

# How to choose the right investor / 4 musts of fund relations

10.06.2019

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*Story from MCI anniversary publication - Digital DNA Private Equity - 20 voices 20 years*

*Paweł Fornalski & Sebastian Muliński are managers and co-founders of IAI S.A, a company offering comprehensive support for online stores and accommodation reservations based on SaaS. This solution makes it possible to create an online store or online wholesale platform and support business (including traffic generation, payment processing, shipping, big data analysis). IAI is a leader in the fast-growing online shop market in Poland.*

“It was crazy 11 months, during which we decided, within 11 days and 11 years later, what the future of IAI S.A. will be” - this is how Paweł Fornalski summed up the moment when MCI acquired the majority interest in IAI. Today, Fornalski - the President and Co-founder of the company, together with Sebastian Muliński, Vice President and Co-founder of IAI, work hand in hand with the investor to quickly grow the company and increase its value, which currently stands at an PLN 300 million according to a valuation made as part of the 2018 autumn transaction. However, by their own admission, choosing an investor was a test, and they managed to come out on top. They mainly owe this to the fact that, before and during the investment process, they stuck to the course they had set for themselves and which they distilled into the 4 following pieces of advice.

### **1. Don't lose sight of your daily business**

The matters of investment and securing growth capital had been a topic of discussion at our company for at least several quarters. We were very seriously looking into a GPW (Warsaw Stock Exchange) listing and issuance. Then, on the recommendation of advisors, a new option materialized – to start a sort of bidding process with a selected group of interested investors. After we put the final touches to the teaser and sent it to the world, it turned out that a large group of companies expressed their interest. Nevertheless, we still stood by our decision to devote no more than 50 percent of our time and energy to investment processes. We decided that we will continue to dedicate the other half to managing IAI. We wanted to avoid a situation where focusing too much on potential investors, due diligence etc. would make us lose sight of what’s most important – business growth – and therefore lose our impact. The result? Some investors may have felt that we were not treating them with due intensity, but the arguments we made were compelling: diminishing growth could serve as additional arguments to lower our valuation. Interestingly, MCI was able to appreciate that, and saw value in our commitment to the company.

## **2. Keep the schedule and the competition within the process**

Why was it worth it to go for the idea of a kind of beauty contest among investors (though MCI may disagree on this point)? Because this is where the second component of the process lies – a strict schedule, step by step, stage by stage. This meant that the original starters gradually dropped out or were eliminated by us as the race progressed – we had an up-to-date comparison of the approach and conditions offered by individual investors, almost on a live basis. What’s more, all of the participants in the process were aware of this set-up, which meant that they, in a way, competed against each other, maintaining the pace and quality of the investment process. Hence, for IAI these 11 months were not all chaos, but a linear process, planned with successful investment in mind.

## **3. Clean out your closet before you sit down at the table**

“That’s odd” – is what we heard from all sides when IAI turned out not to have any skeletons in the closet. And having such skeletons can have a tremendous impact during the final stage of negotiations. Experienced lawyers assured us that, after careful due diligence, all investors always prepare a short list of hidden weaknesses of a given company. Just before signing the contract, the investor produces this short list from their sleeve and brings the company’s valuation a further couple of percent down.

We, on the other hand, approached the finals without any pretence or any unpleasant surprises in our ranks. This approach boosted investor confidence in us, resulting in relatively few provisions in the investment agreement that would show the fund to have limited trust in the foundations of IAI. In addition, having our closets in order meant that the final offers we received were higher than the original ones - which is not often the case with such transactions.

#### **4. Choose a good partner who will support your investor relations**

We settled on EY, a top-of-the-line advisor with top-of-the-line prices. However, we quickly found out that it was a price worth paying. A good partner is one who serves as the first contact with investors and alleviates the impression of indifference when the founders are engaged with business growth. A strong partner is also a kind of a coach: he sets a practical schedule, motivates you in moments of weakness, demonstrates small strategies to improve the quality of investor relations. They give advice on how to appear several million zlotys more valuable. And finally: they are in the right weight class to serve as the ideal sparring partner for powerful and experienced funds or investors. A good investment advisor is a clear signal to the other side that they are sitting down with serious people to talk about serious money.