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Can Venture Capital and Private Equity Work for You?

Six simple steps to guide SMEs in the Western Balkans

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

About this guide

Access to finance is ranked as one of the constraints on businesses in the Western Balkans region (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia). Across the region, up to 99 percent of enterprises are small or medium-sized (SMEs). SMEs are a primary source of economic growth, innovation, and most importantly, job creation in the region.

To attract funding from investors and grow their businesses successfully entrepreneurs need the necessary skills to become investment ready. However, in the Western Balkans, entrepreneurs lack investment readiness for different reasons, including:

- Lack of knowledge about the availability of external sources of finance;
- Hesitation to surrender partial ownership and control of their business;
- Lack of knowledge of how to sell their ideas to potential investors.

This guide is targeted at SME owners and managers of SMEs in the Western Balkans who are interested in developing their businesses and are considering whether venture capital (VC) and private equity (PE) could be an option.

Not all companies are a good fit for PE and VC financing. This guide will help you understand if PE or VC can be a good option for you by explaining—in plain terms—what private equity and venture capital are, how PE and VC firms operate, what a PE or VC deal entails, and what kinds of advisors you should consider enlisting to help you along the way.

Understanding if an equity investment is right for you entails several considerations, including relating to your business operations, legal and regulatory issues, human resources, and others. This guide focuses on financial readiness, in particular.

To understand if private equity and venture capital could be good options for you, we have prepared a series of simple steps to guide you and support you in understanding what it will take to be financially prepared.

STEP
1

IDENTIFY YOUR STAGE IN THE BUSINESS LIFECYCLE

A business goes through different phases of development and progression during its life, including: seed & startup, growth, and maturity. Depending on the stage, different financing options are available.

Seed & Startup

This is the beginning of the business lifecycle.

During the seed stage, entrepreneurs approach investors, including friends and family, to find financial support for their business idea. These investors typically begin an advanced investigation of the technical, market, and economic possibilities of the opportunity. If the concept appears reasonable, the investor may support the entrepreneur with time and financial resources. Once this occurs, entrepreneurs take the first steps in forming the company and developing the idea further. If the entrepreneur finishes the seed stage, they progress into the startup stage.

The startup stage is all about monetizing the business idea (i.e., making money from it). The entrepreneur's role in this stage is to build a solid team so they can deliver the product or service to clients, earn revenues, and develop the market. Startup companies are considered very risky, since their track record is short, and few survive and move to the next stage.

Putting in place adequate **financial management** is an important consideration at this stage. For example, the accounts of owners and the company should be kept separate. If an owner uses company money to purchase personal things or puts money in the cash register when it is running low without recording this information, the true financial picture of the company can become muddled. Likewise, it is important to make sure the necessary tools to support financial management, including cash management and record-keeping, are in place.

Since startups are inherently risky, have a short credit history, and tend to lack collateral, banks are very unlikely to lend to them. If they do lend, it tends to be low amounts and not at great terms (short maturity length, interest rates, etc.).

INVESTMENT SPOTLIGHT

People sell, buy, and rent homes only a few times, but managing a home is everyday life. Nowadays, people are busy, and keeping up on top of the household is always a chore.

Habiplace is a technology platform operating only in the UK, to help homeowners, tenants and landlords to better manage their property. It helps its users to manage their property better and save money by reducing the time spent managing households and home-related services: bills, insurance policies, documents, and property evaluation. Habiplace benefitted from seed investments from SC Venture under the EDIF platform program of the European Commission.

"After we launched the product, we were not so sure that it would work, but the feedback was not short from extraordinary" says, **Stephen Geran, Founder and CEO of Habiplace.** *"The goal for the future is to expand in the US and Australia"* says **Josip Bojcic, Co-Founder & CTO.**

Growth

When a company has been able to establish a solid client base, has achieved positive cash flows and is breaking even, it enters what is called the growth phase.

Growth business means the volume of goods or services it is producing is growing, and its market share is likely on an upward curve as well. Demand for its products and services is also growing. This growing demand will often require investments in working capital and fixed assets, such as more machinery or equipment. Or possibly a new storefront. It will challenge the financial resources and the cash position of the company and also stretch the organization of the company and its human resources.

The company may face a point where it has the potential to grow, or it can also risk failure if it is not able to attend to growing demands. Its production capacity might be near its limit, and it may find it challenging to meet growing demand from clients. There may also be growing competition, particularly if the company was an early entrant to a new market.

Financial management, at this point, becomes critical. Managing the growth of the company, although satisfying, can challenge the skills and financial resources. Tasks gradually need to be delegated. In addition, to get a full picture of how the business is performing, financial control and management reporting systems need to put in place. These controls and tools will enable management to understand the contribution of individual products to their profit line.

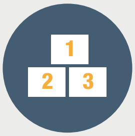
Such management requires a comprehensive financial management plan that noticeably outlines the assets, debts, and the current and future profit of the business. A well written plan will allow a business to get investment for growth, allocate resources efficiently, increase the potential income of the business activity, and monitor all of the results.

From an organizational perspective, one of the biggest challenges for business owners at this stage is:

DIVIDING THEIR TIME BETWEEN A WHOLE NEW RANGE OF DEMANDS REQUIRING THEIR ATTENTION

- grow their management team and workforce.
- hard to find the right expertise in the market, at the right price.

- existing workers might need to be upskilled and better trained, which costs time and money.



- they may have a hard time meeting the needs of their growing customer base and dealing with the competition.

- they will also see that the business becomes more complex, when it comes to a diverse set of issues. For example, they might want to enter foreign markets, which entail different rules and requirements when it comes to standards of quality, import rules and regulations, as well as practical issues relating to distribution and transport.

! While capital markets are not well-developed in the Western Balkans, in some countries this is the point where listing on the stock exchange becomes an option. As capital markets deepen and become more liquid, the stock exchange could also become a viable option in the countries of the Western Balkans going forward.

INVESTMENT SPOTLIGHT

In the real estate business, contractors that are right and available for a construction or renovation project are hard to find. Usually, the search ends up in endless hours spent in yellow pages, sending emails, or asking family and friends. Indeed, in the construction industry, the procurement process is generally manual, not transparent, and unstructured.

So far, **DaiBau,** with its electronic matching platform, managed to connect more than 2000 companies, and gather thousands of quotes from different areas of construction to be used for future projections in the market, and also help expand and connect the market in Croatia, Slovenia, Austria and Germany. Daibau won a EUR .7 million investment from SC Venture under the EDIF platform program of the European Commission.

"DaiBau wants to match every lead with at least three available contractors and, in the meantime, provide transparency in the market and offer a database of good contractors, clients, and prices, making the process easy, even for people that are not familiar with the construction and renovation business" says **Martin Pelcl, CEO, Co-Founder and Gregor Cernelc, CTO, Co-Founder.**

Maturity

Market share has reached a stable level, and the company operates in a segment of the market in which it has competitive advantages. Mature businesses may not be trendy or flashy, but rather are reliable and consistent.

Some mature companies may be facing a challenge of succession, meaning the founder/owner does not have any interested heirs who could take the company forward once they retire or are ready to leave the company.

Other mature companies may be struggling. They may be well-known brands that are not as efficient or profitable as they could be. In this case, it would be considered a company in decline. Depending on the situation and reasons for the decline, investors might be interested regardless.

Once a company matures, it enters a steady state where it is no longer strongly and quickly growing the volume of its output. Significant new investments in working assets and capital are generally no longer required.

Sources of Financing Options for Different Stages of the Business Cycle

For each stage of the business different sources of financing exist.

