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# Class 2: Managing an Investment Banking Process

# Lesson 2: Preparation for Launch

***Course Script***

**Class 2, Lesson 2: Preparation for Launch**

1. *Introduction*
   * **Lesson Overview**
     1. During this lesson, The Warren Fox Group will cover topics that deal with:
        1. Engagement Kick-Off
        2. Key Engagement Materials
        3. Developing a Buyers List
        4. Preparing the Virtual Dataroom
2. *Engagement Kick-Off*
   * **Background**
     1. Following a successful bake-off and execution of an engagement letter, the bank will transition the client mandate to the execution phase.
        1. The bank will assemble a deal team and the deal team will likely begin on the following action-items:
           1. Create an email distribution list for team-wide communications.
           2. Create an internal project folder for file retention and organization.
           3. Create a drop box for the client to provide initial data.
           4. Schedule an official Kick-Off Meeting with the client.
   * **Kick-off Meeting:** 
     1. A Kick-Off Meeting is the first official connection-point between the client and the deal team.
     2. The goal of the meeting is to:
        1. Introduce team members from both the client and the bank.
        2. Assign roles and responsibilities for each team member.
        3. Reaffirm the goals of the engagement.
        4. Align timing expectations.
        5. Discuss immediate next steps.
     3. The junior team members will begin creating the Kick-Off Meeting materials.
        1. The Kick-Off Meeting Deck will likely include four sections:
           1. Section 1: Executive Summary
           2. Section 2: Timing Expectations
           3. Section 3: Initial Due Diligence Requests
           4. Section 4: Working Group Lists
        2. Below is additional guidance on the Kick-Off Deck and its composition.
           1. **Section 1:** The Executive Summary section will be mainly comprised of the below slides:

**Review of the Client Mandate** – Summarizes the mandate as understood by both parties and the procedures outlined in the engagement letter.

**Introduction to the Deal Team** – Introduces the deal team members that will be working on this particular deal from partner to analyst level. This page will likely be organized with headshots of the deal team members, along with their name, title, years of experience and a Harvey Balls graph to depict each individual’s roles and responsibilities throughout the deal.

**Introduction to Potential Investors** – Introduces potential investors and investor categories. The slide will likely organize investor logos into buckets to denote investors and investor categories. The investor buckets will usually be broken down into either financial or strategic investors. From there, the buckets can be broken even further, such as early-stage investors or buy-out investors. In banking, these types of pages are known as splash pages.

* + - * 1. **Section 2:** The Timing Expectations section will be mainly comprised of the below slide:

**Timeline Slide** – Introduces preliminary timing guidelines for each step of the engagement. The timeline slide is usually depicted as a graph, with time on the x-axis and key objectives on the y-axis. Clients can be very sensitive to this slide, especially if the client is cash-burdened. For example, the client might be raising capital fund a burn which is causing a current cash depletion, therefore it is important to set and align timing expectations around deal execution. This slide is also important because this might be the first time the client is engaging an investment bank and is unaware of level of complexity and detail involved in capital markets processes. Also, the bank is setting expectations and the client will likely hold the bank to those expectations.

* + - * 1. **Section 3:** The Initial Due Diligence List will be mainly comprised of the below slide:

**Due Diligence List** – Introduces the client to the essential data requests necessary for the practitioners to prepare the deal for the market. This page is usually a pasted excel output of the due diligence request list, which the bankers will provide the client following the kick-off meeting. Bankers typically prefer to send the official due diligence list following the kick-off meeting because the list can be daunting. Some of the main pieces of diligence are:

**Corporate documents** such as company charters, company bylaws, and past financing agreements.

**Financials** such as year-end audited financial statements, past tax documents, and the current financial model.

**People and organizational documents** such as a corporate organizational chart, an employee organizational chart, a current capitalization table, management biographies, and employment documents for key management members.

**Contractual obligations** such as vendor contracts and client contracts.

**Technology Documents** such as domain names, intellectual property, patents, and documentation outlining the client’s technology stack.

