

WATERSHED

A GUIDE TO

# INVESTOR THINKING

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# INVESTOR THINKING

This is an initial guide to investors and how to approach them. It has been produced for early-stage creative technology companies at Watershed and everywhere. It is a part of the Prototyping the Business toolkit.

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Our aim is to get you to help you think through finding investment, and to get you to the point where you can make a great deal with an investor. We want you to be clearer about how this works, what you are doing and why. It has plenty of tips and best practice included, and will be improved over time. As with anything in life, please use it as a guide, not as a rule.

We know that you are producing new kinds of work, and products, services and experiences that have not existed before. We know you need cash to get your ideas out into the world, and connecting with people who manage cash - funders and investors - is critical. This book is about doing just that with the investment community, who have very specific requirements, and look at the world in a specific way.

This book is our way of helping you to navigate this investor community, and is to be used in conjunction with professional advice.

**YOU ARE  
CHANGING  
THE WORLD**

This book has two sections. **Section 1** describes the investor landscape. **Section 2** features a description of each of the essential components - each part of the work you need to do in order to tell an investable story, to provide the kind of details needed. You can use Section 2 as pages of a presentation (called a pitch deck) to share with potential investors.

If any of this feels too difficult, or is new to you, take your questions to a local business advisor.

## SECTION 1

**WHY WOULD  
YOU NEED  
FUNDING?**

When you are starting out on your projects, you may find sources of funding that help you to make progress with any R&D development. Your initial funding might come from a grant, you may sell tickets to an experience, or get a commission from a great client, or you may set up a crowdfunding campaign.

All of these steps are important in how you make initial progress, and become a part of your story for further investment. Start with a review of where your money comes from now. As you progress, you will start to consider where the money might come from for the next stage of your prototype and your business.

As well as selling your product and service, or getting commissions, you might also like to look at investors if you are needing cash to:

- develop the product or service into a better one
- purchase inventory (stock, equipment, parts) or a space
- to grow fast and expand (for a new commission for example).

Accessing the right kind of funding for your business can make a huge difference to your company both now and in the future - in terms of who owns it and who has control.

**WHERE DO  
YOU START?**

At the broadest level, there are two categories of funding available to support an entrepreneurial business:

1. **Equity finance** - There are many different types of equity funding such as angel investment, private equity and venture capital.

If you secure equity finance, you will sell a share of your business in return for cash. Often, and particularly at the earliest stages, equity funding comes hand-in-hand with expertise or support from the funder.

2. **Debt finance** - Debt has been available as a finance category or class for a lot longer than equity. It is also much more widely available. Examples of debt finance include a loan, grant or peer-to-peer loan.

If you secure debt finance, you will borrow money from a lender and enter into an agreement to repay those funds according to specific terms.

### **A mixture of both**

More and more public grants are now asking for 'private' money to match or part match the grant. For example, the grant may provide 70% and you will need to secure 30% of private investment (equity finance) yourself. Sometimes you can match the grant 'in kind' with existing costs, other times you will need to find an investor.

There are many different kinds of investors and they have subtle differences in who they are and what they are looking for. First you should consider the different types of funding available to you in light of your product/service, your geographical location and your financial position.

- You might want to take cash in return for giving control by selling shares in your business (equity or impact investment).
- You might want to pay a loan back over a period of time.

Here are some of the possible choices:

- **Debt/loan funders:** will want to feel confident that you can repay the loan + interest often in monthly or annual installments.
- **Equity investors:** will want to know that your company has a huge potential market and could return 10x the money they invest. You will sell them a share in your business in return for investment.
- **Impact investors:** will want you to achieve specific impact targets.
- **Philanthropic investors:** will buy shares in your business and hope to have a voice in its development and will hope to return the same money they invested.
- **Grant funders:** will want to know that you are going to deliver what you committed to in return for the funding.

When deciding which investor to approach, start with looking for those who invest in creative technology, or the sector where you are working - for example healthcare, VR or education. Look closely for what investors look for, what they consider 'investable' and what they expect in return.

Do some online research into who are the potential funders and investors in your area of the creative sector? What are your potential funders expecting in return for backing your idea - status, goodwill, entertainment, social impact, education, training and skills, a commercial return, or 'brand' awareness and business profile?