SEED & STARTUP-STAGE OPTIONS

INTERNAL FUNDS: including owners' personal savings and contributions from friends and family.

INCUBATORS: are organizations that offer startups resources including shared office or operation space, shared equipment, as well as mentorship and networking opportunities. Incubator programs are often linked to universities, government programs or other non-profit institutions.

ACCELERATORS: are similar to incubators in that they offer some of the same resources, but also funding opportunities for startups. They tend to work by enrolling startups in months-long programs that offer mentorship, office space and supply chain resources. More importantly, business accelerator programs offer access to capital and investment in return for startup equity. Startups essentially 'graduate' from their accelerator program after three or four months — which means that development projects are time-sensitive and very intensive. Some incubators will also offer financing, usually in exchange for a share of company ownership (equity). Different incubators will offer different resources, and at different terms. Incubators in the Western Balkans tend to be focused on technology startups only.

INNOVATION FUNDS, GRANTS, AND OTHER PROGRAMS: Innovation funds and grants are funding programs that give startups funds that most often do not need to be paid back. These grants provided by the government or private organizations are especially good options for business owners who serve a community or are a part of disadvantaged groups such as: minorities or women. These grants from funding programs for startups may be extremely competitive. Another excellent way to source funding for your business are government programs that offer start-up capital thus providing you with surplus capital to manage your startup. However, the process of examination, approval and final release of funds may take a lot of time and funds tend to be limited.

ANGEL INVESTORS: since internal funds are sometimes limited, it is often necessary for a business owner to explore other modes of financing. Angel investors are generally wealthy individuals who are entrepreneurs themselves and are interested in funding startup enterprises. Since angels are often entrepreneurs themselves, they may be interested in providing mentorship and advice to the startup, so that these may be able to learn from their successes and mistakes. Angel investors are not so common in the Western Balkans, and the ones who exist are not well-organized in angel investor networks or associations. Most are known by word of mouth.

GROWTH AND MATURITY-STAGE OPTIONS

BANK LOANS: is an amount of money borrowed for a set period to pay back at an agreed date. The repayment will depend on the size, length of the loan, and the rate of interest. The terms and conditions of the loan vary with providers and may be negotiable.

LEASING: is obtaining the use of machinery, vehicles, or other equipment on a rental basis. Leasing avoids the need to invest capital in equipment. Ownership rests in the hands of the financial institution or leasing company, while the business has the actual use of it.

FACTORING: A financing method in which a business owner sells accounts receivable at a discount to a third-party funding source to raise capital.

VENTURE CAPITAL
(for technology and growth stage only)

PRIVATE EQUITY

For further details and information on VC and PE please refer to page 15.

CHECK-IN QUESTION:

What stage of the business cycle are you?

a) Startup

b) Growth

c) Maturity

ANSWERS:

If **(a)**: startup, you are likely not a candidate for venture capital and private equity. Innovation grants, angel investors, acceleration and incubation programs, and friends or family would be better sources of financing.

If **(b)**: growth, you could be a candidate for venture capital or private equity. **Read on!**

If **(c)**: maturity, you could be a candidate for private equity. **Read on!**

STEP
2

UNDERSTAND THE BASICS OF EQUITY AND PRIVATE EQUITY AND VENTURE CAPITAL

What are Equity and Equity Financing

WHAT IS EQUITY?

Equity basically means **ownership in a company.** If a company has only one owner, equity is straightforward: the owner holds 100 percent of the company. If a company has more than one owner, then each owner owns a portion, or share of the company, totaling 100 percent.

WHY IS SHAREHOLDING IMPORTANT?

Decisions in a company are made by voting, and voting rights are proportional to shareholding in a company. So those with the greatest proportion of ownership will have the greatest say in how to run the company.

WHAT IS MAJORITY OWNERSHIP AND CONTROL?

A majority shareholder is a person who owns at least 51 percent of the shares of the company, which in turn ensures that the respective majority shareholder has absolute control over the company's operations. Nonetheless, some investors with the majority control are not involved in the company's daily operations.

If none of the shareholders of the company hold the majority of shares, then the control may be attained with much less than 51% of the shares, which is known as majority interest. If the majority shareholder also holds most of the voting shares, then it may dictate the direction of the company through their voting power.

EQUITY VS. DEBT FINANCING: WHAT IS THE DIFFERENCE?

Through equity financing, a company gives investors shares in the company's ownership in exchange for capital, and there is no obligation to repay that money. This ensures that the company has more capital available to invest in growing a successful business, which in turn provides the equity investors a good return on their investment.

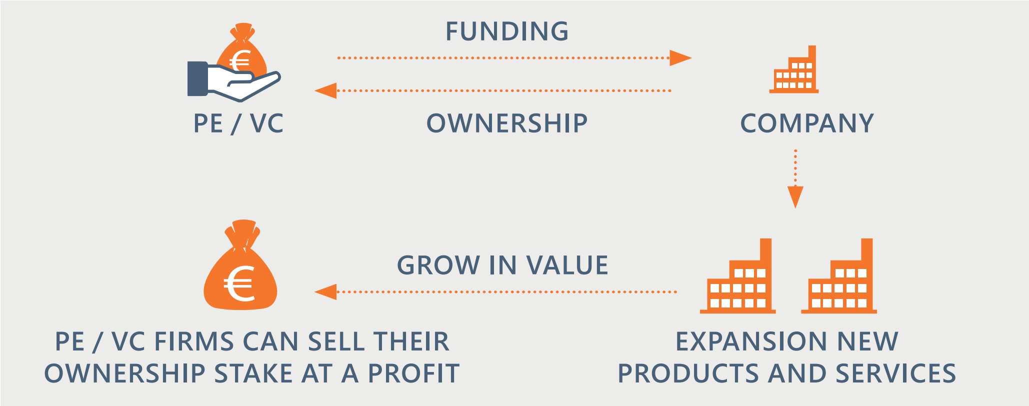
Debt financing is when a company borrows money, including through obtaining a loan (ex. From a bank), to raise funding. The use of debt financing allows the existing owner of the company to maintain its ownership share in the company. Nonetheless, choosing debt financing means that the company has to repay the loan, including the interest, on a regular basis (ex. Monthly).

Understand the basics of Venture Capital and Private Equity

Private equity means ownership shares in a company that are not traded on an exchange, like a stock exchange for example.

A company that has ownership shares that are listed on an exchange would be considered a public company, and these shares are called stocks. In the case of private equity, the shares are bought and sold privately, via agreements between the company and the investor.

