

Indigenous Business Toolkit Project

Investment Decision Process Appendices

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March 2024

Growth Potential

Score: **1** **2** **3**

Comments:

Exit Strategy

Score: **1** **2** **3**

Comments:

Total Score _____

Investment Manager

Date of Assessment

Investment Decision Process

Appendix: Investment Opportunity Highlight Memo

Investment Opportunity: _____

Date Received: _____

Investment Manager: Staff Recommending the Investment Opportunity

Industry: Sector

Stage: Start up, Expansion Capital, Management buyout

Total Transaction Size: Stated in dollars – May be a range

Proposed FN Community Investment: Stated in dollars - May be a range

Transaction Structure: Debt, Equity or a combination of both

Deal Source: State agents name, referral name or direct source

Company Background

Provide a summary of the corporate information available: Company name, where it is located, number of employees, etc. Try to focus on the areas that relate to the key initiatives defined in the Investment Mandate (Business Charter).

Transaction Description

Describe the form of investment opportunity (Debt/Equity/Combination), valuation if available, other participants (including current shareholders and management), sources and uses of funds, and anticipated closing time frame. If this is not the first financing round the company has undertaken, it is useful to provide past fund-raising details (dates of prior rounds and valuations). Typically, this section will open with a Sources and Uses table that clearly identifies each source of capital and a high-level proposed use of the funds. Table 1 provides an example of a Sources and Uses table.

Key Personnel

Provide an overview of the senior management team and board of directors. Focus on the strengths and weaknesses highlighted during the Quick Screening Process.

Table 2. Source and Use of Funds

Source of Funds		Use of Funds	
Description	Amount ('000 \$)	Description	Amount ('000 \$)
Senior Bank Operating Line	2,000	Acquisition Share Purchase	10,000
Senior Bank Debt	5,000	Manufacturing Capacity Expansion	4,000
FN Community Subordinated Debt	1,000	General Working Capital	2,000
Vendor Take Back	2,000		
FN Community Equity	3,000		
Syndicate Equity	3,000		
Total	16,000	Total	16,000

Product Summary

How does the company make money? Describe the product or service provided. State any patents or other intellectual property that makes the product unique.

Market & Competition

Describe the market where the product will be sold: provincial, regional, national, international, multiple verticals. Provide an overview of identified competitors, both direct and indirect. What is the investment opportunity's competitive advantage?

Financial Performance

Provide a high-level overview of financial information. Ideally, three years of actual financial statements (Income Statement, Balance Sheet, and Statement of Cash Flow) and five years of forecasted financial statements (pro forma) are included in the analysis. Table 2 provides an example of the high-level financial information that should be presented.

Table 2. High-Level Financial Information

	2007A	2008A	2009A	2010F	2011F	2012F	2013F	2014F
Revenues	10,000,000	15,000,000	20,000,000	25,000,000	30,000,000	35,000,000	40,000,000	45,000,000
Gross Profit	4,500,000	6,750,000	9,000,000	11,250,000	13,500,000	15,750,000	18,000,000	20,250,000
Gross Margin	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Operating Expenses	3,500,000	4,750,000	6,000,000	3,750,000	4,500,000	5,250,000	6,000,000	6,750,000
EBITDA	1,000,000	2,000,000	3,000,000	7,500,000	9,000,000	10,500,000	12,000,000	13,500,000
EBITDA Margin	10.0%	13.3%	15.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	500,000	1,000,000	1,500,000	5,250,000	6,300,000	7,350,000	8,400,000	9,450,000
Working Capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,250,000	2,250,000	2,250,000
Total Debt	2,000,000	4,000,000	6,000,000	8,000,000	7,000,000	6,000,000	5,000,000	4,000,000
Shareholders Equity	2,000,000	3,000,000	4,500,000	8,000,000	14,300,000	21,650,000	30,050,000	39,500,000

Identify any areas of strength or weakness. Is there a heavy reliance on a particular customer (customer concentration)? Is there a steady growth in sales and new market penetration. Is there a foreign exchange or commodity risk; how much is naturally hedged, mechanically hedged and un-hedged? Are there supply chain issues that require the company to finance unusually high inventory levels?

Merits & Risks

Merits: Identify the three primary merits of the transaction.

Example:

1. Investment Opportunity will create 30 new jobs during the construction stage of the manufacturing facility expansion and 10 new permanent positions post expansion for the Indigenous community;
2. Experienced key management remains financially motivated for three years post transaction through the vendor take-back structure and will provide mentorship to the incoming management team; and
3. Current consolidation in the industry provides both growth opportunities as well as exit opportunities.

Risks: Identify the three primary risks of the transaction.

Example:

1. Heavy reliance on one major customer who makes up approximately 60% of sales;
2. Expected manufacturing efficiencies will not achieve the growth in EBITDA margin from 15.0% to 30.0%; and
3. Commodity and foreign exchange risk.