You will likely need to project a slightly different version of your business to attract different types of investor. With equity funding in particular, it is a game of chemistry, and with all investors you need to feel a good alignment with your purpose/values and theirs. In order to do this, you need to take time to get to know and understand them. Get to know your investor as early as possible. Do plenty of research into what they already invest in, and try to understand what they are interested in.

**VENTURE  
CAPITAL**  
EDGE VC  
BVCA

**ANGELS**  
BRISTOL PRIVATE  
EQUITY CLUB  
UKBAA

**SOCIAL  
IMPACT**

BRISTOL &  
BATH  
REGIONAL  
CAPITAL

**ETHICAL**  
TRIODOS  
RATHBONES  
CASTLEFIELD

**BANKS**  
BRITISH  
BUSINESS  
BANK

**CROWD  
FUNDING**  
CROWDCUBE

**PHILAN-  
THROPY**  
CORPORATES  
INDIVIDUALS

**PUBLIC  
FUNDS**  
ARTS COUNCIL  
CREATIVE  
ENGLAND

KEY: Equity finance



Debt finance



Other sources



Finding the right funder is a two-way thing. You should consider all of the different types of investment to establish which option is best for your business and your ambitions. Do your research online and check out all the funding options available (grants, loans, angel investors, Venture Capitalists, crowdfunding platforms, philanthropic funders - corporate/individual, public funds) - select the best one for your business.

When you settle on the best overall funding option, whether equity, debt or grant funding, you need to look into the options available and find a few that are the best fit for your project.

Make a list of potential investors of your chosen type, highlight key deadlines or contact information. Start by approaching your first choice investors for conversation. Seek out an introduction from any mentors/advisors you have. You might ask them to come with you.

# EXIT EVENT

Depending on the kind of investment you are looking for, investors may be interested in hearing about how you expect to exit. Not everyone wants this though, they may want to grow steadily, not rapidly.

Equity investors get their money back from you at an exit event. This is where your company gets sold, or the shares sold via an initial public offering (IPO). This means that the money that is in shares becomes unlocked. Investors are looking for a company that will do this, so that they can get their money back.

This happened for Sensible Object in 2019. Getting to this kind of result is one of the possible pathways you might take. Getting investment can speed you to grow your idea to get it to the next stage and beyond.

Tech

# Pokémon Go creator Niantic acquires London gaming studio Sensible Object to create UK outpost

Sensible Object will form the new Niantic London studio in order to make the next Pokémon Go

AMELIA HEATHMAN | Tuesday 18 June 2019 10:18 | [0 comments](#)



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The Evening Standard



# ONE PAGER

Start off by going through this sheet. You can find it here: <https://www.swctn.org.uk/toolkit/>.

It will help you to create a summary of the answers that investors will want to know.

Many investor pitching events request an Investor One Pager - it gives you a clear business summary to email or hand out.

Gill's Investor Tools

SWCTN Prot

## INVESTOR ONE PAGER

### One line pitch

One line pithy clear memorable statement explaining if you have one.

### Business summary

What's the business about

### Management team

Founders/advisors/roles.

**What is the problem this is addressing, who is the customer**  
Who are they and what need does your idea connect to?

### What is your idea?

What's the product or service?

### Target market

Who is this market and how big is it? Include real data as and when

### Funding and use of cash

What funding have you had, and what did it cover?

### Milestones past and future

What are your successes and what are your next milestones? What sales

### Business/revenue model

How will it make money and how much do you think it will?

### Competitors and your competitive advantage

Is anyone else doing this, or similar, even if in another sector. Why is yours b

### Execution

How will you do it? Who might you partner with?

### Financials

A small table on how you are making money over time  
Detail any income/funding or other money you

### Photos

Of interesting things -

### Brandi-

## SECTION 2

# THE ESSENTIAL COMPONENTS

Each of the following pages will identify what you need to know and do, to make sure you put the right details into your pitch.

Remember to be concise and answer the questions, provide evidence, and demonstrate your passion and conviction.



**WHAT'S YOUR  
PROPOSITION?**

You can use a shorthand form to tell a compact story of the idea. It's called a value proposition, which tells us who it is for and what it is.

The film Alien was originally pitched as 'Jaws in Space'. That's all it took to make the idea clear, and to hook people into funding it.

