

## What do we expect from a Syndicate proposing an investment?

In order for the CoFund to make an investment the fund's Investment Committee will need to approve it. The basis of this approval will principally be the Investment Paper presented to the Investment Committee by the Syndicate, along with any other appropriate supporting documentation. This Annex sets out some of the areas we might expect to see covered in an Investment Paper, and some of the due diligence that might have been undertaken to support a recommendation to invest. The exact detail of the investment paper and diligence should be tailored to fit the investment proposed and so not all of the headings below will necessarily be relevant.

This paper is being provided in advance of the fund's establishment and so the Investment Committee is not yet in place. The requirements may well be revised in the light of experience.

### Investment Paper

- **Overview of the business** – e.g. what the business does, its product or service. Is the product fully developed and market tested? A SWOT analysis of the proposal.
- **Management Team and personnel** – e.g. the experience of the management team, how are they incentivised and motivated? Strengths & Weakness in the team and how any weaknesses will be addressed. How well is the finance function managed?
- **Market** – How big is the market? UK or International? Who are the actual and potential customers? What about competitors?
- **Market opportunity** – e.g. what is unique or different about the product or service being offered? Why will customers buy it? How will this translate into sales?
- **Business model** – what is the route to market, or means of getting products or services to customers, and how does the company achieve sales? How will manufacture be covered? What plans are there for expansion and future development?
- **Financials** – How has the business performed historically? What are the financial projections for the business from a Profit & Loss, Cash flow and Balance Sheet perspective? How might these vary with different sales, gross margin or investment scenarios?

- **Investment Structure** – Who are the existing shareholders/investors? Who is in the proposed investment syndicate and what are their backgrounds? What is the proposed investment structure? Any special rights, warrants and options? What will the post investment balance sheet look like?
- **Post Investment** – Are further funding rounds likely? If so when and for how much? Will other investors and the syndicate be able to follow on?
- **Exit strategy** – how might investors expect to realise their investment?
- **A data sheet** – it is useful to have the address, website, date of incorporation, directors and shareholders details, finance required and purpose, summary of structure etc. all in one place – usually at the front of the document.

Other things that might be helpful where relevant are:

- **Project Plans** – detailing the roll out of initiatives, key milestones and the expectation for revenue generation.
- **Risk assessment** – identifying key failure points for the proposed investment and how this might impact returns to the business.

### **What do we mean by due diligence?**

The due diligence (DD) should support the investment paper and be focused on those areas that are crucial to the success of the investment, these are likely to include:

- **Commercial DD** – Testing the commercial assertions put forward and assessing the businesses viability. Examples might be a test of the market's size and level of competition and of pricing assumptions.
- **Referencing management and key personnel** – references from other investors or business contacts etc.
- **Financial DD** – e.g. testing the robustness of projections and accuracy of the modelled financials. Sensitivity to underperformance and robustness of assumptions.

- **Legal DD** – this will normally be carried out by lawyers and should cover appropriate property searches, including physical assets, intellectual property, contracts, freedom to operate and any trademarks. It should also identify any potential liabilities arising from any on-going legal or regulatory action and any warranties and indemnities that have been given.

Where appropriate we might also expect to see:

- **Technical DD** – e.g. an informed assessment of any new product or service to indicate that it can/will perform as specified.
- **Planning Reports** – e.g. where access to or development of a physical site is a key part of the proposal.
- **Patent Documents** – if a business has specified that it has patent protections we would expect it to be able to provide supporting documentation from the relevant patent offices.