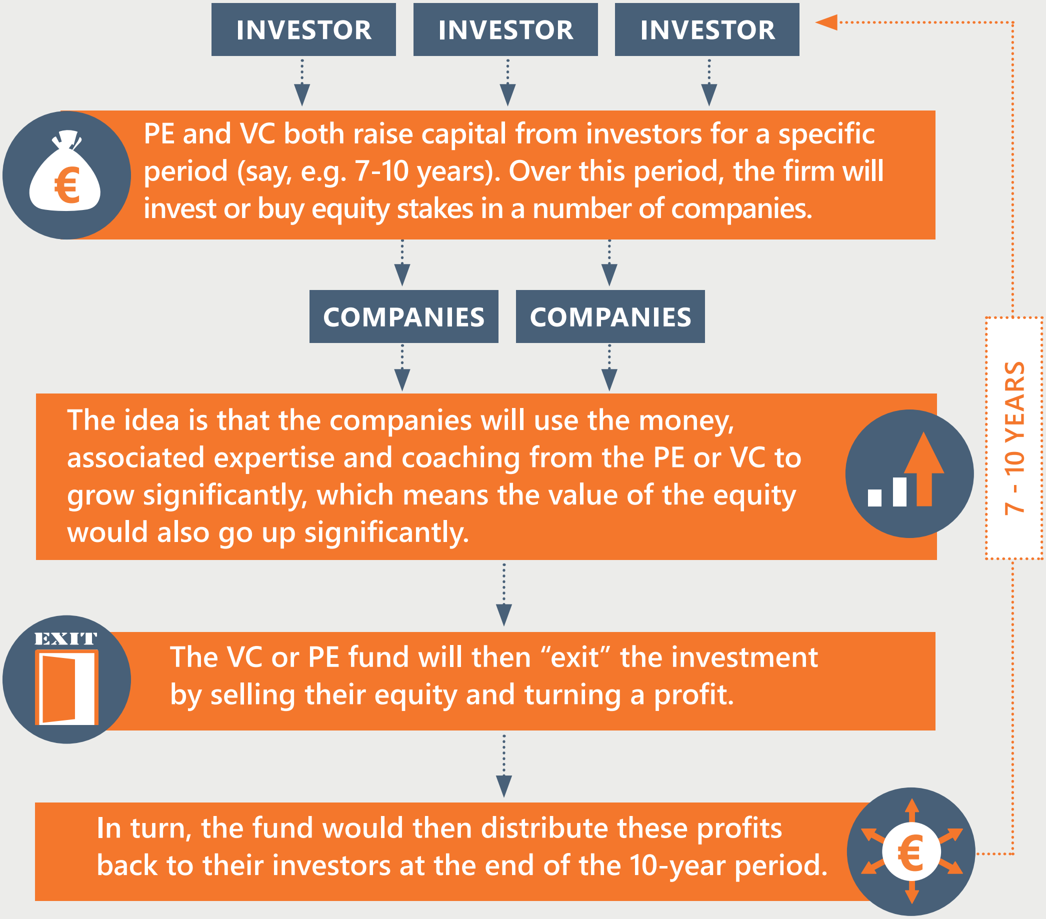
Venture capital is a type of private equity.



Private equity (PE) and venture capital (VC) firms give funding to a company in exchange for partial ownership in that company. The goal of funding can be used to scale up the business and to expand the market share, including developing or increasing the variety and diversity of products or services, starting a new marketing campaign, or restructuring the company so that it is more efficient and profitable. This funding can also help enable expansion, such as in other cities or countries. This way, the company will grow in value, and then the PE or VC firm can sell its ownership stake in the company at a profit.

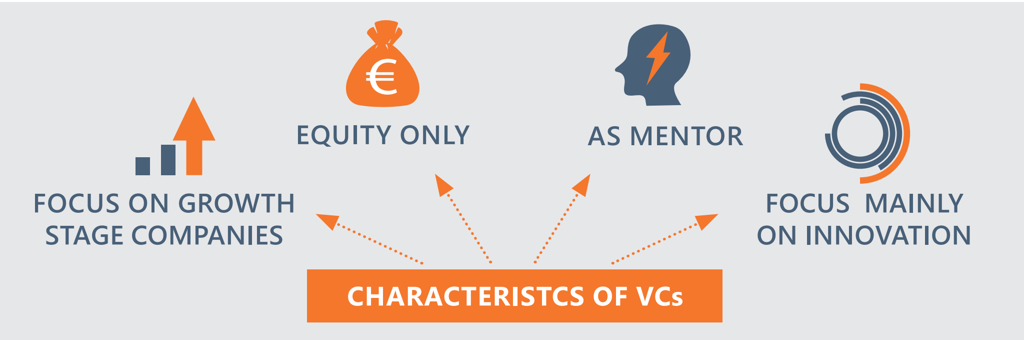
How Do Venture Capital and Private Equity Firms Work?

Venture capital and private equity firms have a similar business model.



Some Characteristics of Venture Capital Firms (VCs)

and the companies they invest in



- VCs focus almost exclusively on innovation.
- VC funds tend to focus on growth stage companies, that are already established, with a clear business model, existing clients, and revenue streams. These companies may not yet be profitable, but have the potential to yield high profits, with the right funding and expertise, that can be provided in the form of technical or managerial expertise. VCs look for companies that are at a point where they could grow exponentially, through expanding to new markets in other regions or countries, or by launching or expanding a product or service line. But they cannot generate funding to do this on their own. The key is these companies could not just grow some percentage of where they are now, but multiples of where they are now.
- VCs deal with equity only. VCs will normally take a minority stake in a company, which means that the founder will keep the control. The size of the investment varies, but typical investments tend to be in the range of several hundred thousand to a couple million euros in the Western Balkans.
- VCs often do not just invest financially, but often also mentor the investee company by sharing expertise in technical and managerial matters.

Some Characteristics of Private Equity Firms (PEs)

and the companies they invest in

- PEs invest in a variety of industries. Certain firms may specialize in certain sectors, but in general companies in pretty much any industry could be invested in by a PE firm.
- PEs buy growth or mature companies. Many different types of companies could be for VC funding. They may be successful companies that are seeking to branch out to a new business line or to expand their operations. Alternatively, some companies may have owners who are ready to retire, but who do not have a successor. However, not all companies need to be successful. PE funds may be interested in companies that are inefficient and unprofitable right now but could be turned around and become much more valuable over several years.
- PEs also use both cash and debt in their investment. This means that as part of their deal, the PE may have the company taking a loan with a bank to complement the equity deal. It all depends on how the deal is structured and its terms.

- PEs will often take a majority stake — meaning 50 percent ownership or more. This majority stake means that PE firms will have a say in how the company is run, which may be necessary particularly in cases where a company needs to be turned around. The size of the investment varies but will tend to be larger than VC.

What are VC/PE investors looking for?

VCs and PEs are buying a medium-term investment, not a product or an idea. They need to grow the companies they invest in so they can sell their equity and exit in several years.

Equity investors are looking to take on the risks of ownership by becoming shareholders in a company by putting their capital at risk.

Equity investors are looking for a return commensurate with those risks. That will be expressed in two ways: capital returns, i.e. an increase in the value of the shares, and income returns from regular dividends.

INVESTMENT SPOTLIGHT

Communicating with applicants is a big problem! The biggest concern for all organizations has always been to make sure that their candidates know where they are in their hiring process. “I don’t know a single employer that does not want to increase and enhance their candidates experience” says **Doug Berg, Founder of Jobs2Web.**

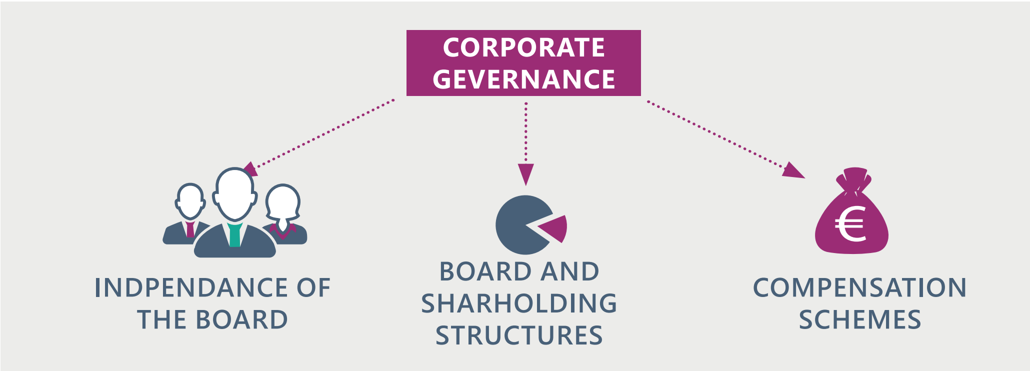
Convey IQ is the leading provider in talent communication and recruiting automation software that enables organizations to more effectively touch and communicate with candidates at every single stage of the hiring process. A smart candidate engagement planform – the only all in one personalized communication framework for the entire candidate journey. Convey has closed a $5.5 million in funding led by SC venture under the EDIF platform program of the EU.