You can use our Value Proposition Template tool to work out what your proposition is and make sure you check it by testing it with others before you share it.

You can find the template here: <https://www.swctn.org.uk/toolkit/>

**WHAT IS THE  
PROBLEM YOU  
ARE  
ADDRESSING?**

Here is a really important question to answer. What problem are you addressing, and why does the world need your idea? They won't just take your word for it - include evidence of the need or demand.

It needs to be a problem that many people experience. To access equity funding it will probably need to be a substantial enough problem that millions or billions of people experience.

**WHAT IS YOUR  
SOLUTION?**

Then we need to flip to what your idea is and how it addresses this particular problem in an elegant way. How does it solve it? If you have not got completely there yet, talk about where you intend to go or what you plan to do.

Show any evidence of your idea being appealing to people. Pre-orders, sales, amount of users, commissions, or market research are all great examples of evidence of interest or 'traction' that investors will expect to see to help give them confidence in your business.

Sometimes you don't have any of this yet, and you need investment to help you get there. This kind of funding is much harder to secure - it's known as pre-seed or pre-revenue funding.

**WHAT IS YOUR  
MARKET?**

The next step is to understand who is or who are your key audience(s) and why they would buy what you have.

The size of your market is a calculation based on what type of people will want your business idea, how many of them there are, and how many might pay you for what you make or do. Will this amount grow over time?

You need to demonstrate that you know about this market, for example what is the market like? What do you understand about it, and who are the key players?

Use diagrams to explain your thinking - perhaps pie charts and Venn diagrams.

**WHAT DO  
PEOPLE SAY  
ABOUT YOU?**

Gather and present any evidence you have to demonstrate that you are the best people to do this, that people love what you do and will buy the proposition.

Make sure that you share:

- Any validation of what you say from quotes from award bodies, influential and important people in the sector you are in, or customers.
- Any validation data from testing or user research you have produced (make sure it's anonymous, unless it is a professional review).

Focus on material evidence of this, providing some proof of what you claim. Evidence includes: pre-orders, sales, expressions of interest, crowdfund success, user research that connects user needs to your solution.

**HOW WILL  
YOU REACH  
YOUR  
MARKET?**

Here you need to demonstrate how you know where your customers or users are and how you will connect with them.

