

The Ten Rules for those Who Want to Write a Prospectus

1. *Know who your audience: your investors*
2. *Explain how you will generate profit*
3. *Keep it simple*
4. *Know your market*
5. Show how the business can scale
6. Introduce the team
7. Be clear about the investors' risks
8. Detail how you will use the funds from public offer
9. Show your financial statements
10. Have an exit strategy

Each are detailed below...

1. Identify Your Investors

While you may be asking why the investors come as number one, and what does that have to do with writing a Prospectus, the answer is: everything. You are writing the Prospectus for your specific audience. You must have them in mind when you begin the writing. If you're product or service relates to baseball, you do not want to write the Prospectus from the standpoint that your investors are interested in space technology. Your investors are interested in baseball and generally sports. Thus, before you begin to write you must identify your investor target market.

2. Profit Generation

The entire point of a business and for those seeking to raise capital is to make a return, (i.e. to make money). Your Prospectus, from the cover page, should convey a message that you can generate a profit for your investors. It is obvious that any business plan or Prospectus shows that the company can turn a profit, otherwise not many people would invest in a company that shows it will not make money. From the outset of the Prospectus, you will need to convey that you can (honestly) generate a return on investment. Services or products that may generate small amounts of revenue may be viewed as a hindrance to others that generate much more. Focus on the core, money-making products and services and your Prospectus will be that much stronger.

3. Simplicity

In addition to showing you can turn a profit, you will want to keep your Prospectus flowing, no matter the length. In most cases the simpler the Prospectus the easier it is to convey your message. By "simpler" we mean staying on message, avoiding tangential, non-essential details and clearly explaining the product and services, and the market and the risk factors in a straightforward fashion. A good number of investors who will review your Prospectus will jump from one section to another, often skipping information to look at a section they find more important. Because of this, you will want to create a Prospectus that is easy to read, and from the first paragraph of any section, to convey the general idea of the subsequent information. You will need to factor in your analysis that an investor's attention may only be grabbed in the first few lines of any section, and it is therefore imperative that you grab their attention immediately.

4. Market

A well written Prospectus will detail the current and potential future market conditions of your products or services. Many underestimate the importance of the overall market and potential market when writing a Prospectus. Investors want to see the current market, and if the company will be sustainable in a future market. The longevity of any business depends on the market size, the market reception to your service offerings and the future growth or decline of your industry.

5. Scalability

Prominently displayed and easily accessible in the Prospectus should be the scalability of the company's products and services. One of the single greatest considerations investors give to any investment decision is the ability of the company to scale up. A good part of the capability for scaling will be conducive to market conditions, however a team that can navigate rough waters or a down economy will be a greater factor to scale than the market conditions. The Prospectus or any offering document needs to show how the company can scale based on the current and future market, as well as the evolution of its products and services.

6. Team

One of the most important sections of any Prospectus is an overview of the management team and by extension who is running the company. This section will list the biographies of the key management of the company. It will be important to highlight the experience and qualifications the management team has to manage both the incoming funding (hopefully) while executing the business model. In addition to the management team, the Prospectus will also indicate other key people who assist the company. For example, depending on the type of structure and the type of offering (equity versus debt), the legal team will be noted, as well as the underwriter(s), or the fund administrator or fund manager, the paying agent of the company and others.

7. Risks

Any perceived risks or threats to the company's business model should be detailed in this section of the Prospectus. For example, an oil and gas exploration company may have specific risks such as drilling and finding no oil, or machinery decline, or no buyer for its supplies and so on. These are risks related to the industry. On a global scale, an economic recession could impact oil prices and the profitability of the company. On a more general scale, natural disasters could delay exploration and therefore the selling of product. Regardless of the industry, all risks should be considered and included in the Prospectus, which informs the market and potential investors in good faith.

8. Funding Requirements

The funding requirements section of the Prospectus indicates where you intend to allocate the funds you raise via securities offer. It is a glorified use of proceeds area that will detail how the money will be spent. For example, if your company is in the oil and gas exploration field and you are raising \$10 million, you might show that \$5 million will go to purchase equipment, \$2 million for refining the oil, \$1 million for leasing the land to drill, \$1 million for salaries and \$1 million for working capital. The idea is that you will show what you need the money for and detail the expenditures. You are also required to allocate the funding specified in the Prospectus to the area for which it is intended. If you wish to revise the allocation of these funds, you may need to get board and investor approval beforehand. Lastly, you will want to discuss the potential for future capital raising initiatives in this section.

9. Financials

This section of the Prospectus summarizes the past, present and future financial position of the company. It includes a current balance sheet with a profit and loss statement, as well as any pro forma statements about future revenue and expenses. In addition, depending on the type of entity and if the company is private or public, and within each of these there are different rules, the financial statements may need to be audited, or utilize an exemption from audited financials. The financial section should indicate the fiscal responsibility of the company.

10. Exit from the Investment (Liquidity)

The exit strategy section of the Prospectus is a vital part of the offering document. Any investor needs to understand and be comfortable with the details of their exit plan. For an IPO, the public offering itself is an exit because the securities are obliged to be listed on a stock exchange and the investor can sell its position of securities and convert into liquidity. For privately offered companies, the exit normally transpires when a company is purchased, but in most cases the company's owners cannot just sell their own stake to a larger audience. The IPO allows for a larger buying pool, or a more liquid audience, as opposed to an illiquid company. The looking forward plan you offer on how to provide an exit for investors is probably the single most important factor any investor contemplates before providing capital.

Conclusion

Writing a Prospectus is an opportunity to show investors four important points. You should keep the following questions in mind when writing your Prospectus:

1. What are you doing and why is this needed?
2. How to write a compelling Prospectus that speaks to investors in a simple way?
3. How to determine the amount of capital that should be solicited?
4. When will the investor realize their return and at what profit?

Source: Short summary by the web site prospectus.com, translated and adapted by ALSE