“People at Convey IQ believe that this platform changes people’s life and it is not just a product. That is why there is nothing more noble than helping organizations hire and retain the best talent” says **Danielle Weinblatt, the founder of Convey IQ.**

STEP 3

CORPORATE GOVERNANCE AFTER AN EQUITY INVESTMENT

The Corporate Governance of a company will generally change after the introduction of a VC or PE.



Corporate governance relates to the way a company's decisions are made and how it is run. It refers to the relative powers of the management, board of directors, and shareholders.

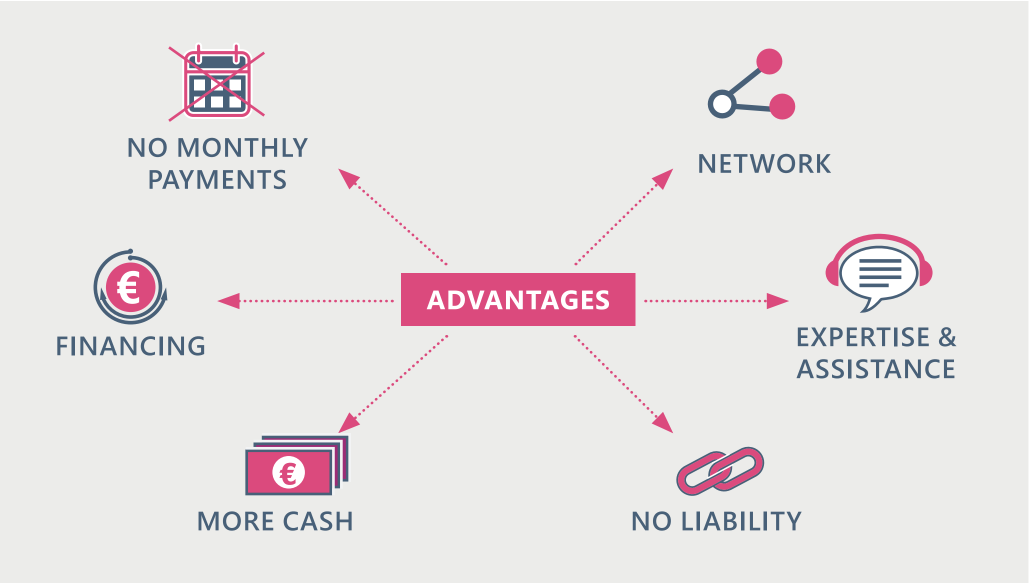
From the investors' point of view, corporate governance relates to how a company manages its relationships, primarily how a company's management, its board and its shareholders deal with each other. It also deals with the external relationships, with the critical objective of reducing conflicts of interests and acting in the best interests of stakeholders such as shareholders, customers, suppliers, banks, government, society, etc.

Some of the critical characteristics of a comprehensive Corporate Governance are:

- Independence of the board from the CEO's position. The separation of the chairman and CEO functions and the independence of the supervisory directors.
- Board and shareholding structures. Medium or small-sized boards are considered more effective than large boards.
- Compensation schemes linked to shareholder returns. In the current economic development, remuneration is one of the most sensitive corporate governance issues in attracting the public, investor, and political attention.

Advantages and Disadvantages of Equity Financing

ADVANTAGES



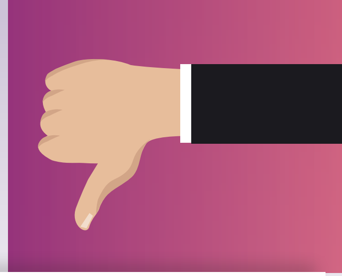
- No monthly payments or interest. You don't repay an equity investment as you do with a loan, and there is no interest involved. With equity financing, investors are paid back through dividends (which is basically a portion of profits).
- Access to networks of clients, experts, and potential partners. Investors often have a large and vast network of contacts in their focus areas, which they would be more than happy to open up to you. These networks might support your company's growth significantly.

ADVANTAGES

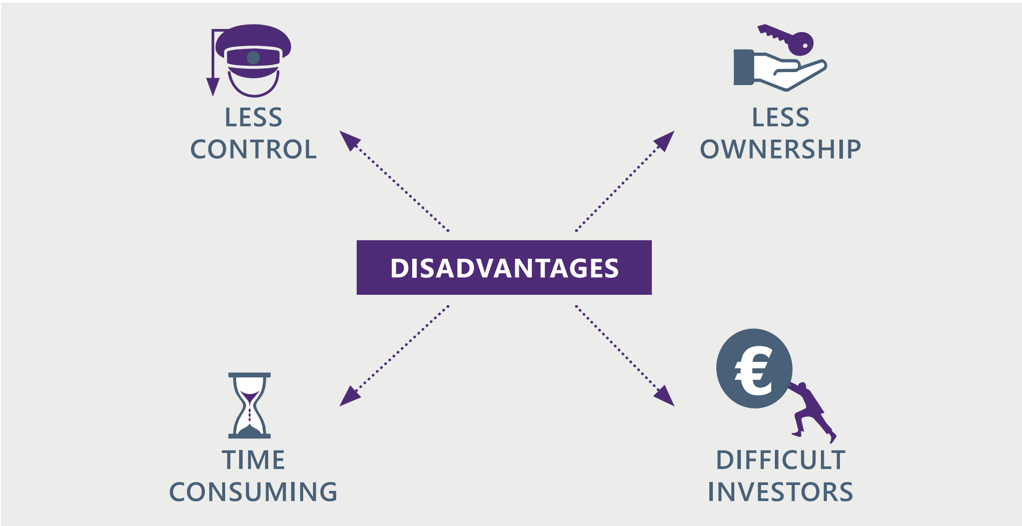
- Operating expertise and technical assistance. Investors themselves often have first-hand experience in running and growing a business. They can use their expertise to grow and expand your company.
- Significant financing. Private equity and venture capital funds are usually able to invest significantly larger amounts of capital than a business owner can mobilize using own funds, from friends and family, or from a bank.
- Helps your cash position. Since you are not making a monthly loan payment, you have more cash to use in the daily activities of the business.
- Shared commitment. If the business does not prosper, the investors and the business owners share the responsibility. There is no personal liability to the owner.

Equity investment should be seen as a long-term solution and a means to bring both cash and experience into your company.

Equity investors want their capital to help the business make good investments and place the business for medium- and long-term growth. Furthermore, you will have to give some control over your business's operations if you offer stock to investors.



DISADVANTAGES



- Less control. You might have "opinions" you have to deal with. Equity investors usually get a vote and often times they don't agree with your ideas about the business.
- Giving up ownership. Even though you are still the majority of share-holders, you will have to give away some control of the business and even some profit each year as you now have to split the earnings.
- Time consuming and reporting. Investors need regular check-ups and want detailed reporting on the business and on how the money they invested is doing.
- Investors can be difficult. Investors ask a lot of questions about the business and share different ideas about and how to run the business which takes a lot of time.

DISADVANTAGES

Think about the long-term strategy for your business. The equity investors will be looking for a plan for their return on investment, and this strategy might include merging with another company or even selling the company to a larger firm.

