Investable Insights

The Key Drivers that Create Investable Entrepreneurs and their Companies

By: Jesse Henry

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As long as there has been supply and demand, entrepreneurs have ventured out into the unknown to commercialize the economic gap and create profit. They run through walls, push down barriers, and seize opportunity in aspirations for a bigger and better tomorrow.

But what happens when a financial barrier exists? What happens if the entrepreneur gets to a point in their business where they just don't have the money to grow their company?

There are companies who have scaled *without* money from angel investors, venture capitalists, private equity firms, family offices, and high net worth individuals; but the truth is, the companies who are successful without having raised the capital are few and far between.

This is one of the biggest entrepreneurial dilemmas: how to become a systems oriented business run by an amazing team that can attract resources from customers, employees, and investors.

Outside capital is the easiest and quickest way to expand your team, build your sales, develop your operations, and therefore, increase your enterprise value. The only problem is, raising capital for most entrepreneurs is neither quick nor easy. The top entrepreneurs are focused on sales, operations, and systems that create leverage for their resources; not building investor materials and outreach messaging.

There are millions of ways to structure a deal, most of which utilize investment vehicles that are either debt or equity. Over the past decade our economy has evolved into financing structures that don't fall under debts or equities (including a SAFE, KISS, ICO and crowdfunding). Deciding which investment vehicle to utilize can become a daunting task for those without experience dealing with investors. Properly structuring the deal is both an art and a science.

Rest assured that there are ways to ease this process for the focused and resourceful entrepreneur. When business owners are looking at raising investment capital, there's one simple solution…

Think like the investor.

One of the most important aspects of fundraising is to become crystal clear on your outcome, which typically means securing resources from an investor. So, it makes sense to know how the investor thinks, and what the metrics are that drive their decision-making process. Many entrepreneurs spend so much of their time immersed in a world of execution that they rarely take the time to understand the investors who hold the keys to the capital. This lack of understanding how investors assess companies and entrepreneurs is a huge obstacle that business owners must overcome as they go through the fundraising process.

When assessing the line of thinking of an investor, it's important to recognize that there are two entities that mitigate any investments risk profile:

1. Being an investable entrepreneur (and building an investable team)
2. Creating an investable company

If the investor is going to make an investment and take on the risk associated with the opportunity, they must sense an alignment in both the investability of the entrepreneur and the company. This alignment between entrepreneur, company, and investor is necessary if the investor is going to effectively deploy their capital.

The first (and only) rule of investing is: don't lose money. The way investors determine if they will lose money on an opportunity is by assessing the different risks associated with a company. An investor will tell you that their worst investments came about from miscalculating the risks and downside potential of an opportunity. Not having an alignment between the investability of the entrepreneur and the company can prevent an investor from moving forward on a project; despite any possible upside potential.

An individual can be an investable entrepreneur, but if the company does not have the ability to demonstrate traction, measured by key metrics that clearly identify growth, the likelihood of raising capital decreases dramatically regardless of the investor's affinity for the individual entrepreneur.

On the other hand, a company can be investable with a strong financial model, but if the entrepreneur cannot demonstrate the coachability, leadership, and tenacity for growing their company, the likelihood of raising capital decreases dramatically based on the investor's lack of belief in the entrepreneur, regardless of their affinity for the company.

This document outlines a set of principles that clearly articulate the attributes investors look for in entrepreneurs and their companies. If you have any questions, please email jesse.henry@cloudnine.capital.

Investable Companies

What makes a company investable to a financier is hidden in the investor's "love language," which comes down to financials and downside protection. A compelling narrative to an investor is told through the financial story, with key metrics and drivers that clearly determine success and failure. It is critical to understand the pivots and transformations that a company must go through in order to mitigate its risk profile and unleash from its limitations. The entrepreneur's ability to create enterprise value and pull the various levers of the business indicate a strong leadership team and thoughtful strategy. The more investable insights the company can stack to demonstrate its enterprise value, the less risky the business appears to an investor.

- **Investable companies solve a problem.** They take something that consumers find difficult and make it easy. They then market their solution to the target demographic who experiences that problem. At its core, business is about solving problems in economically viable ways.

