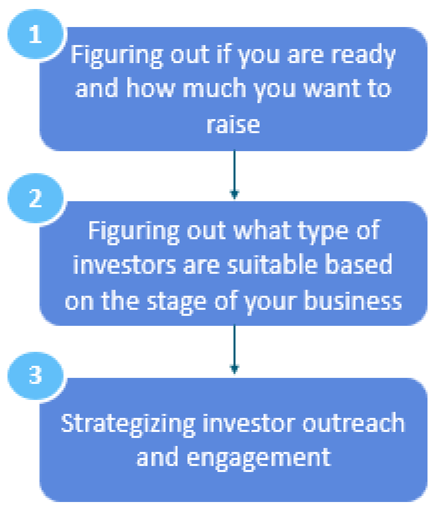
Investment readiness: Top 3 preparation steps for fundraising

Since its establishment in 2014, Energy Catalyst has supported the development of technologies and business models through financial and advisory support to over three hundred innovative companies in the energy sector. Our long experience of working with early-stage companies has shown how taking a clear and strategic approach to preparing for investment is vital.

In supporting these companies, we have observed that successful fundraising requires a company to be investor ready, identify its capital needs and align that to the right type of investment, and identify suitable investors based on its stage. Based on this experience, we are sharing some key insights about the key preparation steps for fundraising.



Step 1: Figuring out if you are ready and how much you want to raise

Establish your business viability:

Investors need to see that your business has a sustainable business model, clear value proposition, traction, a capable team, and deep market understanding.

Sustainable business model	Clear value proposition	Demonstrated traction	Capable team	Deep market understanding
• Clear revenue streams • Growth potential • Path to profits	• Unique value to target customers • Problem and solution • Competitive advantages	• Product development milestones • Successful pilots • Revenue growth • User growth	• Expertise • Experience • Relevant leadership roles • Achievements	• Market size • Trends • Customer demographics • Competitors

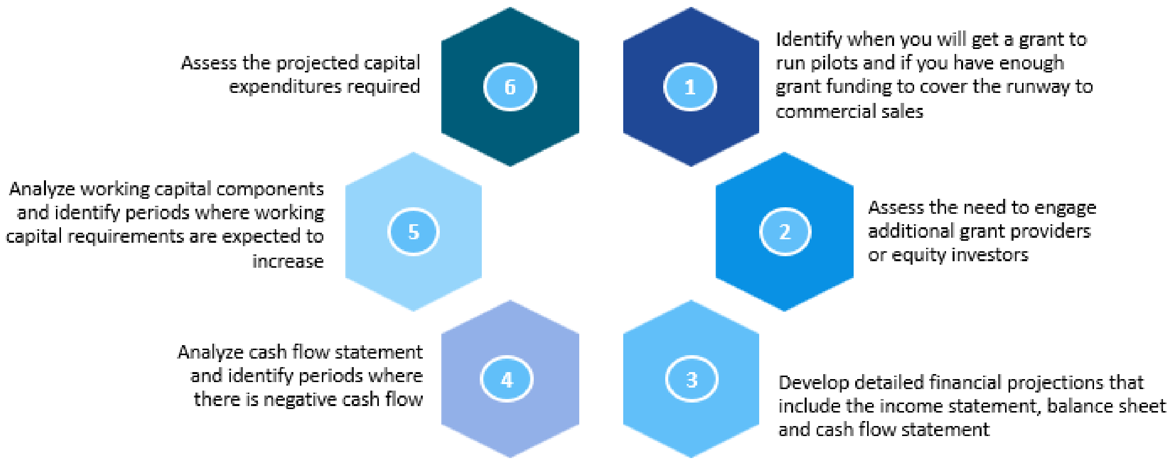
Figure out how much capital you need:

You should assess how much capital you will require for your business by considering key factors such as defining your strategy, assessing the resources required, gathering insights from pilot studies, and factoring in the recurring nature of expenses associated with your business model.

Have a clear idea of what inflows and outflows you will have:

- **Inflows:** Your company might initially be funded by grant income. It is important to establish how much runway the grants can provide and map out the path to your first commercial sale.
- **Outflows:** Determine the timing and magnitude of expenditures to estimate associated capital needs.