CHECK-IN QUESTION:

1. Do you need longer-term financing?
2. Do you have strong growth potential?
3. Are you ready to share strategic decision-making and other responsibilities in your company?

ANSWERS:
If yes to the above, then go to part 4!

STEP
4

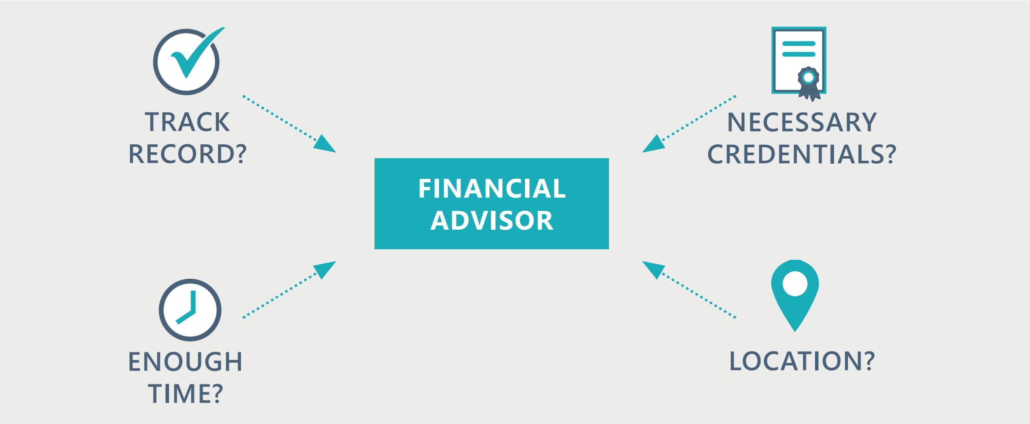
PREPARING FOR INVESTMENT

If you have made it this far, you may be a potential candidate for an equity investment. Here are several steps in going forward to prepare yourself financially.

Find a Good Financial Advisor

A qualified advisor can help you prepare for investment, applying their specialized technical and financial expertise. An advisor can help you prepare and present your financial information in a way that investors can understand.

Choosing a competent financial advisor is crucial. Before finding a competent financial advisor, get a few recommendations, and talk to them to see if they are a good match. Here are some things to keep in mind when choosing a financial advisor:



- What is their track record? Who were some of their previous clients and what is their expertise in preparing clients for equity deals? If you are a candidate for a venture capital investment, has the advisor worked on VC deals in the past? Same question if you are a candidate for private equity. What were the funds they worked with, and what was the result?

- Do they have the necessary credentials? – Ask your potential candidate if they have the qualifications from national or international institutions in financial analysis, accounting, and auditing. These qualifications can give you an indication of whether the financial advisors have a reasonable level of education and training. Also, ask the potential financial advisor if they have experience in your sector or industry. While this expertise is not always necessary, it could be essential to help them understand the unique needs of the business.
- Do they have enough time for you? – One test is to see if they respond in a reasonable amount of time and a satisfactory manner. If they seem rushed, or if they dismiss your questions as not necessary, this could be an indication that they are either unable or unwilling to give you the right financial advice.
- A good advisor might be located elsewhere. – The decision on where your financial advisor should be located depends on what you feel most comfortable with. If you want face-to-face contact and/or want someone who's able to go to business meetings with you, then you will want to find a financial advisor that is physically located near you or willing to come to you from time to time. However, with technology evolving every day, you and your financial advisor can work together over the internet as well, sharing information and holding "meetings" over skype or similar means. Depending on the profile of your company, and where you are located, the best advisor for you might be located far away, and that does not mean you cannot work with them.

Identify the Right Investors

Specialized investors such as VC and PE often focus exclusively on a specialized market, for example certain sectors of the economy, specific countries, and companies at a specific stage of development.

Before approaching an investor, make sure that they invest in companies such as yours. If you approach a VC fund specialized in IT startups in the Western Balkans, they will likely not be interested in a mature manufacturing company, even if you are in the same region. Often you can find information about investors in a chambre of commerce, trade and business affairs, startup contests (e.g. Pioneers of the Western Balkans) or through a website.

STAGE OF COMPANY

- startup
- growth
- mature

SECTOR

- agriculture
- information
- technology
- financial services
- tourism, etc.

GEOGRAPHY

- region
- country

STEP 5

GAIN A DEEP UNDERSTANDING OF YOUR FINANCES AND PERFORMANCE

Before entering an equity deal, companies must undergo a financial due diligence process to mitigate risks and maximize value. Your financial advisor will play a key role in this process.

Here are a few tips to help your company prepare for sell-side due diligence:

VALUE MAXIMIZATION:

Sellers can enhance value and improve negations with potential investors when they are knowledgeable about their company's finances.

MINIMIZE SURPRISES:

Being upfront with issues enhances seller credibility and leads to negotiations built on more trust.

ACCELERATE CLOSING:

Seller helps to streamline and reduce cost of buyer's due diligence.

Prepare Financial Statements

Investors need information on a company's financial and operational performance before making an investment. They will either ask for your financial statements and business plan or prepare a business plan with you based on past performances and the future outlook that you will discuss with them using several scenarios.

It is therefore very important that SMEs prepare financial statements early on as any investor will ask for some periodic information to base its investment decision on.

Calculate Key Performance Indicators (KPIs)

FINANCIAL KPIs

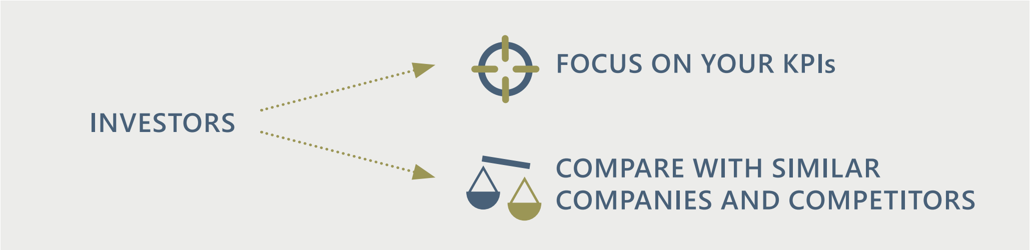
- **FOCUS ON PERFORMANCE OF INVESTMENT**
- **COMPARE WITH INDUSTRY IN SAME CLUSTER**

Financial Key Performance Indicators and Operational Key Performance Indicators will help explain the past performance of your company and help build the outlook. Financial KPI's enable investors to compare the performance of your company with other companies in the same cluster (sector, region).

OPERATIONAL KPIs

- **FOCUS ON PERFORMANCE**
- **COMPARE WITH INDUSTRY**

Operational KPIs will be focused on the performance of your company and enable comparison with the particular industry or sub-industry it is working in (e.g. a telecom company will have KPIs relating to new customers per month and follow their cost of acquisition, and see how long they will remain a customer; and an agribusiness company can focus on specific productivity measures, such as ton per hectare of mill or hectoliter of milk produced by cow... that may not be relevant to, say, an agribusiness company).



Investors will compare your company's KPIs with those of similar companies in the region and other regions, and your competitors to gauge how well your company is doing. Below is a description of some of the main financial KPIs investors will typically look into. It makes sense to calculate them for your firm, so you can have a clear idea of your own performance before you approach a potential investor. In a nutshell, investors are looking for KPIs relating to how much you make in profit, how indebted you are, and what the returns are/will be to the investment.

KPIs will not be analyzed in isolation, but rather as a set. Each tells part of the story but not the full story of your company. Investors will look at profitability, debt, and other KPIs together to get an understanding of your company's efficiency and productivity. Also, investors will look at KPIs of your company and compare them to results from other, similar companies, and/or industry averages if these are available. In addition, investors may calculate your company's KPIs over time to get a sense of its historical performance and trend.