- **Investable companies are innovative.** Organizational growth happens through thoughtful disagreement. Without the ability for the team and the investors to challenge the assumptions of the organization's existing processes, systems, and strategies; the company suffers with lack of innovation which will ultimately stagnante growth. Challenging the assumptions of the company, customer, and market is what will cultivate innovation from within.

- **Investable companies have social proof.** People using and paying for what the company offers is the best proof that a product or service fits within the market. A lack of social proof increases the risk profile of any investment because investment dollars are used to find the target market, versus scaling the fit within the market that already exists.

- **Investable companies have cash flow.** Enterprise value skyrockets when a customer speaks with their wallet instead of their mouth. What consumers say versus what they do can be two very different stories. Have you ever heard the term ‘buyers are liars’? The best form of social proof is cash flow. Generally speaking, a company that’s not generating revenue is not an investable business. While many ideas secure capital and many pre-revenue companies attract investors, enterprise value comes when a company can demonstrate how to generate revenue from its community.

- **Investable companies have brand equity.** The value of a positive consensus within a target demographic lets the investor know that the brand’s value is highly regarded in the court of public opinion.

- **Investable companies have enterprise value.** Companies who are only worth their next month’s cash flow aren’t effectively creating enterprise value; therefore, they retain lower multiples upon exit. The company must seek to create value that transcends the value of its monthly revenue.

- **Investable companies understand how to create profitability.** Companies that only invest in R&D without ramping up cash flow can be perceived as a bad investment. Without an understanding of the profitability threshold (or breakeven point), it’s difficult for an investor to see how they can make a return on their investment.

- **Investable companies have a clear differentiator.** What makes companies different is what gives them strength. Not understanding the competitive advantage creates ambiguity for consumers, employees, and investors alike. Knowing what makes the company different is what prevents the competition from absorbing the company's market share.

- **Investable companies have high barriers to entry.** If anyone can duplicate your business, then why would an investor put their money into your company? Without barriers to entry, competition becomes high and prices and margins are driven down. This is why understanding the value proposition is so important to clearly differentiate your operation from your competition's.

- **Investable companies are systematized for scale.** Successful companies are built upon a foundation of standard operating procedures that have been refined through an iterative process. This provides both the investors and employees a playbook for solving problems and executing on the vision of the company.

- **Investable companies properly leverage technology and resources.** The ability to integrate resources is what enables a company to increase its effectiveness, efficiency, and ultimately, market share. A core understanding of technology removes labor-intensive tasks that create kinks in the company's value chain.

- **Investable companies understand their customer acquisition cost (CAC).** Without knowing the cost to acquire a customer, and how to decrease that cost, it's nearly impossible for a company to scale its marketing and sales. If a company does not understand the customer acquisition cost, it typically ends up using investor resources trying to figure out these metrics. By knowing this number, you create certainty around the yields of your marketing budget.

- **Investable companies understand how to shorten their sales cycles.** Slower sales cycles prevent companies from turning over capital quickly and producing a high return on investment. Understanding the improvements that can be made in the sales and fulfillment process shows the investor that the company understands how to turn over capital and mitigate risk at the fundamental level.

- **Investable companies have a high customer lifetime value (CLV).** Without knowing how much a customer is worth, it's difficult to determine how much to spend on marketing to acquire that customer. It is more effective to up-sell an old customer than to acquire a new one. Increasing CLV usually happens as a result of increasing the price of old products, creating new products, or bundling a value stack already in existence in a way that has never been packaged and presented to the market.

- **Investable companies have a clear understanding of their ascension ladder.** Knowing how a customer comes into your organization and the products and services they can obtain from the company as they deepen their relationship, are fundamental to creating a high customer lifetime value.

- **Investable companies have a clearly defined target demographic.** Being able to identify the avatar customer is important for marketing, sales, and operations. Everyone wants a large total addressable market (TAM), but it's the ability to create a beachhead strategy in the beginning stages of the company that shows an investor focused execution. Have you heard the term, 'the riches are in the niches?' The goal is to start off as a big fish in a small pond.

- **Investable companies can create demand.** The ability to show an investor that they are funding a company's capacity to service a higher level of demand will show them a mitigated risk profile. If you can create demand, you can raise capital.