**Other auxiliary items** such as client-approved logos, fonts, and color pallets.

* + - * 1. **Section 4:** The Working Group Lists will be mainly comprised of the below slides:

**Working Group List** – Introduces all the members of the deal from both the client and the bank. The slide or slides will be broken down by client-personnel and bank-personnel. The slides will list the names, positions, emails, and phone numbers of all the individuals who will be participating in the deal. This slide will also provide any special communication instructions. Capital markets processes need to be handled with discretion and in some cases anonymity, therefore it is important to always remember communication rules set by the client, and always utilize coded project names. The working group list could also include third party members, such as legal or tax advisors that will be assisting on the deal.

1. *Key Engagement Materials*
   * **Background**
     1. Practitioners and clients will work together intimately during the first few weeks of preparation to fully prepare the deal materials for the market.
     2. The two main categories that bankers and clients focus a majority of their attention on prior to launch are:
        1. Financial Analysis
        2. Marketing Materials
   * **Preparing Financial Analysis**
     1. When preparing financial materials, The Warren Fox Group believes that practitioners should have a few goals in-mind, such as:
        1. Clearly understand and communicate the client’s current financial position.
        2. Clearly understand and communicate the client’s future financial position.
        3. Create easily digestible visuals for investors to assist in their financial diligence of the target company.
           1. **Goal 1:** Understand the client’s current financial position.

Practitioners will provide the client with a list of financial due diligence items to gain a better comprehension of the client’s current financial position.

Some of these due diligence items include:

Past annual financial statements.

Monthly financials for the last 24 months.

A financial projection model.

Revenue breakdown by customer, geography, and product / service.

The junior bankers have the responsibility of compiling and understanding the client’s historical financials.

Some important tasks include:

Organize historical financials into one workbook.

Extract extract certain non-GAAP figures such as EBITDA.

Establish growth trends and profit margins.

Understand liquidity and leverage ratios.

The junior banker will also need to look for accounting abnormalities.

Important abnormalities to look for:

Aggressive revenue or expense recognition.

Transferring liabilities off the balance sheet.

Irregular treatment of certain expenses.

Large deltas between EBITDA and cash flow.

Ultimately, the practitioners need to be comfortable with presenting the client’s historical financial performance to the marketplace.

If the client is early-stage and does not have audited financials, the bankers might suggest a quality of earnings exercise.

* + - * 1. **Goal 2:** Understand the client’s future financial position.

The client may or may not share a projection model.

The projection model is arguably the most important due diligence item required for launch because the buyer or investor is most likely pricing the deal based on the client’s expected future financial performance (not past performance).

If the client does not provide a projection model, it will be the responsibility of the banker to create one.

The basics of a projection model:

A projection model utilizes revenue and expense assumptions to drive the profit and loss statement three-to-five years in the future.

A more in-depth projection model, known as an operating model, will include all three financial statements and will be dynamically structured.

Key inputs to a projection model:

*Revenue assumptions*

Number of sales people, sales quotas, number of products, product pricing.

*Gross profit margins*

Product mix and fixed expenses per product.

*Operation expense assumptions*

Number of employees, annual wages, sales and market expenses, and technology expenses.

*Understanding when the client will breakeven*

Number of units the client must sell to recover the initial costs and the ongoing costs of the project.

A breakeven calculation is a very important element for analyzing early-stage businesses.

* + - * 1. **Goal 3:** Create digestible visuals for investors to consume for the purpose of helping them best understand the company’s financial position and financial future.

The bankers’ goal is to make the investor’s diligence process as seamless as possible.

Investors look at hundreds of deals per year, therefore it is incumbent upon the bankers to present the financials in an easily accessible dataroom and to provide a curated and organized environment for investors to have enough information to properly evaluate the opportunity.

Tips for junior bankers:

Dataroom models are always values-only; it is very rare for a banker to put a live-model into the dataroom.

Always keep the model up-to-date with the current monthly financials inserted into the model.

Always have a clear grasp on the client’s run-rate value.