Examples of Financial KPIs

Capital adequacy ratios: how much leverage is your company?

The financial leverage or gearing is the amount of debt owed by an SME than enable to leverage the equity it already has to finance its operations. It can be measured by the Debt to Equity Ratio which shows the how much the equity is leverage by debt.

- The debt to equity ratio measures the amount of debt based on the figures stated in the balance sheet, and how much it represents in terms of equity. For most businesses a lender would lend the maximum value of the equity, which would lead to a standard value of debt to equity of one.

Debt to Equity Ratio = Total Debt / Total Equity

The issue with having more debt is twofold: (i) when a company has to repay its debt maturity which hits its operational cash flow, and (ii) interest expenses are bringing up the break-even point.

Profitability ratios: how much profit does the company make?

Profit, simply speaking, is how much revenue exceeds costs. Investors will often compare how much profit a company generates, as compared to its revenues, operating costs, assets and other considerations. Profitability indicators are simply different ways to relate profits to costs, and some of the more common indicators are explained below.

- The gross profit margin shows how much a business is earning, after taking into consideration the cost of producing the goods or services.The cost of goods/services includes all costs generated to produce or provide your product or service directly, such as the cost of materials and inputs, and the salaries of people who produce the goods/services. It does not include other costs such as labor costs of people who work in sales or administration, marketing costs, or research and development. All of the latter are not considered production costs.

Gross Profit Margin = (Total revenues – Cost of producing goods and services) / Total revenues

- EBITDA and EBITDA margin. EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It represents the profitability of a company without considering non-operating items like interest and taxes, as well as non-cash items like depreciation and amortization. Investors like to use EBITDA because it is seen to focus on the essence of a company's operations, and it is easier to compare across companies. For example, since tax rates can vary quite significantly across different cities or countries EBITDA does not consider tax payments, making it easier to compare. Likewise, it takes out of consideration certain things over which a business owner has discretion, such as how much debt is taken on, since interest payments are not reflected either. This makes it easier to compare companies. The downside of EBTIDA margin should be looked together with net profit and actual cash flow generation, which are better indicators of a company's performance.

EBITDA = Net Income + Interest + Taxes + Depreciation + Amortization

* Net income = revenues – expenses – tax payments

- The EBITDA margin makes comparison easier across companies of different sizes, since it controls for revenues. It basically tells how much is earned for every unit of revenue. The higher a company's EBITDA margin is, the lower that company's operating expenses are in relation to total revenue.

EBITDA margin = EBITDA / Total revenues

If company A has the same profit as company B, but company B spends less money to produce goods, company B's profit margin is higher than that of A. Production costs include those such as salaries and materials used directly in production. A more efficient company will have a higher gross profit margin.

- Return on equity (ROE) - shows to what extent the money that equity investors have put into the company is generating a profit. Companies with a high ROE are usually more capable of generating cash internally, and therefore less dependent on debt financing.

ROE = Net income / shareholders' equity

- ROA. Measures how efficiently profits are being generated from the assets employed in the business. It will have meaning only when com-

pared with the ratios of similar companies. For example, since a manufacturing company will have much more in terms of machinery and other fixed assets than a bank, it does not make sense to compare ROA of the two. A low ratio in comparison with industry averages indicates an inefficient use of business assets.

ROA = Net income / average total assets

Liquidity ratios: is the company able to service its debts?

A company is said to be liquid when it has enough cash and other assets that can be easily converted into cash to pay its short-term debts. Investors will not want to invest in companies that are struggling to pay their bills. Measures of liquidity include the current ratio and working capital.

Current assets are assets that can likely be converted into cash in the coming years (inventories, payments to be received from clients, and liquid investments). Current liabilities are obligations that are due in the coming year

Current ratio = current assets / current liabilities

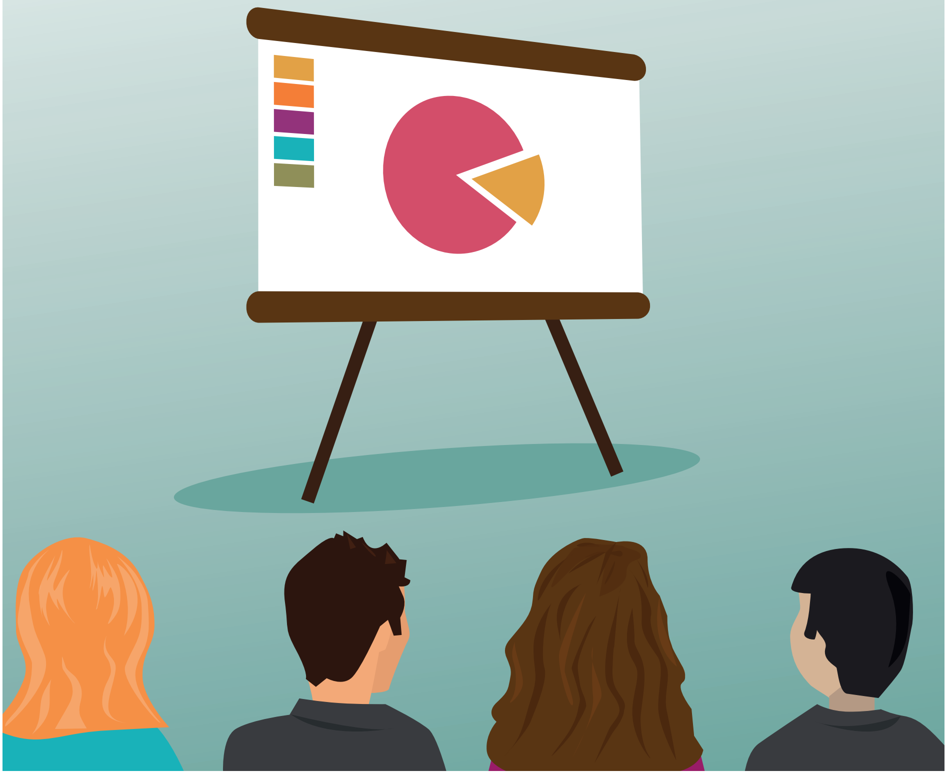
Working capital = current assets – current liabilities

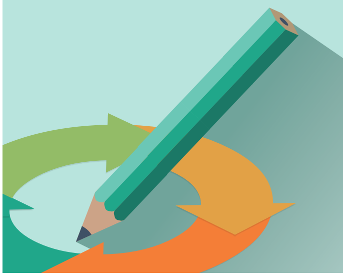
If a company has substantial working capital, then it should have the potential to invest and grow. If it is negative or close to negative, it might have trouble growing or paying back its obligations.

STEP 6

PITCH DECK

Pitch deck is a short presentation which gives a brief idea about your business to the potential investors.





A pitch deck, also known as a teaser or an investor pitch or a startup pitch, represents your idea to an external audience with an overview of your business and helps you to raise funds.

This presentation should be simple, short, and sweet, while also including enough information to convince investors to give you money. A great pitch deck starts by stating the problem, including the business model that capitalizes on it, and ends with the future projections. Here are all the components that you should include in your pitch deck.

STATE THE PROBLEM

This component should state the problem your target audience faces, explaining what gap you are trying to fill in the market. You should only try to solve one problem, or otherwise, you will lose focus and simplicity. This should make it clear to your investors that you have found a clear opportunity, and you are ready to use it. A problem leads to a chance which can be capitalized on.

