort or attempt to make or consummate an Alternative Proposal.
Documentation	The investment into the Company shall be made pursuant to the agreements and documents listed below drafted by the counsel to [Investor[s]/[Company]: 1. Series A Investment and Subscription Agreement (such agreement to contain, among other things, customary representations and warranties for a transaction of this nature, indemnification provisions, and such other matters as the Investor[s] shall reasonably determine; 2. Series A Shareholders Agreement; 3. Series A Articles; and 4. Board Regulations.
Conditions to Closing	The consummation of the Series A Capital Round contemplated by this Term Sheet shall be subject to satisfactory due diligence and the approval and signing of the Documentation by the Investor[s].
Legal Fees and Expenses	The Company will reimburse the Investor[s], or pay at the direction of the Investor[s], for the reasonable legal fees and expenses incurred by counsel to the Investor[s], payable at Closing such fees and expenses not to exceed CHF [*amount*]. Should the investment not complete each side shall pay for their own costs. [The Investors agree amongst themselves to share the costs of legal counsel and other due diligence expenses and costs.]
Non Compete	[*wording regarding any non-compete undertakings by the founders and/or the managers to be added if appropriate*]
Timing	Due Diligence: [date]

	Negotiations: [date] Signing: [date] Closing: [date] End of Exclusivity: [date]
Effect of Term Sheet	The parties expressly agree that, with the exception of the obligations as set out under the headings ["Confidentiality", "Exclusivity", "Timing", "Legal Fees and Expenses", "Effect of Term Sheet" and "Governing Law"] which are intended to be and shall be legally binding, no binding obligations shall be created by this Term Sheet until definitive, legally binding agreements are executed and delivered by the parties.
Governing Law	This Term Sheet as well as the Series A Investment and Subscription Agreement and Series A Shareholders Agreement shall be governed by Swiss law and shall provide for either the jurisdiction of the ordinary courts of [*place*] or binding arbitration in [*place*] in accordance with the Swiss Rules of International Arbitration Rules of the Swiss Chambers of Commerce.

[***Signatories***]

By: ____________________________
Name: ____________________________

Title: ____________________________

#SheTrades

CONNECTING THREE MILLION WOMEN TO MARKET BY 2021

Women's economic empowerment is not a matter for government policy, the private sector, or social change alone. All have critical roles to play. This is why the International Trade Centre (ITC) has launched the SheTrades initiative, which seeks to connect three million women entrepreneurs to market by 2021.

ITC | SheTrades