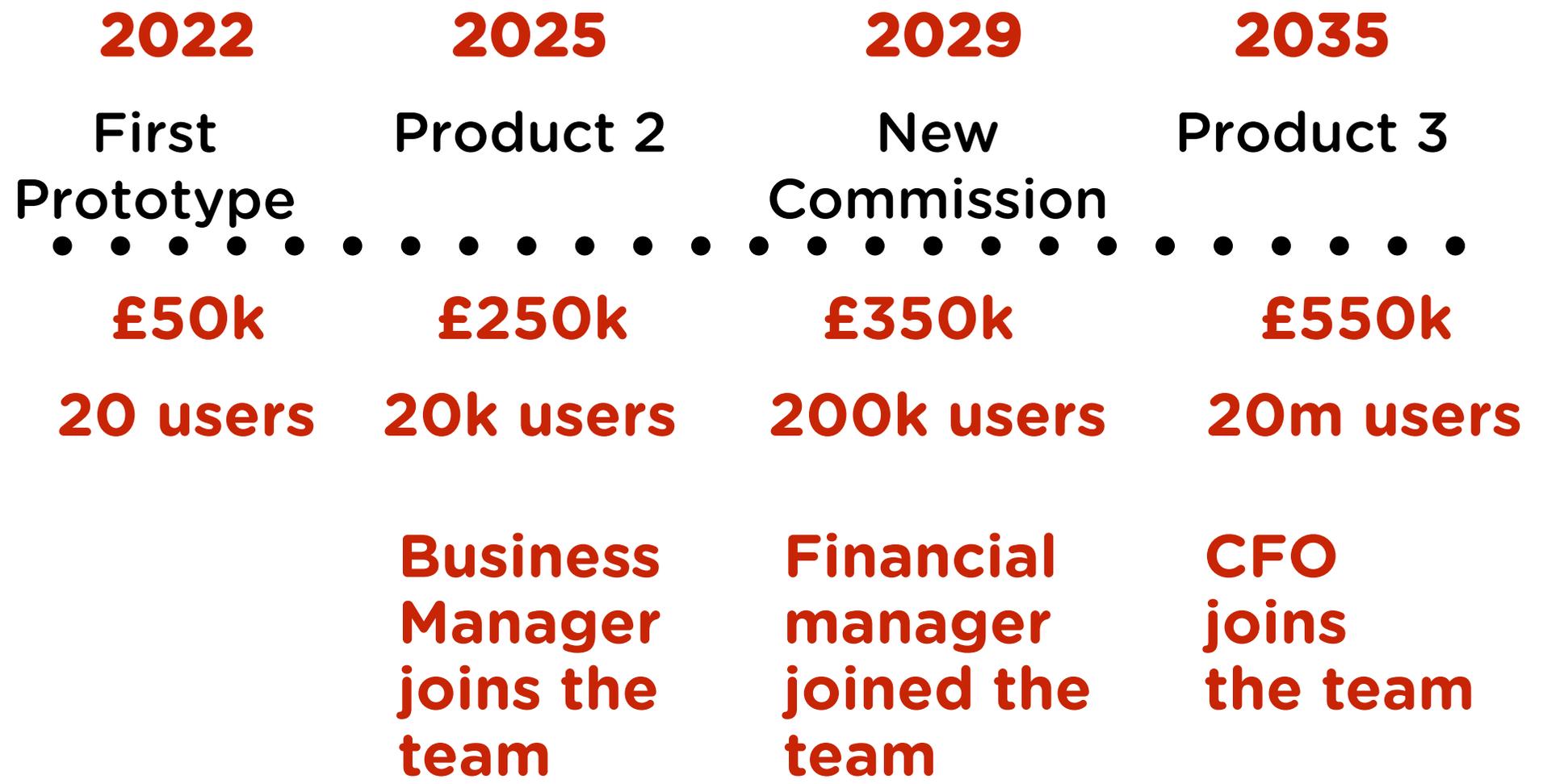
For example if it's a physical product, do you have a realistic idea about where it will be sold, how they will come across your product and how will you get the product to them?

If it is a game, do you have a publisher, or are you speaking to some?

Whatever your business idea is, do you have existing relationships with partners who can help you with this? Do you know the big players? Do you know the new players?

If you have not got so far with your idea, talk about options you can see from where you are already.

# TIMELINE



Place all of the key stages you have been through into a timeline, so that you can share the successes you have had to date. You can communicate lots of information in a diagram.

It can include:

- financial support
- current and past sources of income successful and not
- awards you have won
- partnerships you have established
- key team members
- key sales figures, future expected figures
- numbers of users over time

Keep it simple and informative about your development.

**WHAT OR WHO  
IS YOUR  
COMPETITION?**

Every idea has competition. Even if you haven't found it yet, a competitor exists, at least in your audiences' minds.

They might not know about your idea, but they may well be using something else, or be doing something else to solve the same problem you're solving, until they know yours exists. So your competition may come from somewhere you don't expect.

Make sure you consider this, and that you have an answer for who your competition is and how you set yourself apart.

Other creative organisations may be rivals for funding – or they might be potential partners.

**HOW IS IT  
GOING TO  
MAKE  
MONEY?**

This is about your business model. Where will the money come from, or is there more than one source of money. How will you capture and grow it? What profits might you make? Do you also want to explore the impact you create?

You can use the Business Model Canvas to think about this, and you can find this here: <https://www.strategyzer.com/canvas/business-model-canvas>

Or the Social Business canvas here: <https://www.socialbusinessmodelcanvas.com/wp-content/uploads/Social-Business-Model-Canvas.png>

You can talk about how you plan to make money if you are not there yet.

Every investor will be interested to know how you are going to make the business sustainable and/or profit making.

**WHAT ARE  
YOUR  
FINANCIAL  
PROJECTIONS?**

This is the money story - what money you will make, and how much money you need to get to that point. Cash flow projections, and all possible revenue sources are all worth including in a financial plan.

Add your excel spreadsheet here. It needs to tell a good overview financial story about how money will be obtained and what you will do with it, and over what time period. Most equity investors are looking for huge growth that everyone can benefit from.