SOLUTION

The solution needs to be brief and very clear. You should state the possible solutions to the stated problem and should move on to your specific solution and why do you plan to choose it. Ensure that your potential investors will clearly understand and will buy your solution.

MARKET

Every pitch deck should include the size of the market and the potential size of the opportunity. What is the target market? How big is the market? It is essential for many investors that you think of opportunities beyond the Western Balkans, as this market is going to determine the potential exit of the investor. Another crucial step is to determine the possible outcome to investors that express interest, including opportunities in a small market and the returns that could be impacted by this.

BUSINESS MODEL

A business model is a conceptual structure that supports the possibility of a company and includes the purpose and goals of the company and how it intends to achieve them. This is a crucial component of the pitch deck as here you explain your potential investors the finances of the business structure. A business model should include your operating structure; how you make money; your distribution channels, gross margin, etc.

COMPETITION

Every business has competition. If you do not know who the competitors are, then you have not done adequate research. Pause everything and find out. This is a significant part where you convince your investors that you have done your homework, and you know about your competitors. List your competitors and include their positioning, strengths, weaknesses,

and opportunities. Create a competitive background and position your company as your customers see it among the competition.

TEAM

One of the significant parts of the pitch deck in which the investors are genuinely interested in is the management team section. You have to show your potential investors how you think about complementary skills and who does what. Show how qualified, experienced, and dedicated your team is and how far are you planning to go with them. Include directors of departments (business development, product development, financials, marketing), key stakeholders, key advisers, etc.

FINANCIALS

The financials part is a part where investors will spend the most time on. In this part, you should state your plans for the future: sales forecast, profit, and loss statement, and cash flow forecast for at least three years.

USE OF FUNDS

This part is important as you will show your investors what you are going to do with the money. More importantly, you need to be able to explain why you need the amount of money you are asking for and how you plan on using the money. Investors will want to know how their money is being used and how it is going to help you achieve the goals you are setting out for your business.

ADDITIONAL INFORMATION AND SUPPORT

Equity investment should be seen as a long-term solution and it is meant to bring both cash and experience into your company.

So, if you have decided that you want to have other owners in the company and that you need the advice and counsel of investors, then equity financing can be a smart move for your company.

You need to keep in mind that investors are looking for an investment, not to buy a product. They are seeking opportunities for high growth potential, for a business that demonstrates strong operational and financial base and profitable exit in the coming few years.

Before you sign on your equity **financing agreement,** be confident in your growth and financial projections. These investors will be looking for results, so be sure you are ready to deliver!

For additional information and support for you and your business:

- Attached is an Annex 1 with a list of resources by country of SME/start-up support organizations, including incubators, accelerators, VCs, PE funds, guides, Chambers of Commerce, associations, etc.; and
- The Private Equity in the Western Balkans online course (https://olc.worldbank.org/content/private-equity-western-balkans) to support company owners and advisors to the companies, to comprehend equity investment by explaining what it is and what is its process.

ANNEX

List of resources by country of SME/start-up support organizations, including incubators, accelerators, VCs, PE funds, guides, Chambers of Commerce, associations, etc.

Start-up network stakeholder directory

ALBANIA

Stakeholder	Action type	Website	Contact
AKSHI - National Agency of Information Society	Public Institution	http://akshi.gov.al	helpdesk@akshi.gov.al
Innovation Hub	Public Institution	http://www.innovationhub.al/start-up-organizations-in-albania/?lang=en	info@innovation-hub.al
AIDA (Albanian Investment Development Agency)	Public Institution	http://www.aida.gov.al	info@aida.gov.al
Innovation Fund	Public Institution	https://innovationmapalbania.org/funding	info@innovationmapalbania.org

CEED Albania	Other / Mentor	http://ceed-albania.org	dguga@ceed-albania.org
Yunus Mentor Pool	Early Programs	www.yunussb.com	info@yunussb.com
IDEA Business Start-up Campaign	Incubators, Accelerators, Early Programs	http://idea.cefe.net/about-us/	idea@cefe.net
Oficina	Incubators, Accelerators, Early Programs	http://www.oficina.al	info@oficina.al
Protik	Incubators, Accelerators, Early Programs	https://www.protik.org	info@protik.org
Betahaus	Incubators, Accelerators, Early Programs	https://www.betahaus.com	event@betahaus.de
Dutch Hub (co-working)	Incubators, Accelerators, Early Programs	http://dutchhub.al	info@dutchhub.al
TAG (co-working)	Incubators, Accelerators, Early Programs	https://talentgarden.org/us/campus/tirana	
Tirana Business Park (co-working)	Incubators, Accelerators, Early Programs	https://www.tiranabusinesspark.com/en	info@tiranabusinesspark.com
University of Tirana	Public Institution	http://www.unitir.edu.al	

Institute for Technology and Research, Marin Barleti University	Other	www.umb.edu.al	
Metropolitan University	Incubators, Accelerators, Early Programs	http://umt.edu.al	
Innovation Nest	Investor	http://innovationnest.org	
American Chamber of Commerce	Public Institution	https://www.amcham.com.al	info@amcham.com.al
Ministry of Education Sport and Youth - Junior Achievement programs	Public Institution	https://www.acce.al/en/ministry-education-sport-and-youth	
Municipality of Tirana - TUMO Education Center	Public Institution	https://www.tirana.gov.al	
Crimson Finance Fund Albania - Albanian-American Development Fund	Investor	aadf.org/project/crimson-finance-fund-albania	
Koloegji Universitar I Biznesit	Other	http://kub.edu.al/sq/faqja-kryesore	
Business Magazine	Media	https://businessmag.al	
Beta Pitch competition (Telekom Albania)	Events	https://www.betapitch.net/our-team/landa-grembi	

Vodafone Disruption Camp	Events		
Super generation Hackathon (Albtelecom)	Events	http://www.supergeneration.al	DL_Corporate_Affairs@albtelecom.al
Elevator Lab Pitch Competition (Raiffeisen Bank)	Events	www.elevator-lab.com	
Startup Grind Albania	Events	https://www.startupgrind.com/tirana	
InnoSpace Tirana	Events	https://www.innospacetirana.com	
UK Albania Tech Hub	Events	ukalbaniahub.com	
Garazh	Events	http://garazh.xyz	
Startup Live	Events	https://www.startuplive.org/event/tirana-2018-05	office@startup-live.org
AllWeb Conference	Events	https://allweb.al	
Green ideas contest	Events	http://partnersalbania.org/programs/green-ideas-competition	partners@partnersalbania.org

BOSNIA AND HERZEGOVINA

Stakeholder	Action type	Website	Contact
Hub387	Incubators, Accelerators, Early Programs	http://hub387.com	contact@hub387.com
Sparb Business Park	Incubators, Accelerators, Early Programs	https://spark.ba	info@spark.ba
INTERA Technology Park	Incubators, Accelerators, Early Programs	https://intera.ba	info@intera.ba
ICBL - Innovation Centre Banja Luka	Incubators, Accelerators, Early Programs	https://icbl.ba	info@icbl.ba
BIT Centar	Incubators, Accelerators, Early Programs	http://www.bitcentar.com	info@bit.ba
QLAB	Incubators, Accelerators, Early Programs	https://www.coworker.com/bosnia-and-herzegovina	
Networks Foundation	Incubators, Accelerators, Early Programs	https://mozaik.ba	
Mozaik Foundation (social business incubator)	Incubators, Accelerators, Early Programs	https://www.restart.ba	office@restart.ba
RESTART	Events		

