

## **Significant Events over Investment Lifecycle**

### ***1 Initial Meeting with Kalori Ventures***

An initial meeting is to give both Investee and Investor an opportunity to meet the specific key individuals involved, and will generally discuss the following topics.

- Management Team's experience & history
- Fundamental business model of Investee company
- Product/service concept(s) & target market segment(s)
- Current Investee opportunities & areas of weakness
- Experience of Kalori in your target market space
- Style & expectations of Kalori, in terms of investment size and basic considerations

The key outcome from this exercise is to assess the match between Investee & Investor.

### ***2 Review written Business Plan***

Once a determination has been made that the Investee senses it can work with Kalori, and we sense the business has genuine investment potential and a fit with our basic investment criteria, then it is time to review a written Business Plan. A strong Business Plan will address at least the following topics within 25 pages, plus attachments. Slideshow style is preferred, where possible.

- Executive Summary (2 pages) with table of key financials
  - Brief history of the Enterprise to date
  - Management team profiles
  - Discussion of revenue components & business model
  - Discussion of operating structure, expenses & capital requirements
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- Financial history (actual) & projections for 3 years

Especially attractive criteria within an investment proposal include:

- A. Strong alliances or partnerships
- B. Clear barriers to entry or protected distribution strategy
- C. Unique offering with pricing power, and insulated from copy-cat offers
- D. Low resistance product migration path for customers
- E. Clear strategy with limited set of specific objectives
- F. 3 year sales outlook is credible; further upside elements are identified & quantified, if certain initiatives prove successful (but not contained in budget forecast)
- G. Management team is locked in for long haul with hard cash invested, and equity/options which vest over time
- H. Distinguished Board members and/or Professional investors
- I. Audited annual financial reports.

The key outcome from this is a decision to proceed to detailed Due Diligence, which generally entails a significant investment of time & resources by Kalori.

### **3 Informal Due Diligence on the Business**

The strength of a venture will ultimately hinge on the following.

**Management Team.** The experience level of the management team needs to be aligned with the key success factors for the business, with particular emphasis on sales skills and technology competence. What milestones have already been achieved? What unique relationships might provide risk reduction, or cement sales opportunities?

**Product or Service Offering.** We explore product design, customer relationships, and proposed sale contract terms; these terms are then contrasted against competitor positioning. The fundamental value proposition is relative to the most likely purchase-decision criteria for customer segments; thus, quite a bit of time is spent to understand customers, including possible customer/prospect visits. How long is the sales cycle? Can organic growth drive the business, or do you need channel relationships with others to drive the revenues more quickly?

**Financial Planning.** We seek to drill down and test key assumptions of the Business Plan. In particular, gauging areas of sensitivity in the financial model helps to understand key success factors for Management, and determine operational priorities. How capital intensive is it? If growth is twice forecast,

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what results does this have on capital requirements? What Gross Margins (revenues less direct product/service costs) are forecast? Do you have an estimate for revenue to marketing spend, or cost of account acquisition? .

The primary outcome from this process is the decision to structure an offer, and the determination of basic valuation parameters.

#### **4 Negotiate “term sheet” Investment Offer**

As Investor & Investee come closer towards an Investment Agreement, usually Kalori will table a conditional Offer to Invest, framed as a summary “Term Sheet.” These terms often include:

- Type of facility (equity, debt, convertible instruments)
- Draw down stages
- Interest rates or security requirements
- Equity stake, or equivalent after full conversion
- Implied valuation of business
- Break up fee, for cancellation or failure to complete
- Further options for Investor to invest
- Likely exit strategy for Investor
- Director seats or other representation
- Anti-dilution terms
- Conditions of investment:
  - ◆ Management team equity contribution
  - ◆ Management & staff option scheme framework
  - ◆ No shareholder loans outstanding
  - ◆ Reference checks
  - ◆ Customer visits
  - ◆ Review of key contracts
  - ◆ Completion of documentation
  - ◆ Personal guarantees

With an acceptance and agreement to the Offer, the parties can enter into the final stage of the Investment cycle.

#### **5 Legal & Accounting Due Diligence**

In a final phase before an investment can be consummated, a formal review must be conducted addressing the following items:

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- Accuracy of information provided
- Due authorizations of Officers & Directors
- Group legal structure (Company & Subsidiaries)
- Business and asset details
- Accounts & financial position
- Taxation matters outstanding
- Real property
- Intellectual property
- Position of contractors, employees
- Superannuation position
- Compliance with law & absence of litigation
- Insurance & claims
- Delegations & Offers
- Profit sharing & finders fees (if applicable)
- Constitution of Company
- Draft “Share Subscription Agreement”

The result of this phase is an agreement for legal documentation to be drawn up, and the executable steps to give effect to the desired & agreed terms.

## **6 Investment Execution**

The execution of the legal documentation generally includes amendments to the *Company Constitution* (agreed to by current shareholders), and a *Share Subscription Agreement* (agreed to by new shareholders/Kalori). Often there is a new *Shareholder Agreement* drawn up that is used to encapsulate certain provisions that bind shareholders together, over and above those elements required by law for the Constitution.

Upon signing of the legal documentation (the “Close”), initial funds are paid into an agreed bank account; the full amount agreed to is usually paid in several installments on a draw down basis, as the Company progresses with its agreed milestones. This may take place over a period of time (eg. 12-18 months).

## **7 Strategic & Operational Reviews**

Periodically, Kalori may recommend an Investee go through a workshop process with an Advisor to the Fund, to systematically work through significant strategy issues. This is usually done off site, and guided by Boston Consulting Group, Andersen Consulting, or Price Waterhouse Coopers.

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In addition, Kalori can workshop with an Investee on operational issues such as ramp up programs. It can be helpful to include in these reviews, an expert in the field, to assess the adequacy of capital spending plans or marketing resources. In our experience, these can easily be underestimated.

## ***8 Long Term Liquidity Options***

All investors require a long-term exit strategy. These generally result in a trade sale (75% of the time) or an Initial Public Offering (25% of the time). The principals of Kalori have a successful track record in both of these key areas, and may be a strong partner/investor for a business with an early liquidity opportunity. However, Kalori is generally a long-term investor and takes a 5-7 year view for most investments to reach maturity and ultimate exits.

