

Guidelines for Preparation of a Business Plan

These notes are provided as a guide for preparation and submission of a Business Plan – detailed presentation of a project, business venture or technology development, the opportunities it presents and the risks it entails.

The guidelines have been designed to be as inclusive as possible. Accordingly, dependent on the type of proposal and its development status, not all aspects of the guidelines will always be relevant. Developers should attempt to provide available information to relevant areas in as much detail as possible / appropriate and available at the time of submission. Project Developers may choose to provide any additional information that they consider useful and not covered in this template. The template is meant as a guideline only and need not be adopted; Project Developers can choose their own format and structure of the Business Plan document to meet the requirements of their project.

The emphasis of the Business Plan should be on the presentation of a complete, concise and credible plan that can be readily interpreted by investors / financiers who may not be fully familiar with the market / technology / risks and which will enable them to form and take decisions as to whether an investment in the project is attractive and feasible. Good, well structured and presented business plans are the key to getting your project in front of potential investors and starting the negotiation process.

1. Executive Summary

*The Executive Summary should be structured as a **separate stand alone** document to the Business Plan and provide concise summary information on significant / material portions of the business plan:*

- *Brief description of the project*
- *The investment / financing required as subject of this proposal*
- *Value Proposition*
- *Market opportunity*
- *Business objectives and benefits*
- *The possible / projected headline returns*
- *Exit strategy if known*

2. Introduction

Briefly introduce the project, what is involved, the scope and the commercial rationale for implementing it, where it is located and who is involved: who is doing what, where, when, how and why?

3. Business Model & Strategy

a. Detailed Business Plan

This section should include the detailed description of the business model – who does what and why – and the details / discussion of the commercial rationale.

The detailed business plan should include all the phases of project development & implementation:

- 1) Pre-Development Phase – up until first financial closing*
- 2) Development Phase - financial closing till the start of business proper (eg construction phase)*
- 3) Start of business onward*
- 4) Exit strategy (if and where applicable)*

b. Operations Planning

Running of the day to day business including more micro-level operations and management details.

c. Expansion / Growth Strategy

This depends on the management's discretion to either run this business as a cash cow or a growth centre. If the latter is chosen, the expansion plan should be included in this section of the business plan. The Scenario analysis and the financial analysis should reflect these details.

d. Marketing Strategy

If the business strategy involves a selling of a product / service, the team must elaborate on how the marketing function will be structured and its operations carried out. This might include efforts to convince potential buyers, off takers, authorities, investors or the general public of your business offering.

4. Management and Manpower Structure

a. Company / Project Structure

The proposed company / project management and organisation structure should be clearly presented, including, where possible, the names of personnel selected and the allocation of roles and positions.

b. Management Expertise and Credentials

Provide profiles, brief CVs of key management and personnel involved in the project development and implementation.

The purpose of including the expertise and credentials of the company management is to convince investors of the management's capability and potential. Therefore detailed attention should be paid to relevant work experience, contributions and skill sets critical to the success of the business / project.

c. Manpower Distribution

Businesses with complex operations or large manpower requirements should be well thought through and presented in a concise manner. It is important to ensure that assumptions for this section are realistic and achievable. It is also important to demonstrate that appropriate skills are available in the local market and that management has a plausible strategy for identifying and securing key personnel. Training and skills transfer may be an issue here.

d. Partnerships

Introduce and describe the roles of key partners, other companies and institutions involved in the development and implementation of the project.

Partners could include joint venture firms, project consortium members, equipment and / or raw material suppliers, off-takers of finished goods, development partners, technology suppliers, contractors or others aiding in outsourced functions of the business.

Partners' respective relationships to the project and the developing entity should be clearly presented and explained. Agreements, ongoing discussions, contracts or MOUs with any of these parties should be highlighted in the business plan. Business plans that require critical arrangements with potential partners should seek to secure these arrangements as soon as possible. Outstanding but necessary contractual arrangements should be clearly indicated together with a prognosis for when such arrangements are expected to be concluded. These factors contribute to the overall business implementation readiness.

5. Technology

Relevant technologies that are developed, procured, licensed, leased or otherwise acquired and which contribute heavily to the revenue / cost of the business should be presented and discussed in relation to the value chain of the business.

If the project constitutes in itself the development and commercialization of a new technology then the technology, its benefits, drawbacks and differences in comparison with existing technologies should be presented and clearly explained.

Technologies should be described in plain simple terms that are readily understandable to a layman.

a. Technologies & Suppliers Considered

Available choices of technologies and their suppliers to achieve the business / project objectives should be discussed and compared.

b. Technology Provider Chosen

The decision on the choice of technology and technology supplier/s should reflect the technology comparisons made in the previous section. Explain the nature of the relationship between the supplier and the business / project if appropriate.

6. Industry Analysis

Investors / Financiers will be looking out for accurate market information and analysis and where possible quantitative forecasts which demonstrate that the Project Developer understands the economic environment in which the project is situated, the potential of the business and the competitive threats.

a. External market analysis

The business plan should cover all grounds in looking at factors that might impact the future business. A suggested framework to use is Porter's Five Forces or the SWOT Analysis.

b. Competition Analysis

This section should provide an analysis of companies with similar or competitive offerings as the proposed business plan. Conversely, other companies or initiatives that complement the business plan can be elaborated upon.

c. Competitive Advantage Analysis

Developers should highlight the competitive advantage of their business as compared to existing or future market competition. This could also include competitive strategies the company might adopt to create barriers of entry.

