

# MEMORANDUM

<b>From</b>	Dr. Michael Hirt, H&F
<b>Subject</b>	<b>Outline for Proposal to the Board of Directors: Investment Proposal for Private Equity Transaction</b>

## 1. EXECUTIVE SUMMARY

- **Business Opportunity**
  - Short description of the target company including the most important financial figures/ratios
  - Market potential
  - Product & customers' benefits
  - Business model and strategy
  - Competitive advantage
  - Management team
  - Key strengths and weaknesses of the target firm
  - Main points of the financial plan for the previous and following year
  - Summary of the financial requirements and the how the funds will be allocated
- **Investment Opportunity**
  - Starting point of the investment situation
  - Key terms of the targeted investment amount
  - Company valuation
  - Value creation through the investment and exit analysis
- **Next Steps**
  - Next steps and timeline
  - Key questions for the due diligence and negotiations
  - Costs of the next steps
- **Recommendation to the Board of Directors/Top Management**

## 2. BUSINESS OPPORTUNITY

- **History of the Company**
  - Founding and founder
  - Milestones and development
  - Location of registered offices and headquarters
- **Market**
  - Market potential & trends
  - Customer segmentation and market share
  - Success factors
- **Products**
  - Product description
  - Differentiation
  - Benefits to the customer
- **Strategy**
  - Business objectives and corporate strategy
  - Market positioning and Marketing strategy
  - Business model (operations & sales)
  - Competitive advantages
  - Strategic partnerships
- **Competition**
  - Major current & future competitors
  - Market positioning and market share of the competitors
  - Strengths and competitive advantages of the competitors
  - Competitive strategy
- **Organization**
  - Strategy and financial planning
  - Accounting and taxes
  - Management and human resources
  - Organization, IT and information systems
  - Law and environment
- **Management Team**
  - Composition of core management team
  - Duties and responsibilities
  - Quality and completeness
  - Backgrounds, track records and strengths
  - Motivation, function and effectiveness
  - Middle management
  - Succession plan
  - Compensation plan
- **Previous Business Development & Planning**
  - P&L, Cash Flow, Balance Sheet
  - Size and profitability
  - Burn rate & liquidity
  - Capital intensity
  - Number of employees by department
  - Financial requirements and financing

- **Timeline and Milestones for Further Company Development**
  - Milestones & timelines
  - Risks & challenges and measures to avoid or overcome them
- **Miscellaneous Information**
  - Bank account details
  - Consultants to the company

### 3. INVESTMENT OPPORTUNITY

- **Starting Point**
  - Nature of the investment situation
  - Legal form and registration location of the company
  - Present ownership and capital structure
  - Previous investment & financing history
  - Motives for sale / search for an investor
  - Targeted investment amount and purposes of usage
  - Negotiations situation
    - Competition with other Investors? Exclusiveness?
    - Are there other investors who have already declined the deal? Who? Why?
- **Key Terms of the Targeted Investment**
  - Reasons for investment attractiveness
  - Strategic fit to the investment strategy
  - Amount (€ Mio.) of capital being raised, Scale (%) of the investment
  - Structuring of the investment
  - Ownership structure according to the investment
  - Other owners / shareholders and members of a consortium
  - Valuation / Pricing / Method of payment
  - Resulting dilution for current shareholders
  - Commitment and guarantee of the existing shareholders
  - Protection against dilution for investors
  - Control, veto and influential power/rights of investors
  - Exit strategy regulations
  - Other important regulations and key points of the contract
  - Deal issues and deal breakers
- **Company Valuation**
  - Including sensitivity analysis and measures to handle sensitivities
- **Value Creation & Exit Analysis**
  - Investment management
    - Post Investment Management of the company
    - Corporate development (e.g. Upwards, Downwards or Horizontal Integration through M&A's)
    - Likelihood of targeted synergies being realized
  - Risk management of the Investment
  - Requirement of initial and further investment rounds
  - Exit strategy
    - Payback related to the exit strategy
    - Outlook regarding an exit through IPO or sale of the business
    - Exit valuation

#### **4. NEXT STEPS**

- **Next Steps & Schedule**
  - Due Dilligence
  - Negotiations, Signing, Closing
- **Key Questions for the Due Diligence & Negotiations**
  - Key questions for the negotiations
  - Key questions & priorities for Due Diligence
- **Costs of the Next Steps**
  - Due Dilligence
  - Miscellaneous Costs

#### **5. RECOMMENDATION TO THE BOARD OF DIRECTORS/TOP MANAGEMENT**