INVESTOR READINESS PROGRAM

PREPARATION FOR GROWTH AND SUSTAINABILITY

One of the key objectives of the Pesatech Accelerator Program is to ensure startups are ready for investment. Pesatech was designed to assure the investor readiness of startups through knowledge sharing and technical assistance. To achieve this objective, Pesatech conducted an investor readiness hack program to address some of the main gaps that hinder the investor readiness of the startups in the accelerator.

2022

PESATECH ACCELERATOR

EXPERT SESSIONS

INVESTOR READINESS HACK

After exposing startups to investors during the Sahara Sparks Market place, investors offered feedback on areas that startups needed to work on to be investment ready. Investors' feedback, alongside gaps observed by the implementing team, and needs expressed by startups, was used to create modules for an investor readiness hack - an intensive five days program focused on the following topics and objectives.

FOCUS AREAS OF THE INVESTOR READINESS HACK WEEK

Business Modeling

The aim of this session was to review business models and get expert advice on ways that startups may improve their communication with customers, partners, and investors for business growth.

Pitching

This session focused on the art of preparing and presenting investor pitch decks. A pitch can break or make a relationship between investors and startups. Pesatech aims to ensure that the startups in the program get their pitch right.

Marketing & Branding

The session aimed at stipulating the necessity of a solid marketing and branding strategy and how such a strategy can increase the user base and assure investors' potential returns.

Financial Modeling

This session aimed to share how financial modelling can help attract investment, value companies, and determine whether a company should raise capital to grow the business. Startups went through the essentials of creating their financial models and got expert feedback on the existing ones.

IR Checklist + Due Diligence

This session aimed for investors to share what they look for while analyzing startups' pre-investment. A platform for investors to share their understanding of the nature of deals, the risks involved, and how they decide whether the agreement fits with what they are looking for.

Investment Instruments

The aim of the session was for startups to understand investment instruments like equities (stocks/shares), bonds, and mutual funds.

Business Modeling

The business modeling session was led by Francis Omorojie, Founder and CEO of Ennovate Ventures. Ennovate works with startups in the idea, growth phase, and beyond, helping them build sustainable businesses. The core aim for Ennovate Ventures is to support emerging tech companies to embed disruptive innovations and sustainability at the core of their business operations.

During this session, Francis focused on how to design an innovative and sustainable business model. He shared a business model framework for high-growth startups. Below are the key takeaways from his session.

Most startups often use the business model Canvas by Strategyzer to formulate their business models. However, creating an effective business model requires the owners to first, critically consider these four things to get a well-informed business model from the canvas - target market, the competition, value proposition and financial model.

Achieving product-market-fit is the only way to ensure a business model stays sustainable. Ensure that the target customers are buying, using, and telling others about your product/service in numbers large enough to sustain growth and profitability.

The most effective way to achieve product-market-fit and build a sustainable business model is through the three innovation lenses - feasibility, viability, and desirability. If your product is feasible, viable, and desirable, then your business model is and will be sustainable enough.

Poorly designed business models are among the top 4 reasons why start-ups fail.

You may see more pictures from this session <u>here</u>.

Pitching

Adam Mbyallu, Co-Founder and CEO of Savannah Holdings and Managing Director of Sahara Consulting, led the session about the fundamentals of pitching. Sahara Consulting works with partners to design, manage and assess for-impact projects applying ICTs, innovation, and entrepreneurial approaches.

During this session, Adam shared ten vital components of content every pitch deck should have. The must-have content he shared is shown below and explained on the next page with tips and guiding questions.