Never create a projection model with unattainable near-term projections.

Always track which investors are looking at which documents in the dataroom, and always instill a watermark on any downloadable materials.

* + **Preparing Marketing Materials**
    1. **Background**
       1. The Warren Fox Group believes that one of the most daunting tasks and time-consuming assignments for a junior banker is the creation of the CIM.
       2. The “CIM” stands for Confidential Information Memorandum and is a comprehensive presentational document that will fully describe the investment opportunity to potential investors.
    2. **The basics of the CIM**
       1. All sell-side investment banking engagements require a CIM.
       2. Depending on the client and on the engagement scope, the CIM can range from 25 to 75 pages in length.
       3. The CIM must be created and finalized prior to going to market.
       4. The CIM will likely be made available in the virtual dataroom for potential investors to view and download.
    3. **The Composition of a CIM**
       1. Executive Summary
       2. Product and Technology
       3. Industry Analysis
       4. Financial Projections
       5. Management Team
       6. Deal Structure
    4. **Detailed sectional analysis of the CIM**
       1. **Section 1:** Executive Summary
          1. The Executive Summary Section will provide the investment thesis for the opportunity.
          2. The goal of this section is to introduce and highlight the most compelling reasons for an investment.
          3. The Executive Summary Section might include slides, such as:

Investment Overview

Company Overview

Why Now?

Timeline and Milestones

Size of Opportunity and TAM

High-level Summary Financials

* + - 1. **Section 2:** Product and Technology
         1. The Product and Technology Section will provide an overview of the services that the client offers to the marketplace.
         2. If “technology” is in the title of the section, the client will likely offer some form of proprietary technology or tech-enable service that helps provide the company with a competitive advantage.
         3. The goal of this section is to explain exactly what the company offers, what the company does, and how it plans to execute its business model.
         4. The Product and Technology Section might include slides, such as:

Product Landscape

Sales Motion and Sales Funnel

Go-to-Market Strategy

Product Pipeline

Patents or Intellectual Property

Product Implementation

* + - 1. **Section 3:** Industry and Market Analysis
         1. The Industry and Market Analysis Section provides investors with an understanding of the current marketplace.
         2. The goal of this section is to highlight the client’s position within the marketplace and describe competitive advantages that benefit the company relative to its competition.
         3. The Industry and Market Analysis Section might include slides, such as:

Company Geographical Footprint

Competitive Landscape

Current Market Trends

Supplier and Vendor Advantages

Company Customer Highlights

Unit Economics Slide

* + - 1. **Section 4:** Financial Projections
         1. The Financial Projections Section provides investors with an overview of the company’s financial position and future financial expectations.
         2. The goal of this section is to highlight the company’s ability to expand rapidly, leverage scale, operate efficiently, and return as capital back to the investor.
         3. The Financial Projection Section might include slides, such as:

Summary Financial Projections

Balance Sheet and Cash Flow Snapshots

Future Revenue Growth and EBITDA Margins

Future Revenue Growth and Fixed Expenses

Headcount Projections

Business Unit Breakouts

* + - 1. **Section 5:** Team and Management
         1. The Team and Management Section provides investors with an overview of the company’s personnel and key leadership members.
         2. The goal of this section is to highlight the company’s key leaders and their specific skill sets.
         3. Highlights work experiences, past management positions, and educational backgrounds.
         4. The Team and Management Section might include slides, such as:

Key Management Members and Biographies

Employee Organizational Chart

Employee Highlights and Performance Indicators

Employee Breakdown by Function

* + - 1. **Section 6:** Deal Structure
         1. The Deal Structure Section provides investors with an overview of current deal that is being offered to the market.
         2. The goal of this section is to highlight the key components of the deal structure.
         3. The Deal Structure Section will differ based on the deal type but will likely include slides, such as:

Key Deal Components, which describes the type of financing, the desired quantum, the deal terms, and the pricing.

Use of Funds, which describes the breakdown of capital utilization.

Target Valuation, which provides guidance on how the company and its advisors concluded on price.