You can always offer more detail if they need it. Most investors will want access to your financial plan so they can test different scenarios.

**WHO IS IN  
YOUR  
MANAGEMENT  
TEAM?**

Now you need to dazzle them with the people involved in your company, how brilliant you are at doing business, how passionate you are about the idea, and your commitment to seeing this through. Explore a way of telling a great story about the ability of these people to make a business grow. What ways can you describe your management team business creds?

If you don't have business acumen, then who do you have access to who you can bring in to advise you? You might not have all of the skills you need to succeed, so consider who you could invite onto your board.

Most investors are looking for great people in a well functioning, experienced team to invest in. They also want to know that you are ready to listen to them - some of them are very hands on, and want to know that you are open to that.

**WHO IS YOUR  
CREATIVE  
TEAM?**

Who are the specific brilliant people you have working on this, and why should anyone care? Show us why you are the perfect team to make this happen.

Think about how you tell the story of how these are the perfect people to deliver this idea, what they have done in the past and the expertise they bring. Talk about the people you intend to bring in, in order to make a balanced company that incorporates the skills you need, can deliver, and especially make the business work.

If this is a prototype, their new product development creds are really useful here - have they been here before? Do they know the pitfalls of developing new things?

**WHAT DO  
YOU  
WANT FROM  
INVESTORS?  
(THE ASK)**

HINT: It's not just about cash

Most investors will be interested to build a relationship with you. You might make an ongoing cultural, social, intellectual or emotional connection with your potential funders, beyond a merely 'transactional' relationship. You can start with a conversation to explore what is possible and this could lead to them providing practical support as well as funding. They can potentially also offer you:

- Expertise of scaling and growth
- Network of connections, routes to other funders
- Direction, advice and decision influencing
- Customers, providers of professional expertise

**WHAT ARE  
YOU  
WILLING TO  
OFFER IN  
RETURN?**

HINT: It's all about the cash, and investors need to get theirs back, with interest and/or a decent return (anything from 3% to 10%).

Investment is an art and a science, and many investors will have a portfolio of investments and they will want to make an average return across the group. Equity investors go into many deals aiming for just one to be the deal that delivers a big return.

Not all deals are the same as every business is valued differently. Investors may expect to own a percentage of your company, depending on the terms they have established with you. This is a critical negotiation. Get yourself professional advice and support to prepare your valuation for this conversation.

**WHAT ARE  
THE RISKS?**

Make sure you have a clear idea about your investors appetite for creative and financial risk. Here you need to show them that

1. You know what the risks are, and
2. You have a plan to minimize those risks if they happen

For example - if the development takes twice as long to get your idea into the market - how can you mitigate that? Or if you don't have the specialist or business skills, how you will get them?

Make sure you have protected your Intellectual Property (IP) - review the IPO office advice online: <http://www.ipo.gov.uk/iphealthcheck> and <https://www.gov.uk/government/publications/banking-on-intellectual-property-ip-finance-toolkit>

Again, get advice and talk it through with your business advisor about what these could be from an investors point of view.

**DUE  
DILIGENCE**

Your investor will undertake due diligence (DD) on your business. They will want to understand what kind of risk you pose for them and assess the value of your business at the point of investment. They could pull out of the deal at any point if they discover something they didn't expect.

DD involves an audit of many functions of your business: revenues, profits, balance sheet, assets and margin trends and a recommendation as to whether your business is a sound investment or not.

You should also undertake due diligence on your investor. As you explore who offers the kind of funding you need, look at their portfolio of investments, talk to some of their previous investees to really get a sense of what it's like to be funded by them. Find out what they are like to work with, what value they have given to their previous investments and what you should watch out for.

Don't hesitate to get advice on valuation if this feels out of your current understanding. You will need an advisor working with you for defining the deal and the terms on which the deal is made.

So you have gone through this book and combined everything you have worked on into a pitch. You should now have:

- Investor one pager
- A pitch deck
- Your financials in an excel spreadsheet

Now practise, practise, practise all of your argument with people who can give you good feedback, so that you know it backwards. Then you can relax and focus on the conversation and the negotiation.

Finally, in your pitch materials, make sure you put a copyright notice on all pages, and include a capital at risk disclaimer. Reduce everything to a small file size for sending, less than 7mb.



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