

FINANCING YOUR FUTURE

*Your guide to attracting investment capital
to develop YOUR BUSINE\$\$*





The Gascoyne-Murchison Strategy (GMS) is a joint state/federal initiative established to develop and implement strategies that provide sustainable and revitalised communities in the Gascoyne and Murchison region. The GMS has proven to be an effective partnership between government and rural communities to achieve a common objective, the sustainable habitation in the rangelands through robust and developing communities operating viable enterprises.

In 1996, the GMS conducted extensive consultations across industry, community and the public sector in the Gascoyne and Murchison regions. The GMS Steering Committee developed a series of recommendations to address the issues that emerged from this consultative process.

These recommendations were returned to the stakeholders for ratification prior to being presented to Cabinet. On 12 May 1997, Cabinet approved the GMS Report and directed the GMS Action Plan be developed to address the recommendations.

Seven regional-scale development initiatives viewed as having potential to broaden the economic base of the Gascoyne Murchison region were officially approved by Cabinet on 1 December 1997.

These included the development of inland aquaculture, new horticulture precincts, outback tourism pathways and extensive mineral exploration. Further, the prioritisation of infrastructure development, betterment and expansion of existing primary industries, the provision of diversification advice and engaging institutional impediments were also progressed.

To oversee and facilitate these initiatives, the GMS Board established the Regional Based Alternative sub-committee (RBASC) composed of representatives from the Gascoyne Development Commission, the Mid-West Development Commission and the Department of Agriculture Western Australia.

Following the GMS midterm review in 2000, the thrust of the RBASC has been underpinned by two major objectives:

- the need to transform rangeland industries from supply-oriented to market-driven economies, and
- the need to attract commercial investment in the region.

The attraction of commercial investment into the Gascoyne Murchison region is imperative.

I therefore commend this publication to you.

Ian Laurance
CHAIRMAN OF THE BOARD
GASCOYNE MURCHISON STRATEGY





FINANCING YOUR FUTURE

Your guide to attracting investment capital to develop YOUR BUSINE\$\$

Traditionally, debt financing has been the only capital injection option available to rural businesses. However, in this day and age, commercial development is more commonly achieved through equity financing. This booklet guides you through the equity approach that is by far the most efficient and effective way of moving a sound business opportunity from concept to reality.

Attracting significant capital investment is a very competitive process.

Two underpinning axioms are:

(i) investors do not invest in regions, they invest in companies &
(ii) money is rarely invested unless the company seeking investment (the Investee) can present a strong business case to the prospective Investor.

Only those companies that are Investment Ready have any real chance of serious consideration, let alone success. It is worth noting that for every 100 companies applying for development or investment capital, only two ever get to the funding stage.

In light of this, the RBASC has developed a structured process to help investees become investment ready. This document describes the process.

DEFINITION OF KEY INVESTMENT TERMS

Investment Ready is defined as a key phase in which an investee is ready to enter into a long-term relationship with a capital investor.

Equity Capital generally involves the injection of funds into a growing and/or established company in exchange for an issue of shares (and voting rights). Correctly handled and researched, equity partnerships can bring immediate benefits to the investee company and often provide a short cut to economic growth and stability that would otherwise take years to achieve. There are a variety of different types of equity partnerships and the purpose and size of the capital required will ultimately determine the most appropriate choice.

Business Angels normally fund business opportunities at any stage of the business development cycle if they believe it will provide a significant return on their investment. They often require an active role in the development of the business, offering not only money but also skills, experience and useful contacts. Business Angels may invest time and money (between \$100,000 and \$3,000,000) over a three to seven year period.

Venture Capital is equity capital provided by active investors seeking long term gains (normally at least 30% return per annum over the life of the investment). Venture capitalists not only provide equity finance (\$500,000 - \$10,000,000) but also on-going management assistance. Their objective is to add value to the business then sell it at its peak.

Venture capitalists are typically attracted to businesses that are innovative, have no security or further debt funding, have no financial track record, are unlisted and demonstrate the potential for high rates of growth/return. Venture capitalists have varying attitudes and preferences for specific investment targets. A critical consideration is the stage of development of a business. Generally, the earlier the stage, the harder it will be to raise capital. *Approaching such investors armed with only concepts is a waste of time.*

Pooled Development Funds (PDF) are registered companies that provide long term equity capital in return for shares in the investee company and concessional tax treatment for its (investor) members. PDF investment eligibility is limited to companies that will establish new business, substantially expand production/supply, or establish new markets.