Company Roadmap, which describes the future product launches and strategy of the business.

1. *Developing a Buyers List*
   * In addition to creating the Financial and Marketing Materials, the junior bankers will also be tasked with putting together a Buyer List prior to launch.
     1. **Basics of a Buyer List**
        1. The Buyer List is a tiered list of potential market participants that could act as buyers or investors in the deal.
           1. Marketplace participants can include:

**Strategic Buyers** – these entities are other corporations in a similar or adjacent sector to the target and have interest in acquiring the target for business, not financial, reasons. Strategic buyers typically utilize internal corporate development teams to facilitate the diligence and the transaction.

**Financial Buyers** – these entities are private equity firms, venture capitalists, corporate venture arms, sovereign wealth funds, and family offices that have interest in the target company for financial, not business, reasons. The only exception might be a corporate venture arm.

* + 1. **Buyer List Naming Conventions**
       1. The list is known as a “Buyer List” when the sell-side engagement is an M&A deal and an “Investor list” when the engagement is a capital raise.
          1. The bankers and the client will work together to gain an understanding of the seller’s motivations and who they would prefer to target as potential buyers.
          2. Sometimes sellers are motivated to sell only to a narrow list of buyers, while other sellers have no preference at all.
    2. **The Buyer List Formats**
       1. Practitioners will likely keep the Buyer List in both excel and powerpoint formats:
          1. **Excel Format** – good for note keeping and outreach purposes
          2. **Powerpoint Format** – good for client-facing and presentational purposes
  + The Warren Fox Group believes that junior bankers have a few main responsibilities as it relates to the curating the Buyer List:
    1. **Original Buyer List Preparation**
       1. The junior bankers need to produce a list of potential buyers for the deal.
       2. The junior bankers can leverage preliminary buyer lists and previous buyer conversations that took place during the bake-off.
          1. Prior to the engagement, the bank and the client would have discussed potential buyers and investors leading up to the bake-off.
          2. A large piece of winning a bake-off is being able to show the potential client that the bank has the proper contacts at the desired institutions.
    2. **Buyer List Workflow Outputs**
       1. Internal Excel Buyer List
          1. Composition of the internal excel buyer list:

General Description of buyer

Location

Check size, control preference, and investment mandate

Size of fund

Name, position, and contact information of relationships within buying entity

Comparable past investments

* + - * 1. The junior banker will be expected to retrieve and verify all of the above information from internal and external resources.
        2. Additionally, the junior banker is expected to take a first pass at tiering and organizing the buyers based on the client’s preferences.
      1. Buyer List Presentation
         1. A preliminary buyer list was most likely flashed during the pitch, which probably was a categorized splash page of buyer logos.
         2. The next step for the junior bankers will be to create “buyer strips”.

**Buyer Strips** are horizontal strips with the logo starting on the far left and then additional buyer information spread across the presentation. Additional buyer information could include:

Buyer description, contact names, and contract positions

Location

Fund Size

Check Size

Investment mandates such as sector preference, target revenue and EBITDA sizes, growth metrics, and profitability

Control Preference

Investment capabilities to lead, participate, or either

Relevant past investments

* + - * 1. Practitioners should note that buyer strips contain many of the same informational items in the internal buyer list, with one major exception which is **contact information**

Practitioners need to be cognizant of presenting contact information such as phone numbers and email addresses to the client.

The bank acts as a broker of the transaction and if market participants, such as the client or the buyers, had easy access to all available contact information, then it severely hampers the value proposition of the bank.

Also, the bank never wants a situation where the investor and the client are having sidebar conversations and discussing the deal without the bankers present.