- THE PROBLEM
- CURRENT SOLUTION
- YOUR SOLUTION & PRODUCT
- REVENUE STREAM & BUSINESS MODEL
- TEAM
- COMPETITION
- THE MARKET
- MARKET ENTRY/ GROWTH STRATEGY
- TIMELINE
- CALL TO ACTION

Key Content to Include in Your Investor Pitch Deck

1	2	3	4	5
THE PROBLEM	CURRENT SOLUTION	YOUR SOLUTION & PRODUCT	REVENUE STREAM & BUSINESS MODEL	TEAM
Narrate how the situation is today, and invite the audience to fight the villain. Ensure that it is a REAL problem not just a problem for YOU. Ask, can you monetize it?	How is that problem solved today? Are you offering enough value to convince people to move from the existing solution to your product? Is your product relevant?	Ensure the audience understands your solution and how it works; make them feel like a part of the solution, "I think we should collectively do something about this" Can you monetize it?	How are you monetizing your solution? Is there a willingness to pay? Is there enough money? What if one essential revenue stream doesn't work out?	Who is in your team? Does your team have what it takes to succeed?

6	7	8	9	10
COMPETITION	THE MARKET	MARKET ENTRY/ GROWTH STRATEGY	TIMELINE	CALL TO ACTION
Are you realistic about your market? Who is your competition? Are you able to dominate the market? Who could be better? Introduce your product as a tool to battle the villain.	Is there a relevant market? Do you know your market? What is the market size (top-down or bottom-up)? Are you realistic about your market? Have you done enough market research? What type of founder are you, shy or thinking big?	What are the steps to enter the market? Do you have a strategy? Do you have the skills? Do you have partners?	What happened so far in finance, team, sales and product development? What are the next steps? Have you made traction so far? Are you able to make realistic future estimations? How do investors get their money back? When is the next investment round?	What is the Ask? What do you want from investors? What would you do with the money? What's in it for them?

Photos from the session about Pitching. You can see more pictures from this session here.

Financial Modeling

The investment instruments session was led by George Ndaki, Lead Advisor from Investin, also known as Afro-Business Insight and Support Services(A-BISS). A-BISS aims to accelerate investment readiness and digital innovation through quality business advisory and support services.

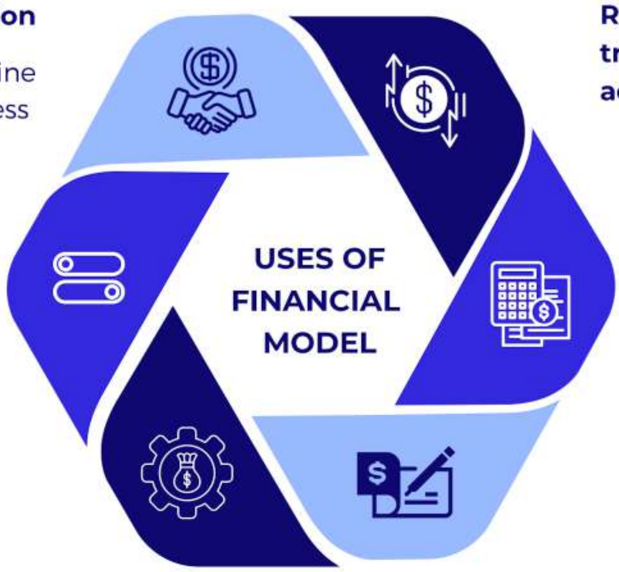
During this session, George focused on the role of financial modeling in fundraising, business valuation, and determining the need to raise external capital. The primary goal was to highlight how financial modeling can be a useful tool in valuing companies, making business decisions around growth strategy (e.g raising capital vs organic growth), and supporting investor readiness.

The expert shared the essentials of creating a good financial model by reviewing an actual model with the group and discussing best modeling practices and process and design.

Business Valuation

theoretically determine the value of a business

Reflect a project or transaction accurately



Decision making

whether to raise capital or grow organically

Accounting Management

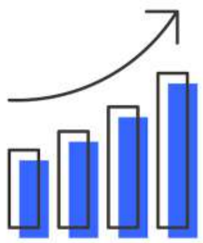
Financial Statement Analysis

Fundraising

FINANCIAL MODELING FOR BUSINESS GROWTH STRATEGY

- Business growth can be achieved either organically, using internal company resources to fulfil the business's growth potential, or inorganically, by using external capital to increase its market share or enter new markets.
- Financial modelling gives a clear understanding of the business's viability and cash flow dynamics; therefore, analyzing the model helps founders determine if the company would have sufficient internal resources or would require raising external capital to finance business growth.