- **Investable companies create strategic partnerships.** Relationships with various other types of organizations can help drive audience cross-pollination and scale as you grow enterprise value by penetrating other geographies, verticals, and niches. When used effectively, strategic partnerships can be a key driver of both operational efficiency and enterprise value.

- **Investable companies have a low risk profile.** This means the company has created an operation where success is inevitable due to a stacking of multiple factors within this document. It comes down to 'who' the company is going to allow to come in as an investor, as opposed to 'if' the company will be able to raise capital. Investors are seeking downside protection in the company and investment structure. The business's ability to communicate a mitigated risk profile will determine their ability to create demand amongst the investment community.

- **Investable companies have a 10X potential return on investment (ROI).** Out of any given ten companies that an investor puts their money into, they know that eight will most likely fail. This means their one or two 'home runs' need to be able to cover all of their losses. Without the ability to paint the picture of a 10X return, an investor knows that your potential win can't make up for other potential losses.

- **Investable companies are fluent in their financial story.** The narrative of a company (investment opportunity) is a byproduct of its financial model. If an organization is not aware of the key drivers that increase their enterprise value, it becomes difficult to get an investor on board because the vision of the financial projections is not based on metrics the investor can grasp. The more savvy the company is at speaking to the investors ideals via the financial model, the easier it will be to secure funding.

- **Investable companies don't need investment.** The company who is most investable is the company that doesn't need money. If organic growth can finance both capital expenditures and operating expenditures, then investors know that their capital will be adding fuel to the already burning fire. The neediness of investor capital is what puts them in the power seat, and you in the position to take whatever you can get.

- **Investable companies have a clear exit opportunity.** Investors are putting their money into companies to get a **return**. Most investors know the only way they can get a return on their investment is by getting acquired, merging, or going public. If a company is held for 30 years, there's no exit, and therefore, no liquidity or potential for substantial return for the investor. The ability to explain the exit opportunity to the investors decreases the risk around the investment.

These principles can be thought of as the different levers within your company. The investor is aware of most, if not all of these levers, and is constantly assessing a business's ability to create certainty in their ability to grow enterprise value and return capital to the investor. Whether the investor uses this language or not, these principles are the critical levers to secure funding.

At the end of the day, the investor is not just calculating the upside of an investment opportunity, but also the downside. As previously mentioned, most great investors will tell you their biggest losses did not come about because they misinterpreted the upside, rather, because they didn't fully grasp the downside and the potential hurdles the company would have to jump through to attain a return on investment.

As discussed, all of the levers that can be moved to make a company investable are irrelevant if the entrepreneur and their team aren't investable themselves.

Investable Entrepreneurs

An investable entrepreneur has a positive impact on the lives of their employees, customers, and investors. The key drivers to entrepreneurial success are a subset of awareness and overall understanding of what's going on, what needs to change, and how to change it. Investable entrepreneurs take the time to look at what they can change about themselves as they seek to grow the company and the highest version of themselves.

Just like with the company, the successful entrepreneur is looking to build a solid foundation for growth by stacking the various attributes that make them investable. The more investable insights the entrepreneur can embody, the less risky the business and management team appears to an investor.

The following are key traits that investable entrepreneurs embody to empower their employees, customers, and investors to allocate resources to them.

- **Investable entrepreneurs embody the success mindset.** The entrepreneurs who fail to get what they want are usually spending too much time focusing on the things they don't want. It is critical for investable entrepreneurs to take themselves to the mental gym to work on their stamina, and emotional resiliency. The ability to grow on a *intrapersonal* level will exponentially impact your relationships on an *interpersonal* level.

- **Investable entrepreneurs are focused.** The best efforts in the world cannot overcome a limited, unclear mindset. Great entrepreneurs are focused, and able to get their team on board with the vision of what the world will look like if the team moves in the same direction.

- **Investable entrepreneurs communicate effectively.** The ability to communicate in a way that expresses the entrepreneur's highest ideals is the cornerstone to successful leadership. Without proper communication, there are expectation gaps and pitfalls in execution. Teams lacking effective communication are often unorganized and tend to lose games based on poor execution.

- **Investable entrepreneurs are ambitious.** They have a burning desire within them to change the world that can be recognized from across the room. These entrepreneurs have an internal desire to continue to move forward despite obstacles and challenges. Without ambition, the team, employees, and investors have a hard time aligning with the vision that the entrepreneur is attempting to realize.