OVERVIEW OF STRUCTURED FRAMEWORK FOR INVESTMENT ATTRACTION

The framework established by the RBASC to process investment opportunities is presented in Figure 1.



Figure 1. RBASC framework for dealing with investment opportunities.

An Opportunity Register has been established into which identified opportunities will be placed for screening using criteria developed in consultation with major investment houses (Table 2).

Successful opportunities will then proceed to the Project Register from which they will be allocated to the appropriate step within the investment ready process presented in Table 1.

Readers should note the generic presentation of the process. Obviously, each opportunity will be different and require a unique/customised approach/processing.

Those failing the screening process revert back to the Opportunity Register for further progression if and when their circumstances change.

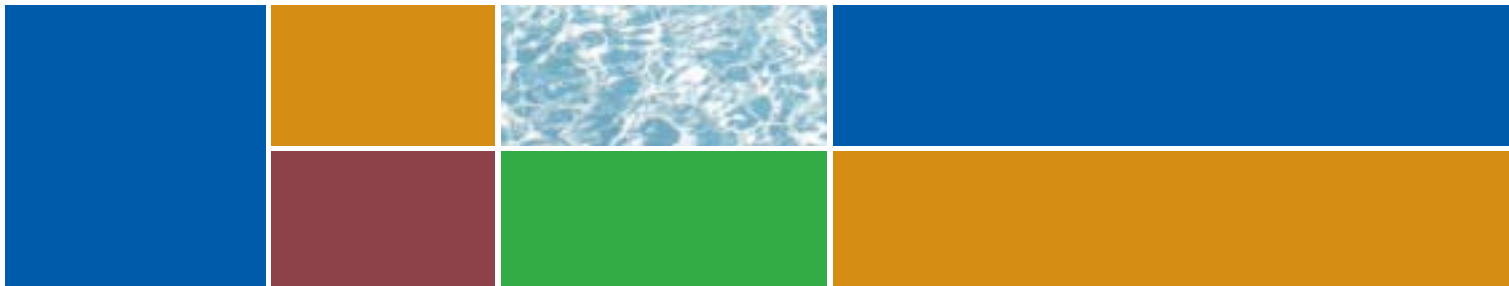
The Project Register will be used to manage and prioritise RBASC activities and/or the provision of assistance. To enable the proficient screening of opportunities by the RBASC, interested proponents are required to prepare and present a **Scoping Statement** describing their business opportunity.

Guidelines for preparing this are presented on page 5.

TABLE 1. GENERIC "INVESTMENT READY" PROCESS.

(Quantum of possible RBA assistance presented in brackets)

	STEP ONE Identify & Describe Business Opportunity	STEP TWO Testing the Business Model	STEP THREE Develop the Business Plan	STEP FOUR Promotion of business opportunity	STEP FIVE Commercialise the Business Model
P R O P O N E N T	Describe Business Model <i>(Using Scoping Statement template)</i> (\$2000) <ul style="list-style-type: none"> • Vision • Economic profile • Market potential • Regulatory requirements • Rate of growth & rate of return • Level of investment needed. 	Conduct of a Pre-feasibility Study (\$8,000) <ul style="list-style-type: none"> • Venture group formation • Develop Terms of Reference for business advisor contract • Undertake technical, legal and financial review • Test potential funding pathways • Determine viability/feasibility of concept/opportunity 	Prepare Business Plan (\$20,000) <ul style="list-style-type: none"> • See example Appendix 1 • Develop Terms of Reference for consultancy • Identifying appropriate Venture Company Structures • Conduct Feasibility Study(ies) • Meet all regulatory requirements 	Identify Investors / Vertical alignment <ul style="list-style-type: none"> • Profile investors – understand who investors are and what they require <i>(See example Appendix 1)</i> • Look for partnership opportunities to achieve scale. 	Establish Investor – Investee relationship (Up to 15% of project costs) <ul style="list-style-type: none"> • Implement preferred Investment Model • Complete relationship process (Example Appendix 1) • Action investment
	R B A S C	<ul style="list-style-type: none"> • Assist in finalising Scoping Statement • Provide ORA screening • Determine level of Government involvement/assistance required • If necessary, approach industry champion to facilitate venture group formation 	<ul style="list-style-type: none"> • Recommend possible sources of pre-feasibility funding • Assist in Consultant selection • Assist to seek specialist training in Investment Attraction (\$2,000) • Assist with institutional Critical Success Factors <i>(headwork, tenure, licences, environmental reviews, input/output –Benefit to Cost Analysis input information)</i> • Cross reference/linkages to other regional projects and/or opportunities/government forums 	<ul style="list-style-type: none"> • Linking Venture Groups with Government Assistance Programs • Assist in consultant selection • Assist Venture Company through regulatory processes 	<ul style="list-style-type: none"> • Provide support as required/requested by Venture Company to demonstrate high level of Government backing • Get feedback from Investors • Registration on DOTRS investment ready list • Establish linkages with Investment Banks/Finance Brokers