A well done financial model clearly gives investors a forecast of what to expect from the business.



FINANCIAL MODELING FOR BUSINESS VALUATION

- Business valuation is the process of determining the theoretically correct value of a company, investment, or asset, rather than simply looking at its cost or current market value.
- Financial modeling enables correct business valuation; it is used to establish the intrinsic value of a company by forecasting future cash flows and discounting them to their present value.

FINANCIAL MODELING AND INVESTOR READINESS

The Gap Between Startups and Investors.

Most fintech startups are not able to raise early-stage capital because they are simply not investor-ready.

- They are not able to demonstrate an understanding and mitigation of financial risks.
- They cannot adequately demonstrate the financial viability of their businesses.
- They are unable to appropriately price the investment instrument their offering.

The role of financial models in attracting investors.

Financial models empower founders with:-

- A method to reflect on their solutions/products and the associated risks more accurately
- A tool for demonstrating the financial viability and cash flow dynamics of their business to potential investors
- A benchmark for valuing the business, and for negotiating the investment price

Financial Modeling Best Practices

Financial modelling best practices are a set of guidelines and principles that aim to improve financial models' accuracy, reliability, and interpretability. Some of the essential best practices include:

- **Objectivity:** Financial models should be developed in a neutral and objective manner, free from personal biases or opinions.
- **Simplicity:** Simple models are usually easier to understand, maintain, and they are less prone to errors than complex models.
- **Relevance:** The model should only include the relevant and necessary information to achieve the model's objectives.
- **Transparency:** Financial models should be transparent, allowing users to see the logic behind the results and to understand the assumptions and data used in the model.
- **Validation:** Financial models should be thoroughly validated to ensure that they are producing accurate and reliable results. This may include testing the model against historical data, performing sensitivity analysis, and reviewing the model with subject-matter experts.
- **Documentation:** Financial models should be thoroughly documented, including the assumptions, data sources, and methodology used. This makes it easier for others to understand and maintain the model in the future.
- **Updates:** Financial models should be regularly updated to reflect changes in the underlying data and assumptions and to ensure that they remain accurate and relevant over time.

By following these best practices, financial models can be developed that are more accurate, reliable, and interpretable and can better support founders' and investors' decision-making.

Photos from the financial modeling session. You may see more pictures of this session <u>here</u>.

Marketing & Branding

Albany James, Founder and CEO of BigFoot, a marketing and branding agency, led the marketing and branding session. BigFoot is dedicated to helping companies grow by increasing their reach through well-designed, strategic branding and marketing activities.

During this session, Albany used examples to show the importance of branding and marketing in growing a customer base and attracting investment. He also shared best practices for creating a result-oriented marketing and branding strategy.

Below are the key takeaways from his session.

CRUCIAL THINGS TO CONSIDER IN MARKETING AND BRANDING

Market Analysis

Always conduct a thorough market analysis before launching a product or putting effort to market. Understand the market size, spending groups, drivers, competition, and consumer behaviors among other things.

Target Audience

Know your target market - the communication channels they use, their pain points, consuming behaviors, values, and what matters to them.

Core Message

Build your brand persona by personification, defining your brand positioning, and staying consistent to that. Replace your brand with an avatar or image of a person and define their tone, look and feel, and how they behave. That is the persona you have to stick to so customers can relate to your brand and know what to expect at any time.

Brand Persona

Decide the key messages that you want your target market to know about your product/brand. This is often the value that you are offering them. Determine your content direction and rationale to help you stick to your message. The core message is also your brand promise to target the market

Strategy

Don't be random. Have a plan - create a communication strategy with objectives, key performance indicators, and timelines. State the channels you will use, and what the expected outcomes are.