As you run your pilots, you should get more information on price points, achievable number of customers, operational costs, and capital expenditures, etc. to develop more robust projections (see below).



Present high-quality materials to investors:

You need to build a compelling narrative that provides a holistic overview of your business capable of galvanising the confidence of investors. You should support it with data to enhance your credibility.

Business plan

This should be well-structured, clearly written and backed by thorough research and analysis

- ✓ Problem and solution
- ✓ Specified target market
- ✓ Clear customer value proposition: Unique benefits that your company offers to its target customers
- ✓ Business model: Description of how your business operates and plans on generating revenue
- ✓ Competitive advantage: Unique qualities that enable your company to outperform others in the market
- ✓ Go-to-market strategy: Plan that shows how your company will introduce and sell products or services to customers successfully
- ✓ Capable team
- ✓ Potential risks and mitigation strategies

Create an 8-10 slide visually appealing investor **pitch deck** that summarizes your business plan

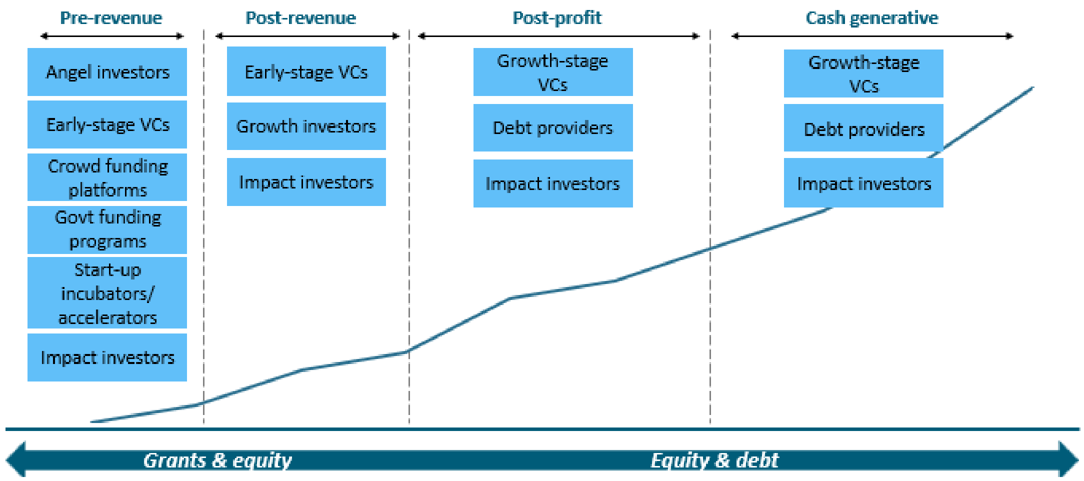
Financial model

This should be flexible and have realistic and well-supported assumptions

- ✓ Accurate data
- ✓ Clear growth drivers (factors that contribute to the expansion of your company such as increasing customer demand and efficient cost management) to ground your assumptions
- ✓ Income statements, balance sheets and cashflow statements for 5 years

Step 2: Figuring out what type of investors are suitable based on the stage of your business

Understanding when to seek investment and identifying the right type of investors to target allows you to align with their expectations and maximize your chances of fundraising successfully.