ZeDA - Zenica Development Agency	Public Institution		
SECO Entrepreneurship Program	Other		
Youth Employment Project	Other	https://yep.ba	info@yep.ba
Ant Colony	Other (software support)		
SEEBA VC Fund	Investor		
Federal Ministry of Development, Entrepreneurship and Crafts	Public Institution	http://fbihvlada.gov.ba/english/ministarstva/razvoj_poduzetnistvo.php	info@fbihvlada.gov.ba
USAID	Other		
UNDP	Other		
University of Sarajevo	Public Institution	https://www.ius.edu.ba	info@ius.edu.ba
International BURCH University	Incubators, Accelerators, Early Programs	https://www.ibu.edu.ba	info@ibu.edu.ba
Guarantee Fund of the Republika Srpska	Public Institution	http://www.garantnifondrs.org	info@garantnifondrs.org
The Ministry of Science and Technology of Republic of Srpska	Public Institution	http://vladars.net/eng/vlada/ministries/MST/Pages/default.aspx	

Ministry of Industry of Canton Sarajevo	Public Institution	http://vlada.ks.gov.ba	
Employment office of the Republic of Srpska	Public Institution		
Networks Demo Days	Events		
Sarajevo Unlimited Conference	Events		
Betapitch Spark	Events		

KOSOVO

Stakeholder	Action type	Website	Contact
Kosovo Investment and Enterprise Support Agency, (KIESA) (under Ministry of Trade and Industry of Kosovo)	Public Institution	https://kiesa.rks-gov.net	info.kiesa@rks-gov.net
Innovation Center Kosovo (ICK)	Incubators, Accelerators, Early Programs	https://ickosovo.com/contact	info@ickosovo.com
STIKK - The Kosovo ICT Association	Incubators, Accelerators, Early Programs	https://stikk.org	

Business Support Centre (BSK)	Incubators, Accelerators, Early Programs	http://bsckosovo.org/en/home	
MDA Foundation	Incubators	http://www.mda-foundation.org	
Innovation and Training Park Prizren	Public Institution	http://itp-prizren.com/contact	itp-prizren@giz.de
IPKO Foundation	Oher	https://ipkofoundation.org	info@ipkofoundation.org
Prishtina Hackerspace	Incubators, Accelerators, Early Programs	http://www.prishtinahackerspace.org	info@prishtina-hackerspace.org
Bonevet	Incubators, Accelerators, Early Programs	https://www.bonevet.org	prishtina@bonevet.org
Gjirafa Lab	Incubators, Accelerators, Early Programs	http://gjirafalab.com	
Venture UP	Public Institution	http://venture-up.org	info@venture-up.org
UNICEF Innovation Lab Kosovo	Incubators, Accelerators, Early Programs	kosovoinnovations.org/en	contact@kosovoinnovations.org
Encouraging Young Entrepreneurs (EYE)	Incubators, Accelerators, Early Programs	https://kosovaideas.com/content/page/about_us	hello@kosovaideas.com
Gjakova Innovation Center	Incubators, Accelerators, Early Programs	www.jic-ks.com	info@jic-ks.com

CEED Kosovo	Events	http://ceed-kosovo.org/category/news/events	
Ministry of Innovation and Entrepreneurship	Public Institution	https://www.min-rks.net/2/home	bardh.ahmeti@rks-gov.net
Ministry of Economy	Public Institution	https://mzhe-ks.net/en	
Global Entrepreneurship Week	Events		
University of Prishtina	Public Institution	https://www.uni-pr.edu	
American University of Kosovo	Other	https://kosovo.rit.edu	info@auk.org
The University for Business and Technology	Other	https://www.ubt-uni.net	info@ubt-uni.net
Riinvest College	Other	https://www.riinvest.net	info@riinvest.net
Kosovo Association of Young Entrepreneurs	Event and Networking	http://www.smart-idea.eu	
Enterprise Innovation Fund (grant schemes)	Public Institution	https://sc-ventures.com/news/kosovo-joins-enterprise-innovation-fund-enif	
Dokutech	Events	http://doku.tech	
KosICT	Events	https://kosict.com	

TechCamps	Events	https://techcamp.america.gov/techcamps/techcamp-kosovo	
Startup Weekend Prishtina	Events	http://communities.techstars.com/kosovo/prishtina-kosovo/leaders	

SERBIA

Stakeholder	Action type	Website	Contact
Ministry of Economy (general entrepreneurship)	Public Institution	https://privreda.gov.rs/english/	
Ministry of Innovation and Technology	Public Institution	http://www.mpn.gov.rs/?lang=sr-YU	
Ministry of Youth	Public Institution	www.mos.gov.rs	
Serbian Development Agency (RAS)	Public Institution	http://ras.gov.rs/en	
Serbian Chamber of Commerce	Public Institution	https://pks.rs	bis@pks.rs
Science and Technology Park (STP)	Public Institution	https://ntpark.rs/en	office@ntpark.rs

Novi Sad Business Incubator	Public Institution	http://inkubator.biz	office@inkubator.biz
ICT Clusters (in 3 regions)	Public Institution	https://www.ict-cs.org/en/cluster	office@ict-cs.org
Innovation Fund	Public Institution		
StartiIT	Incubators, Accelerators, Early Programs	https://startit.rs	
ICT HUB	Incubators, Accelerators, Early Programs	https://www.icthub.rs	info@icthub.rs
Impact Hub Belgrade	Incubators, Accelerators, Early Programs		
Step by Step program (Erste bank)	Incubators, Accelerators, Early Programs		
Razlivaliste	Incubators, Accelerators, Early Programs	http://razlivaliste.org	
StartLabs VC Fund	Investor	https://startlabs.co	
Serbian Venture Network (Seven)	Investor	https://www.seven.rs/about-us/	
South Central Ventures (Serbia office)	Investor	https://sc-ventures.com	

NORTH MACEDONIA

Stakeholder	Action type	Website	Contact
Startup Macedonia Association	Other	https://startupmacedonia.mk	
Innofeit (co-working)	Incubators, Accelerators, Early Programs	http://inno.feit.ukim.edu.mk	
Public Room (co-working)	Incubators, Accelerators, Early Programs	http://publicroom.org	info@publicroom.org
Coffice (co-working)	Incubators, Accelerators, Early Programs	https://www.coworker.com/macedonia/skopje	
Seavus Incubator	Incubators, Accelerators, Early Programs		
SEEU Tech Park	Incubators, Accelerators, Early Programs	https://techpark.seeu.edu.mk	techpark@seeu.edu.mk
CEED HUB Skopje	Incubators, Accelerators, Early Programs	https://ceedhub.mk/about-us	
South Central Ventures (Macedonia office)	Investor	https://sc-ventures.com	

CEED Business Angels Club	Investor	http://ceed-macedonia.org/ceed-macedonia-business-angels-club	ceed@ceed-macedonia.org
SEAF Macedonia II Fund	Investor	https://www.seaf.com/investing/europe/seaf-macedonia-ii-fund	contactus@seaf.com
Fund for Innovation and Technology Development	Public Institution	https://www.innovation.mk	contact@innovation.com.mk
Ss. Cyril and Methodius University in Skopje	Public Institution	http://www.ukim.edu.mk/en_index.php	ukim@ukim.edu.mk
South East European University (SEEU) Tetovo and Skopje	Other	https://www.seeu.edu.mk	proffice@seeu.edu.mk
University American College Skopje	Other	https://uacs.edu.mk/home	info@uacs.edu.mk
Startup Weekend Skopje	Events	https://startupweekend.org/locations/europe/mk	
Startup Grind	Events	https://www.startupgrind.com/skopje	
Global Entrepreneurship Week	Events	https://www.genglobal.org/north-macedonia	

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