1. *Preparing the Virtual Data Room*
   * In addition to creating the Financial Materials, Marketing Materials, and the Buyer List, the junior bankers will also be tasked with assembling and maintaining the virtual dataroom prior to launch.
     1. **Basics of a Virtual Dataroom**
        1. The Virtual Dataroom, also known as the VDR, is a central repository of client information created for the benefit of potential buyers.
        2. The VDR allows potential buyers to view and download relevant client information for due diligence purposes.
        3. Main components of the VDR include:
           1. Company Documents
           2. Presentation Materials
           3. Financials
           4. Product and Technology
           5. Organization and People
           6. Miscellaneous
   * **The process of creating a Virtual Dataroom**
     1. Creating a dataroom starts with collecting due diligence items from the client and “beautifying the documents”.
     2. The reason for creating a dataroom is to facilitate a seamless and secure transfer of information from the client to potential investors, in an orderly and timely fashion.
     3. The Warren Fox Group believes that junior bankers should keep three main traits in-mind when curating a VDR: (i) Organization, (ii) Viewer-friendliness, and (iii) Security.
        1. **Organization:**
           1. Practitioners will begin the process of curating a VDR by internally creating a “shadow dataroom” that will reflect the content and folder structure in the VDR.
           2. The structure of the shadow dataroom will directly translate to the organization of the real VDR.

The dataroom holds a vast amount of information.

Investors need to be able to easy maneuver around the folder structure of the VDR without having to ask the banker or the client for help.

* + - 1. **Viewer-Friendly:**
         1. The junior bankers will be tasked with “beautifying” all documents, which means that bankers will ensure that the format of each document is viewer-friendly and consistent.
         2. Depending on the client, the original formatting of the due diligence information could be very poor or, simply, non-existent.

The junior banker is to read, analyze, and ensure that the materials are prepared for investor consumption.

There should be no unformatted or inconsistent documents in the VDR.

* + - * 1. The Beautification Process:

With respect to excel documents, the VDR should provide values-only files with consistent font type, font size, and titles.

Each worksheet should be saved in cell A1 and zoomed-in at consistent level throughout the pages of workbook.

The excel documents should be organized and summarized so that key analyses or calculations are brought to the front of the viewer’s attention.

* + - * 1. Junior bankers need to ensure that all materials in the VDR are redacted and not showing any sensitive information, such as employee names, supplier names, or customer names.
      1. **Secure:** 
         1. First and foremost, no one should be in the data room who is not under NDA.
         2. Also, only designated individuals from investing entities should be invited:

For example, if Private Equity Firm A is interested in the deal, not all employees should have access to the dataroom, only those employees who are reviewing the deal should have access.

* + - * 1. When a buyer passes on a deal, those investors should have their access removed immediately.
        2. Downloaded materials should always be watermarked.
        3. Finally, all materials that enter the dataroom need to be approved by the client as a confirmation that nothing confidential is being exposed.

1. *Summary*
   * Throughout the second lesson of Managing an Investment Banking Process, The Warren Fox Group has covered a multitude of topics:
     1. Engagement Kick-Off
     2. Key Engagement Materials
     3. Developing a Buyers List
     4. Preparing the Virtual Dataroom
   * After the second lesson, viewers have a clear grasp on the how to begin an investment banking engagement, what materials are necessary for launching a deal into market, what is included in the go-to-market materials, and the importance of an organized virtual dataroom.
     1. The important take-aways of Lesson 2 include:
        1. The proper and efficient collection of due diligence items from the client.
        2. The key items necessary for launch, including the financial materials and marketing materials.
        3. The key characteristics of the Buyer List.
        4. The importance of organization, viewership and security of a Virtual Dataroom.
     2. The goal of Lesson 2 is:
        1. Help junior bankers understand the necessary items required to enter a deal into the market.
        2. Educate junior bankers on their roles and responsibilities during deal preparation.
        3. Educate junior bankers on best practices when preparing a client for market and when creating a VDR.

*On behalf of The Warren Fox Group, we thank you for your time and attention. The information in this video is the property of The Warren Fox Group, LLC and should not be reproduced or copied in anyway. The information provided is not investment advice or legal advice, and should be used solely for educational purposes. Hopefully you found this material to be helpful. We are excited to see you at our next lesson which will cover Going-to-Market.*

*It is an honor and privilege to join you in your journey throughout Investment Banking!*

*The Warren Fox Group*