GUIDELINES FOR SCOPING STATEMENT

ALL INFORMATION PROVIDED TO THE RBASC WILL BE TREATED AS
COMMERCIAL IN CONFIDENCE

The Scoping Statement should be designed around the four key headings presented in Table 2. Detailing the required information under these headings as dot points is recommended to keep the size of the base document down to three pages.

Attach other relevant supporting documentation (such as pre feasibility studies if available) to the submission.

Please ensure to include information under all the key headings presented in Table 2. If the information is not applicable or not available, this needs to be mentioned in your statement.

Should you require any assistance or clarification, please contact:

Department of Agriculture Western Australia Tel 9956 3333

Gascoyne Development Commission Tel. 9941 1803
Mid West Development Commission Tel. 9921 0702

Once completed, please forward to:

Mark Lewis
GMS Director
PO Box 522 Carnarvon

Remember to mark all submissions

STRICTLY CONFIDENTIAL

TABLE 2. SCOPING STATEMENT FORMAT

KEY HEADINGS	DOCUMENTATION REQUIRED
--------------	------------------------

The Business **Business model.**

What is the vision of the business being proposed (for example: Five-star tourist resort, stock feed lot facility, fish processing plant)?
 What products or services will the business provide? Are there significant technical or structural changes occurring in this industry?
 How will the business model capture value (for example: new technology, brand name, people, location)?

Business structure.

How will the business be run (for example: partnership, alliance, cooperative)?

People.

Who will be running the business? How do their roles & credentials relate to the business model and structure?

Critical success factors.

What are the key issues (for example: legislative, resources) that need to be resolved for this opportunity to become a reality?
 Who are the key groups on which your business success depends?

Business Scale.

How large is the industry or industry segment you are targeting? Is their scope for international expansion?

Market Analysis **Products.**

Are these unique and do they present value?
 What are your competitive advantages?
 Have these been market tested?
 Is there potential for further product development?

Market forecasts.

Is there a strong market for your products? What are the forecasts and how sensitive are these?
 How reasonable are the assumptions behind these forecasts?
 Are there any market penetration barriers?

Suppliers.

Profile your suppliers (bargaining power, partnering).
 Are all your required trade materials readily available?

Customers.

What are the various market segments in terms of size, value, profitability & growth potential?
 Profile customers in relation to buying power & repeat business (loyalty).

Competitors.

Profile key competitors & their strategies. What is the competitive structure of the industry?
 Are there any alternative products that are better and/or cheaper?

TABLE 2. SCOPING STATEMENT FORMAT *CONTINUES*

KEY HEADINGS	DOCUMENTATION REQUIRED
<p>Legal Considerations</p>	<p>Company Registration. What is your established legal entity and the rights, benefits & legal obligations of key staff?</p> <p>Obligations, Commitments and Liabilities. List any ongoing contracts or agreements. Detail any outstanding, litigation, claims and/or disputes.</p> <p>Regulations. List any current legislative impacts (positive and/or negative) on the proposed business opportunity. What would be the likely effect of new policy changes?</p> <p>Intellectual Property. Detail current ownership of patents, trademarks and licenses. Describe current protection strategy of trade secrets.</p> <p>Insurance. Identify public liabilities and protection mechanisms currently in place. Provide details of current insurance coverage.</p>
<p>Money Matters</p>	<p>Financial History. What is the current situation (revenue streams, turnover, gross margins, operational and overhead costs, credit &/or debt status)? List any previous grants or investment capital already received. How is the business' present capital structured (list shareholders and/or equity partners)?</p> <p>Required Capitalisation. What dollar amount is needed to realise the opportunity? Propose a future capital structure (time frame and exit strategy for investors). What is the projected/forecast turnover, gross margins, operational and overhead costs once capital investment has been achieved. What is the anticipated rate of return on investment?</p>