Importance of a Good Marketing and Branding Strategy in Securing Investments

Marketing Strategy

The marketing strategy of a startup refers to the approach the company takes to reach its target market and create a demand for its products or services.

- A good marketing strategy should consider the target market's size and growth potential, the competition, and the company's unique value proposition.
- The marketing strategy should also outline the company's marketing and sales plan, including how it will communicate its message and reach its target audience.
- A strong marketing strategy is crucial for attracting investment to startups because it demonstrates to potential investors that the company has a clear understanding of its target market and a plan for reaching it.
- A well-researched marketing strategy shows that the company has taken the time to understand the industry and has a realistic growth plan. This can help increase investors' confidence in the company and its ability to succeed.

Branding strategy

The branding strategy of a startup refers to the approach the company takes to create and maintain a strong brand image in the minds of its target audience. A strong brand image is essential for startups because it can help the company stand out from its competitors and create a solid connection with its target audience.

- A good branding strategy should include a clear brand message, a unique and recognizable brand logo, and a consistent brand image across all marketing materials.
- A strong branding strategy can also help the company differentiate itself from its competitors and create a strong reputation in the industry.
- A strong branding strategy is essential for attracting investment to startups because it demonstrates to potential investors that the company is serious about building a long-term, sustainable business.
- A well-thought-out branding strategy shows that the company is committed to creating a solid brand image and building a reputation for quality and reliability. This can help increase investors' confidence in the company and its ability to succeed in the long term.

A good marketing and branding strategy is crucial for attracting investment to startups. A strong marketing strategy demonstrates to potential investors that the company has a clear understanding of its target market and a plan for reaching it.

A strong branding strategy demonstrates the company's commitment to building a long-term, sustainable business and creating a strong brand image. By focusing on their market and branding strategy, startups can increase the confidence of potential investors and increase the likelihood of securing funding to help the company grow and succeed.

Photos from the Marketing and Branding session. You may see more pictures from this session <u>here</u>.

Investment Instruments

The investment instruments session was led by George Ndaki, Lead Advisor from Investin, also known as Afro-Business Insight and Support Services(A-BISS). A-BISS aims to accelerate investment readiness and digital innovation through quality business advisory and support services.

During this session, George focused on investment instruments options available for fintech startups in Tanzania. He elaborated on the different types of investment instruments and their sources in Tanzania. Below are some of the key takeaways from the session.

Key issues for startups to consider when choosing investment instruments/investors

ACCESSIBILITY

What source of funding is most easily accessible for the company? Do not be afraid to ask questions.

CASHFLOWS

Start-ups projected Cashflows: Equity provides better cashflow to the start-up VS Debt instruments

CONTROL

How important is it for principal owners to maintain complete control of the company?. The more the equity issued to investors the lesser the control to the founders.

CAPITAL STRUCTURE

The amount of Debt and /or equity employed to fund a start-up's operations and finance its assets. (Usually expressed as a debt-to-equity ratio). Fintech startups need to set up a "clean" capitalization structure from the beginning to attract potential investors.

Main Types of Investment Instruments Available for Startups in Tanzania

Equity Investment

Type of capital raised by sale of Shares to family & friends, Investors (VC,PE Firms, Angels,) or an Initial Public Offering (IPO)

Debt Financing

A line of credit typically obtained from financial institutions like banks to provide short-term working capital and return with interest.

Debt instruments, while they create an almost immediate repayment burden to founders, they allow them to maintain control over their start-up.

Grants

These are awards, usually financial, given by one entity (typically a company, foundation, or government) to an individual or a company to facilitate a goal or incentivize performance.

Repayable Grants: These are partly or fully repayable by the startup as per the terms of the agreement.
Non-Repayable Grants: These are equity-free non-refundable investments given to startups, usually as seed capital.

Convertible Notes and SAFEs

A convertible Note is short-term debt that converts into equity, typically in conjunction with a future financing round.

Simple Agreement For Future Equity (SAFE) is an agreement between an investor and a company that provides rights to the investor for future equity in the company, but without determining a specific price per share at the time of the initial investment.