Recommendation

The recommendation at this stage is based on the preliminary analysis of the information provided. It should state whether the Investment Manager recommends proceeding and an outline of high-level next steps. If there is enough comfort around the proposed valuation of the vendors, a Preliminary Term Sheet may form part of the recommendation. Alternatively, additional due diligence may be required before a Term Sheet is issued.

Investment Decision Process

Appendix: Due Diligence Checklist

A due diligence checklist for a typical business acquisition would include the following items:

1. Corporate Structure and Good Standing:
 - Articles of Incorporation/Organization
 - Bylaws/Operating Agreement
 - Corporate minute book, including all minutes and resolutions
 - Shareholder agreements
 - Certificates of good standing

2. Financial Information:
 - Audited financial statements for the past three years
 - The most recent unaudited statements with comparable statements from the prior year
 - Monthly cash flow projections
 - Credit reports
 - Analysis of accounts receivable and payable

3. Tax Matters:
 - Federal, provincial, local, and foreign tax returns for the last three years
 - Tax audits and any outstanding tax liens

4. Assets:
 - Schedule of fixed assets and their locations
 - Real estate deeds, mortgages, lease agreements
 - Appraisals or valuations of property
 - Schedule of sales and purchases of major capital equipment during last three years

5. Intellectual Property:
 - Patents, trademarks, service marks, and copyrights
 - Licensing agreements
 - Proprietary technology

6. Employees and Employee Benefits:
 - List of employees including positions, salaries, and dates of employment
 - Employment contracts and union contracts
 - Benefit plans including health, retirement, deferred compensation, etc.
 - Worker's compensation claim history

7. Legal Matters:
 - Summary of pending or threatened litigation
 - Description of any previous litigation
 - Regulatory issues or compliance reports

8. Contracts and Agreements:
 - List of all subsidiaries, partnerships, and/or joint venture relationships
 - List and summary of all material contracts
 - Franchise agreements
 - Loan agreements and financing arrangements
 - Non-compete agreements

9. Market and Industry Information:
 - Market studies
 - Competitive analysis
 - Details of top customers and suppliers

10. Operations:
 - Summary of all operational processes
 - Details of current and historical production levels
 - Quality control procedures
 - Supplier and subcontractor information

11. Insurance Coverage:
 - Summary of all insurance policies
 - Claims history

12. Environmental Issues:
 - Environmental assessments
 - Permits and licenses
 - Compliance with environmental regulations

13. Related Party Transactions:
 - Details of transactions with insiders, affiliates, or related parties

14. Customer and Sales:
 - Summary of major customers and sales terms
 - Analysis of sales patterns and seasonality

15. Strategic Fit:
 - Assessment of how the acquisition fits with the strategic goals
 - Potential synergies

16. Exit Strategy:

- Potential exit options for the acquisition
- Analysis of exit timing and market conditions

This checklist is not exhaustive and may need to be adapted based on the specific circumstances of the acquisition and the industry in which the business operates. It's also crucial to engage legal, financial, and industry-specific advisors to assist with the due diligence process.

Investment Decision Process

Appendix: Investment Memorandum Template

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- Appendix B Independent Valuation

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- Appendix D Key customer contracts

- Appendix E Financing Agreements

- Appendix F Government Funding Agreements

Investment Background and Summary

Date: _____
 Company: _____
 Address: _____
 Contact: _____
 Telephone: _____
 Email: _____

Executive Summary

The Executive Summary should highlight all the main features of the proposed deal in a page, including:

- Company description
- Management team
- Market Opportunity
- Investment amount & terms
- Financial partners
- Target returns
- Strategic basis for the deal

Source and Use of Funds

List all capital sources including:

- Capital provider
- Investment amount
- Structure
- Specify key terms on external financing

List all main capital uses, for example:

- Purchase of shares
- Property, plant, and equipment
- Working capital

DUE DILIGENCE CHECKLIST

- ✓ Acknowledge any working capital adjustments that will be made at the time of closing the transaction
- ✓ In cases where external financing has been secured, specify the key terms that are material to the deal such as interest, term, security ranking, and financial covenants. This information should refer to financing agreements finalized prior to closing the transaction
- ✓ In the case of new construction projects, refer to terms of contracts

Ownership and Share Structure

This section illustrates the ownership and share structure on a pre-financing and post-financing basis.

DUE DILIGENCE CHECKLIST:

- ✓ The ownership summary should reference Unanimous Shareholder Agreements, Employee Stock Option Plans, and other related agreements completed prior to or as a condition to the transaction.

Management and Board of Directors

- List each of the key management personnel with descriptions of their work experience, previous accomplishments, and roles with the business.
- List each member of the board of directors with descriptions of their work experience, previous accomplishments, and roles on the board.
- Articulate expected changes to the management team as part of normal succession planning.