- **Investable entrepreneurs have honed their business acumen.** Understanding business models, value chains, investment vehicles, and market dynamics is a valuable attribute of investable entrepreneurs. This shows key stakeholders (investors, employees, clients, and partners) that the entrepreneur understands not just how to function in the microcosm of the company, but also within the industry and economy as a whole. This speaks volumes to an investor who is looking at a financial model and the leaders ability to fulfil the metrics set forth.

- **Investable entrepreneurs are visionary.** All successful investments start with an individual who is determined to turn their vision into a reality. Everything you see around you started with a vision of an entrepreneur. Without a vision, the employees, customers, and investors can't see what the world could look like by successfully implementing the strategies and value you have within you.

- **Investable entrepreneurs have work ethic.** There's no amount of talent that can substitute for hard work. Great work ethic is a byproduct of a crystal-clear vision, and a burning desire to turn that vision into reality.

- **Investable entrepreneurs are adaptable in their beliefs.** Rigid, non-tractable entrepreneurs suffocate in their own lack of awareness. The entrepreneur who always thinks they are right suffers because they don't care to become conscious about their potential incompetence. The flexibility to alter the course based on insight from trusted advisors both inside and outside the company requires the removal of ego.

- **Investable entrepreneurs are resourceful.** The greatest resource on the planet is resourcefulness. Today's world allows us to figure anything out with some insightful questions, a few internet searches, and some tough conversations. We are what we have the capacity to find. Investors want to see that you don't give up easily, and can find the resources necessary to grow the company.

- **Investable entrepreneurs have awareness and emotional intelligence.** Being a conscious and present entrepreneur brings about candor and authenticity. Entrepreneurs who lack awareness and emotional intelligence let obvious problems fall by the wayside. A lack of awareness and emotional intelligence, repeated time and time again, will alienate all stakeholders of a company.

- **Investable entrepreneurs are great listeners.** Great entrepreneurs are always seeking insight. They listen to their stakeholders and ask them questions that enable them to expand their understanding of how others see the world. We have two ears and only one mouth — use them accordingly.

- **Investable entrepreneurs express gratitude and positivity.** What you put out to the world is what you get back. So, the more gratitude you express, the more you'll have to be grateful for. The entrepreneurs who create a positive external environment help their stakeholders create a positive internal environment within themselves. No one has ever suffered from too much gratitude or positivity.

- **Investable entrepreneurs know how to manage their time.** We all have the same 24 hours in the day. It's how we use those hours that determines our ability to find a return on time (ROT). There are too many things to get done, and a lack of focus at the top is a detriment to those who are attempting to execute on the company vision. Top entrepreneurs create leverage by utilizing their time in the most efficient way possible.

- **Investable entrepreneurs have purpose and passion.** The fire to succeed that is deep within us will push entrepreneurs to lengths that profit would never go to. This innate desire is recognized by all stakeholders, and is contagious to those who are surrounded by it.

- **Investable entrepreneurs can influence others.** Your bank account is in direct proportion to your ability to influence potential customers, partners, and employees. All stakeholders need to be compelled to take action in alignment with your vision, which comes from influence.

- **Investable entrepreneurs think strategically.** They understand that connecting the dots is all it takes to change the game. One thought, emotion, question, answer, decision, or action is all it takes to make everything fall into place. Without this sense of perspective, entrepreneurs fall into the trap of doing the same thing over and over, giving them the same results, and prohibiting their future growth. Investable entrepreneurs have the ability to ask questions, listen to the answers, and apply the advice and knowledge gained. This is what ultimately drives enterprise value.

- **Investable entrepreneurs have clarity.** Knowing key metrics and driving toward them will help ensure investors that the eyes are on the right prize. A lack of clarity in strategy, culture, vision, process, and value chain prevents stakeholders from investing their resources into you.

- **Investable entrepreneurs build a culture.** Higher valuation and increased organic growth can come from strong values that resonate with a tight-knit team. Employees want to work for companies they align with. Culture is the key to expanding the number of stakeholders who want to see an entrepreneur's success. A companies culture outlasts any strategy, product, or employee. It is the fabric of an organization, and a core driver of a companies growth.