Sources of Investments by Type in Tanzania.

GRANTS

- Government, through the likes of Tanzania Commission for Science and Technology (COSTECH)
- Development Partners: United Nationa Capital Development Fund (UNCDF), United Nations Development Programme (UNDP) - Funguo, Foreign, Commonwealth and Development Office (FCDO) - formerly Department For International Development (DFID), etc

DEBT

- Banks like NCBA, Equity, KCB, and BOA.
- Microfinanciers

CONVERTIBLE notes AND SAFEs

- Venture Capitalists
- Private Equity Firms
- Angel Investors

EQUITY

- Acumen : https://acumen.org/east-africa/
- Beyond Capital Ventures: https://www.beyondcapitalventures.com/
- Open Road Alliance : https://openroadalliance.org/
- Goodwell: https://www.goodwell.nl/news/goodwell-invests-in-east-africa-fruits/
- Bio Investment : https://www.bio-invest.be/en/investments/access-bank-tanzania-ltd-1
- DOB Equity
- Warioba Ventures
- Dar es Salaam stock exchange

This list is not exhaustive. However, the most significant lesson from this session was that startups, especially locally registered ones, struggle to raise investment funds because the legal and regulatory frameworks aren't friendly for investors due to the high risk of failure to exit. As a result, most investors can only invest once they have the assurance to exit outside Tanzania.

Overall Takeaways

- Capital structure is a crucial factor in influencing investments. Investors need to see a clear capital structure citing well-balanced debt and equity, resulting in the lowest weighted average cost of capital (WACC).
- The rationale for computing WACC is to determine the cost of each part of the company's capital structure based on the proportion of equity, debt, and preferred stock it has.
- Trade-offs will have to be made by founders/Investors when deciding whether to use/invest in debt or equity to finance a startup, respectively (i.e Control VS cost of capital/ risk VS return)
- Equity instruments are ideal for (fintech Startups) as they reduce founders' burden on risk-bearing, and provide better cashflow VS debt.
- Debt instruments, while they create an almost immediate repayment burden to founders, they allow them to maintain control over their startup). Few options for debt financing include:1)Bank term loans: These are typically secured and may, therefore, not be very ideal for most startups. 2) Demand or short-term bank loans: Often involve financing liquid assets such as receivables (e.g discounts on invoices).
- Convertible notes are usually offered by investors (Venture Capitalists, Private Equity Firms, Angels) and work best for early-stage companies, especially pre-revenue startups.
- While approaching investors, startups should ensure that they have sufficient fundraising material, especially, a data room with a financial model, pitch deck, organizational structure, registration, and compliance documents. It is also crucial to enter the negotiation having the correct business valuation (share price) and clear preferred terms.
- SAFEs were introduced in the startup ecosystem by Y Combinator in late 2013, and have ever since gone to be used by startups worldwide. They are a simplified version of convertible notes because they do not require founders and investors to agree on current valuation and share price.

Startup founders must balance the combination of debt and equity to find an optimal capital structure that results in the lowest weighted average cost of capital (WACC).

Fintech startups need to set up a "clean" capitalization structure from the beginning to attract potential investors

You may see more pictures from this session here.

Investor Readiness Checklist & Due Diligence

The investment instruments session was led by George Ndaki, Lead Advisor from Investin, also known as Afro-Business Insight and Support Services(A-BISS). A-BISS aims to accelerate investment readiness and digital innovation through quality business advisory and support services.

During this session, George focused on investment instruments options available for fintech startups in Tanzania. He elaborated on the different types of investment instruments and their sources in Tanzania. Below are some of the key takeaways from the session.

Main things investors consider during due-diligence

1. **FINANCIAL MODEL**
   Reviewing the company's financial statements to assess its financial health and determine whether it is a sound investment.

2. **MANAGEMENT TEAM**
   Evaluating the experience, track record, and backgrounds of the management team to determine if they are capable of executing the company's business plan.

3. **MARKET ANALYSIS**
   Examining the company's target market, including market size, growth potential, and competition.