DUE DILIGENCE CHECKLIST:

- ✓ Description of management roles and responsibilities should reference management contracts or agreements (non-compete agreements in some cases) completed prior to or as a condition to the transaction.

Description of Operations

- Describe the day-to-day operations of the business.
- Include descriptions of key capital assets and/or operating leases.
- Explain staffing policies and cycles.

DUE DILIGENCE CHECKLIST

- ✓ Review production capacity, equipment maintenance policy, age and technology of equipment, production process, and quality control.
- ✓ Reference all significant leases that are in place or committed to.
- ✓ Reference critical contracts of finite life such as licenses, distribution agreements, patents, etc.
- ✓ Reference employment contracts of key staff including remuneration levels and benefits or labour agreements.

Market Analysis and Strategy

Key sections of market analysis should include:

- Market Size & Demand
- Industry Structure
- Competition
- Market Strategy
- Customer List Analysis

DUE DILIGENCE CHECKLIST:

- ✓ Reference key customer contracts or due diligence interviews with key customers.
- ✓ Assess the vendor's marketing system, sales personnel, and their remuneration structure.
- ✓ Reference internal or external research on the market.

Financial Analysis

DUE DILIGENCE CHECKLIST:

Historical Financial Performance

- ✓ Summarize the historical financial statements of the company (3 years or longer, if available)
- ✓ Summarize general metrics including sales/profit trends, capital investments, debt levels, etc.
- ✓ Identify significant changes in financial performance and explain the reasons for changes

Financial Forecasts:

- ✓ Work with management to prepare a 5-year proforma income statement, balance sheet, and cash flow (including monthly forecasts for Year 1).
- ✓ Include a pessimistic case, base case, and optimistic case for sensitivity analysis.
- ✓ Evaluate financial metrics against the return objectives of the EDC and financial covenants of external financing partners.

Valuation

- The valuation section should reconcile the purchase price of the investment with independent appraisals or fair market value analysis, such as EBITDA multiple valuation or a discounted cash flow valuation.

DUE DILIGENCE CHECKLIST:

- ✓ The purchase price valuation multiples should be referenced to publicly traded comparables or recent transaction data collected through due diligence.
- ✓ EBITDA figures utilized in the valuation must be normalized for management salaries, unusual or non-recurring revenue/expense items, etc.

Return on Investment

- Return on investment should be analyzed under pessimistic case, base case, and optimistic case scenarios.
- Key methodologies should include Internal Rate of Return and Net Present Value.

Strengths & Opportunities

- State the principal strengths and opportunities of the investment to summarize the merits of the deal for the board of directors approving the investment.

Risks and Weaknesses

- State the principal risks and weaknesses and risk mitigation strategies to be employed as a summary for the board of directors approving the investment.

Exit Strategy

- Articulate the intended time frame for the proposed investment and intended exit strategy if and when appropriate.

Strategic Fit

- Articulate the strategic fit with the organization, as determined by the board of directors.

Recommendation

- Articulate the formal recommendation for approval by the Board of Directors.

Indigenous Business Toolkit Project

The Indigenous Business Toolkit Project is designed to provide Indigenous communities and individuals with the practical tools they and their advisors can use to undertake successful economic development. Economic development is more successful when everyone involved – whether it be community members, community leaders, consultants, business professionals, employees, and/or potential partners – understands the many and varied aspects of Indigenous economic development.

The Toolkit provides step-by-step instructions on selected aspects of economic development based on the best practices of leaders in the field. The modules in the Toolkit cover everything from the role of economic development in nation building, to the importance of business charters, to the various legal forms that can be used to pursue economic development, to the steps needed to identify and negotiate beneficial partnerships, to the governance challenges that economic development must address.

The modules are available for free and for use by anyone. The full set of Toolkit modules can be found at: <https://www.schoolofpublicpolicy.sk.ca/research-ideas/projects-and-labs/indigenous-leadership-governance-and-development-project.php>.

The Indigenous Business Toolkit Project is part of the larger Indigenous Leadership: Governance and Development project designed to support long-term Indigenous economic development. In addition to the toolkit, the larger project involves capturing the economic development experience of Saskatchewan Indigenous communities through a series of case studies. The case studies, along with a description of the larger project, can be found at <https://www.schoolofpublicpolicy.sk.ca/research-ideas/projects-and-labs/indigenous-leadership-governance-and-development-project.php>.

The Authors

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Murray Fulton, professor emeritus with the Johnson Shoyama Graduate School of Public Policy (University of Saskatchewan campus), is an agricultural economist. He has done extensive research and writing on governance, rural development, and co-operative development.

Kristy Jackson, Director of Marketing and Communications at Athabasca Basin Development, (ABD), is a member of Whitefish Lake First Nation #128. Prior to her work at ABD, Kristy was director of communications at the Saskatchewan Indian Gaming Authority.