- **Investable entrepreneurs are authentic.** Authenticity allows an entrepreneur to create deep and meaningful relationships with those who share the vision for the future. They seek to approach stakeholders in a genuine capacity that prevents all communication and expectation gaps. Authentic leaders tend to be more trustworthy, and create an environment of comfort for all parties involved.

- **Investable entrepreneurs are team builders.** No one can do it all on their own. An organization can't lead an industry if it's not run by a leader who can effectively lead the team. The team is the foundation of organizational success. Acquiring, training, and retaining that talent is at the top of every successful entrepreneurs to do list.

- **Investable entrepreneurs quickly identify problems.** The top entrepreneurs spend most of their time focused on finding solutions to the problems. Spending too much time focusing on the problems just result in more problems. Those who can quickly identify problems and become resourceful enough to solve them will always figure out a path forward.

- **Investable entrepreneurs have the beliefs and habits that create their success identity.** The day-to-day habits and patterns of the company leader will determine the ultimate destiny. Most entrepreneurs fail because they self-destruct. Oftentimes, the self-sabotage is caused by limiting beliefs and patterns.

- **Investable entrepreneurs are coachable.** An entrepreneur's ability to receive and implement guidance will attract money and talent. There's a saying, "What got you here, won't get you there." Coachability is that core asset that helps entrepreneurs evolve with the company.

Regardless of what stage of development you are currently in, you have the capability to make the internal shift right now and become an investable entrepreneur. This identity shift can only come about by making the decision to become your best self. No one can do it for you, it has to come from within. It just so happens that this type of transformation is best facilitated by the proper coaches and trainers.

Throughout the years, I have realized that building investable entrepreneurs is just as important as building investable companies. Building the two must take place simultaneously for stakeholders to invest their resources into the vision an entrepreneur has created.

In order to raise, deploy, and manage invested capital, an entrepreneur must look within and understand the shifts they need to make in their personal lives and their companies trajectories to show investors what the world could become through a financial partnership.

Of course, pragmatically speaking, most investors think differently and mitigate their risk and investment strategies uniquely based on their personal experiences.

Not every investor will look for all of the traits and concepts discussed. Some investors may only acknowledge a handful of the principles. Others may only really value a few of them. Every investor has a different focus, so it’s the entrepreneur’s job to understand their prospective investors mandate, strategy, and portfolio to discover where there’s potential overlap with your company and deal.

Investors want to put their money into people who believe they can become a successful entrepreneur, and an investor themselves. Investors want to put their money into people who they can envision becoming wealthy, or else they would be consciously making a bad decision.

Ultimately, investors want to work with entrepreneurs who invest in growing themselves and their companies. Investors know that investing in yourself is one of the steps to becoming an investable entrepreneur, and creating an investable company.

It is not the entrepreneur’s job to know how to do everything, rather, it is the entrepreneur’s job to be competent enough to figure it out and bring in the right resources.

The purpose of this piece was to help you better think like an investor. Start assessing risks, and look at your business from an outside perspective. The level of awareness you have will directly correlate with your ability to bring in new stakeholders.

Until next time,

- Jesse Henry

Author Biography

Hey, my name is Jesse Henry. I'm an entrepreneur by day, and philosophy enthusiast by night.

For a background of my professional life, please visit either www.JesseHenry.co or my Linkedin profile.

I love working with others and identifying the gaps that we experience throughout our lives. For more on how I see gaps, please visit www.Quadality.com.

A quick search on Google will tell you about some of the other things I've done over the past few years.

I have worked in a few different careers, and have formed this document as a result of my adventures.

I spent some time as a speaker under Tony Robbins, and an investment banker. I am also starting up my own investment company called www.CloudNine.Capital. I would encourage you to check it out to see what I'm working on.

As a kid, I religiously watched Shark Tank. I had an excel file with every deal, the questions that were asked, and why investors said no. Over the years, this affinity evolved into relationships with investors and entrepreneurs from all over the world. It doesn't take a brain surgeon to start seeing the patterns that are right in front of our faces.

We all just need a sounding board to start a conversation. That was the purpose of this document.

If you're looking to continue the conversation with me, feel free to check out my first book, The Millennial Merger: How to Sell, Manage, Empathize, and Communicate in a Multi-Generational Workforce.

Available on amazon