4. **PRODUCTS/ SERVICES**
   Evaluating the company's products or services, including their features, benefits, and market positioning.

5. **LEGAL AND REGULATORY COMPLIANCE**
   Reviewing the company's compliance with applicable laws and regulations, including intellectual property protection and data privacy.

6

REVENUE MODEL

Assessing the company's revenue model, including pricing strategies, sales channels, and customer acquisition cost.

7

OPERATIONAL EFFICIENCY

Evaluating the company's operational efficiency, including its production processes, supply chain, and distribution network.

8

COMPETITION

Analyzing the company's competitors, including their strengths, weaknesses, and market share.

9

RISKS AND MITIGATION

Identifying the key risks associated with the investment opportunity and evaluating the company's plans to mitigate those risks.

10

EXIT STRATEGY

Understanding the company's exit strategy, including potential acquisition targets, initial public offerings (IPOs), and other liquidity events.

It is important to note that this checklist is not exhaustive and can vary based on the specific investment opportunity, the nature of the business and the context in which the company operates. Still, it provides a good starting point for startups to know what investors look at while assessing a company's potential or investment opportunity.

OTHER INSIGHTS

- *The team weighs 30% of the entire due diligence score. Founders should build their teams' capacity, ensuring they are capable of the 4Cs of 21st-Century skills - Communication, Collaboration, Critical Thinking and Creativity.*
- *There are more than 3000 registered high-net-worth individuals in Tanzania; however, most of these individuals aren't investing in startups.*
- *Investment Literacy is still needed to ensure successful exits in Tanzania.*
- *Documentation is critical in influencing investors' decisions. Founders must have well-documented data rooms to simplify and shorten the due diligence process*
- *Founders must know the difference between equity and enterprise value. Equity value is the money put into the business since the beginning, while enterprise value involves the money put into the company and future projections.*

You may see more pictures from this session here.

Lessons and Recommendations

LESSONS

- Customizing the modules according to the needs expressed by startups and gaps observed by experts and investors was a great approach to the program; startups responded positively to the topics, and most asked for follow-on sessions.
- Startups learnt a lot from the experts; they request workshops where the experts can work with them one-on-one to help them solve some of the challenges they face in various areas. Experts George Ndaki and Albany James offered to provide their services in financial modelling and branding and marketing strategy for a subsidized cost should the program be interested in entering an agreement with them. The offer is still valid for individual startups in the program as well.
- Some of the experts recommended potential partners currently conversing with the startups about collaboration. This is evidence that experts provide benefits beyond the expected knowledge sharing.
- There is a need for workshops and for an extended time with experts. The time (3hrs) slotted for each session was not enough to cover both the knowledge experts wanted to share and the questions startups had.
- There is a notable knowledge gap regarding investment instruments and investor due-diligence requirements. Startups requested a due-diligence/ investor readiness checklist to assist them with this challenge.

RECOMMENDATIONS

- Organize workshops, including team members (not just the founders) on pitch deck preparations, financial modelling, and data room creation. Workshops on pitching are also crucial since most startups need better pitching skills.
- Prepare an investor readiness checklist and conduct practice due diligence with the startups to ensure they are investor-ready.
- Organize more expert sessions for startups to interact with skilled/knowledgeable individuals in relevant areas.
- Allocate more time to sessions. Expert sessions should include at least 2 experts in the same area and be 5-6 hours, comprising one-on-one interactions between the startups and experts.
- As a best practice, doing a needs assessment before preparing sessions for startups is best. Startups' needs change quickly and it is easy to overlook some of the critical issues they face if they aren't directly engaged to express them.

PREPARED BY
ANGEL ADAM KOBELO
PROJECT MANAGER
PESATECH ACCELERATOR

ISSUED BY
SAHARA VENTURES
OFFICE NO.406, 4TH FLOOR
NOBLE VICTORIA CENTER
NEW BAGAMOYO ROAD
DAR ES SALAAM, TANZANIA