CTI PFAN's work with investors has demonstrated that Competition Analysis and Competitive Advantage Analysis are of high interest and concern to investors and financiers particularly where the project involves young technologies and in business segments where the development pace is very fast. Investors will favour Project Developers that have high quality and up to date information about new technology developments and competitors' activities which could disrupt or benefit their business models.

7. Investment

Closely tied to the financial analysis, potential debt and equity investors will be interested in the risk and returns possible to them specifically. These returns for equity and debt holders will depend on the investment structure and in the case of the equity holder, dividend payment structure.

a. Investment Structure

*Therefore, the proposed investment structure details should be clearly spelt out in this section. Developers should provide figures for the total investment amount of the project and their proposed / targeted financing structure (debt / equity ratio). Schedules of capital expenditure and operational expenditure, and assumed timings of financing requirements, refinancing, and start of dividend / repayment ability should be provided as appropriate. Provision of a **Source and Application of Funds** table / schedule is recommended.*

The underlying assumptions should be clearly presented and it is recommended that estimates and assumptions should also be made conservatively.

The Project Developer's expectations / requirements of potential investors' obligations, rights and benefits (in terms of shareholding holding %, management representation, burden of time, other commitments, dividend rights, payout options, preferential treatment etc) should be clearly stated.

b. Valuation

Indicate what share of the business / project / company you are offering for the requested investment and summarise the calculation basis and assumptions you have used to arrive at the valuation.

c. Equity Cashflows

Equity Cashflows reflect the cashflows attributable to equity investors. This section will form the basis of the investor stake holding and include the investor returns from the business.

d. Exit Strategy

The proposed timeline of the business investment is an important piece of information for investors. Similarly, the exit strategy for the investor should be clearly constructed around this timeline. To increase the flexibility of the business plan, possible multiple exit points can be suggested.

8. Financial Analysis

The purpose of this section is to highlight the profitability of the business. Relevant lines of profit include sales / revenue of goods and services and possible carbon emissions revenues. The evaluation should be credible with conservative estimates being used throughout this section.

a. Financial Assumptions

As a guide, financial assumptions should entail but are no limited to the following categories:

- 1. CAPEX Assumptions,*
- 2. Expense Assumptions*
- 3. Revenue Assumptions*
- 4. Project Operating Assumptions*
- 5. Financing Assumptions (cost of capital, interest cost etc)*

b. Business Cashflows

The cashflows from the project will be built on the assumptions defined in the previous section. In turn, the projected cashflows will form the basis for the financial results in the next section. The cashflows can be augmented by other statements such as the income statement, the balance sheet and other relevant financial statements.

Provide the cashflows as an excel spreadsheet in an annex to the Business Plan. Explain and comment on the spreadsheet and provide highlight / summary outputs in the Business Plan document. Avoid copying excel spreadsheets into the word document.

c. Business Returns

This section should include the possible economic returns and the relevant ratios that will be important in evaluating the economic feasibility of the business. Any combination of recognized investment indicators and ratios may be used that are appropriate to the nature of the project: eg - IRR, ROCE, RoI, EBIT, EBITDA, Break Even, Payback Period, DSCR, LLCR etc.

9. Risk Analysis

The risks involved in implementing the project and / or running the business should be described in appropriate detail. These risks typically entail but are not limited to

1. *Business Specific Risks – completion risk, counterparty risks, performance risks*
2. *Cost / Price / Revenue Risks*
3. *Technology Risk,*
4. *Country Specific & Political Risk – change in regulation,*
5. *Industry Wide Risk*
6. *Financial Risks.*

Summarise the steps taken / planned to deal with and mitigate the principal risks. Investors will focus on key targeted risks connected with the particular business model or industry (particularly if the project is in a closed or captive supplier – off-taker structure) rather than generalized risks.

10. Stress Test Scenarios and Upside Analysis

The impacts of downside risk and upside potentials that could affect the returns of the business in the future should be presented and financially modeled if possible. The downside analysis should focus on those risks that represent the greatest threat to the business / project as identified in the Risk Analysis section and should avoid modeling generalized risks (eg 5 % downturn in turnover).

Provide the scenarios as excel spreadsheets in an annex to the Business Plan document and summarise the highlights / outputs of the analysis in the Business Plan. Avoid copying whole spreadsheets into the Business Plan word document.

11. Conclusion

Highlight the chief strengths and benefits of the project / business and summarise why an investor should consider investing.

Important!

1. The guidelines provide listed sections that investors will look out for and expect. Nonetheless, deviations and additions are allowed and encouraged (creativity is an assessment criteria!).

2. There are no guidelines on document length. Generally 10 – 20 A4 pages plus annexes should suffice to summarise the business plan of most projects. In general shorter documents are preferable to longer ones.
3. Page setup, spacing, font size and type face are at your discretion but the document should be reader friendly.
4. Files should be submitted in PDF (preferable) or WORD format. Excel files should be submitted in the original format.