A Business Plan: The Key to Success for Raising Private Equity Capital

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What is a Business Plan?

• Formal written statement of a set of business goals and the plan for reaching those goals over a certain time period: a Road Map

• A Business Plan includes:
  – Background information on the team
  – Operational objectives & strategy
  – Financial objectives & projections
  – Marketing strategy
  – Human resources strategy
  – Other information

• Essential to complete Business Plan before raising Private Equity capital

• Useful to complete Business Plan even if not raising Private Equity capital
Business Plan Formats

• “Elevator Pitch”
  – 3 minute summary of the Business Plan’s Executive Summary
  – Used as teaser to generate interest from potential investors
  – Often oral; sometimes written

• Oral Presentation
  – Power point presentation and oral narrative
  – Initiates discussion and gets potential investors to read the Written Presentation
  – Typically 10 to 20 pages; and 30 to 60 minutes long

• Written Presentation
  – Detailed, well written and well formatted Word document
  – Comprehensive
  – Typically 20 to 50 pages

• Operational Plan
  – Detailed execution plan describing operational planning information
  – Extremely important for start-ups and earlier stage companies
  – Also required for companies undergoing transition to new market segments, new geographies, new products, etc.
  – Typically 20 to 50 pages
What is in a Business Plan?

Business Plan’s composition will vary depending on stage of company & other factors. Generally includes:

• **Executive Summary**
  – Problem or Need in the market
  – Solution
  – Summary Financials
  – Executive Summary should “close the deal”

• **Business Description**
  – History
  – Employees
  – Products or Services
  – Operations

• **Market & Customers**
  – Market Size
  – Market Growth
  – Go-to-market Strategy
  – Existing & Prospective Customers
  – Geographical Focus
  – Industry Focus
What is in a Business Plan?

• Competitive Landscape
  – Existing and Potential Customers
  – Market Share of Competitors
  – Strengths and Weaknesses of Competitors
  – Competitive Advantages
  – Barriers to Entry

• Business & Revenue Model
  – How will company make money?
  – How does company generate revenue?

• Management Team
  – Most important factor to PE funds, especially for start-ups and early stage companies

• Financial Projections & Funding
  – 5 Year Projections (Income Statement, Cash flow Statement, Balance Sheet)
  – How much capital does company require over next 5 years?
PE Fund Manager’s Perspective: Why a Business Plan is Important

- PE Fund Manager may have little knowledge about your industry

- PE Fund Manager has no knowledge about your business, whereas:
  - Management team works at the business day-in, day-out
  - Management team has as many as 30 years experience with the business

- PE Fund Managers are approached by thousands of companies seeking capital

- PE Fund Managers have to quickly screen investment opportunities. Screens may be based on:
  - Size of Investment
  - Stage of company (start-up, growth, mature, etc)
  - Industry
  - Technology Risk
  - Listed company (vs. private company)
  - Return-on-capital characteristics
  - Other
PE Fund Manager’s Perspective – Why a Business Plan is Important

• PE Fund Managers have 30 to 45 days to understand a business well enough to make an investment decision --- which has a 5 year investment horizon.

• Management team’s responsibility to help the PE Fund Manager understand their business very quickly
  – Business Plan ensures that a Management Team can effectively and efficiently accomplish this goal

• The Key Diligence item for PE Funds is the quality of Management Team. Writing a Business Plan ensures that the Management Team:
  – has clear long term strategy (as opposed to only short term operational plans)
  – is in agreement on strategy
  – understands their industry and business
  – has a clear execution plan

• Writing a Business Plan before meeting with a PE Fund will ensure that the Management Team looks smart
Case Study: IT Services Company

- IT Services company focused on SAP implementation. Sub-contractor to Prime Contractors

- Founded by an entrepreneur 10 years ago, who owned 100% of equity

- $50 million revenue; 40% historical sales growth rate

- Focused on large size customer segment

- Go-to-market strategy primarily through 1 Prime Contractor; 70% customer concentration with this Prime Contractor

- Business run very “efficiently”; lacked historical investment to reach larger scale
Case Study: IT Services Company

• Entrepreneur wanted to sell portion of his equity stake
  – To diversify his personal net worth
  – To pursue a higher growth strategy, which was also a higher risk strategy

• Entrepreneur wanted to pursue different market: middle market customers
  – Requires different go-to-market strategy
    • Directly to mid-market customers instead of through Prime Contractors
  – Requires different organizational requirements for
    • Sales & Marketing
    • Operations
    • Management
Case Study: IT Services Company

- Entrepreneur, with assistance of investment bankers, had already completed 2 types of Business Plans (Oral Presentation and Written Presentation).

- Requested entrepreneur to also complete an Operational Business Plan that answered questions such as:

  Operationally, how will you get from “Point A” to “Point B”

  Human Resources:
  – Who do you need to hire to pursue this new growth strategy?
  – Have you identified the new hires?
  – When will you hire them?
  – How much will they cost?
  – How will responsibilities of existing management team be re-aligned?

  Customers:
  – What is size of new customer orders?
  – Who are potential customers?
  – Who is servicing their existing requirements?
Case Study: IT Services Company

Sales & Marketing:
- How will you market your company to mid market companies?
- How will you get business in the mid market?

Technology:
- Do you have the appropriate technology templates for the mid market?
- Where will you get them?
- How much will they cost?

Acquisitions:
- Will you make acquisitions to pursue the mid market?
- Who are the potential acquisition candidates?
- How much would they cost?
- Benefit of acquiring these companies?
A Business Plan is essential to raise private equity capital

Must be completed before a company begins fund raising process

Investing time to develop a clear, articulate, thorough Business Plan is a very high return-on-time investment

A good Business Plan will:

- Increase the probability of success of raising PE capital
- Increase the pre-money valuation of your company
- Improve the terms on which PE capital is raised