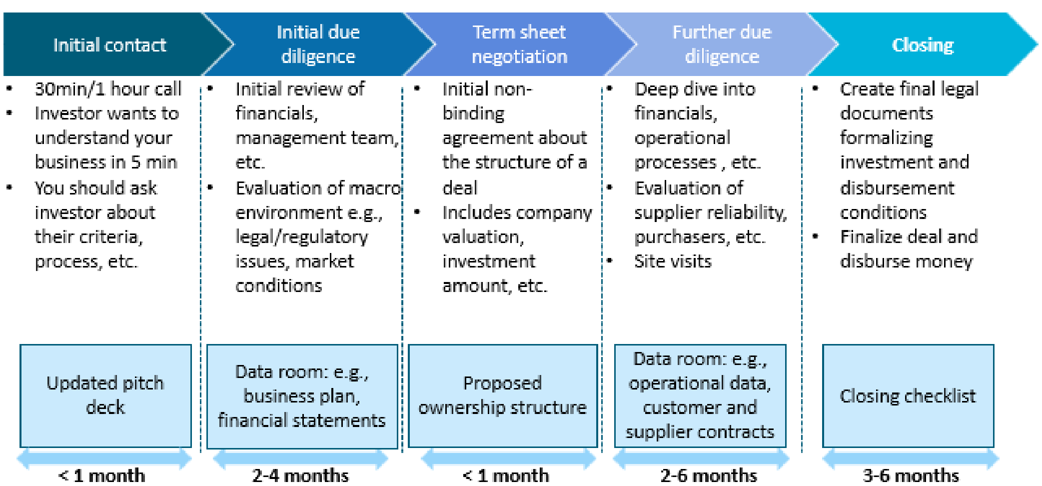
- **Angel investors**: Typically high net worth individuals who invest in earlier-stage businesses through equity or quasi-equity (both debt and equity) instruments.
- **Venture capitalists (VCs):** Investors targeted at higher-risk, earlier-stage businesses providing financial and non-financial support in exchange for a share of equity.
- **Crowdfunding platforms:** Online platforms that facilitate the collection of funds from a large number of individuals through small individual contributions.
- **Government funding programs:** Initiatives implemented by governmental entities to provide financial support and resources to projects that align with specific objectives or priorities set by the government.
- **Start-up incubators/accelerators:** Programmes or organisations that nurture early-stage businesses through wide-ranging support, including business coaching, access to business networks, and investment readiness, typically provided in return for equity.
- **Growth investors:** Individuals or firms that invest in companies with proven business models, consistent revenue growth and the potential for scalability.
- **Debt providers:** Lenders such as banks and financial institutions that offer financing in exchange for the borrower's agreement to repay the borrowed amount, typically with interest over a specified period.
- **Impact investors:** Investors aiming to generate positive societal or environmental change alongside financial returns. They prioritise ventures that align with their values and have the potential to create measurable positive outcomes. To attract these types of investors, you need to track impact metrics. The Sustainable Development Goals (SDGs) provide a valuable framework for measuring impact.

Capital structure	Pros	Cons
Grants	• Non-dilutive funding (you don't have to give up ownership or control) • Validates your potential	• Highly competitive • Limited in availability • Must meet certain criteria for eligibility
Debt	• Non-dilutive funding • Improves creditworthiness (builds your credit history)	• Involves fixed payment obligations • Requires collateral or solid credit history
Equity	• Provides potential strategic support • Long-term funding flexibility (i.e., no periodic interest payments)	• Dilutes your ownership and control • Issuing equity early (at lower valuations) is expensive

Through assessing your business viability and capital need, you will learn where you fall within company stages, what kind of capital you can raise and from whom. You then need to assess if this will meet your growth plans.

Step 3: Strategizing investor outreach and engagement

Engaging investors from initial contact to closing is a lengthy process that demands careful planning and execution. Budget for long investment engagement timelines.



The process of engaging investors varies according to the different investor types, so tailor your approach to match their specific requirements.

Investors typically request 6 types of documents:

- Business registration and compliance: business licenses, certificate of incorporation, etc.
- Ownership and control: capitalisation structure and shareholder agreements, list of directors, etc.
- Legal and contractual: customer agreements, supplier agreements, etc.
- Business operations: business plan, organisational structure, etc.

- Financial performance and position: management accounts, debt and liability agreements and terms, etc.
- Financial need: use of funds and investor agreements.

About the Energy Catalyst Accelerator Programme (ECAP)

Innovate UK developed the Energy Catalyst Accelerator Programme, to support the commercial development of Energy Catalyst projects, in order to achieve the primary objective of unlocking clean energy access and improve lives across Africa, Asia and Indo-Pacific regions. This consists of one-to-one support tailored to each project's needs, and a range of programme activities and materials to facilitate learning, international engagement, investor readiness, and dissemination of impact.