



The Mechanics of Raising Capital

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The Mechanics of Raising Capital

Overview

- Funding Sources
- Capital Raising Process
- Summary



Funding Sources

Funding Sources

Questions to Ask Yourself When Seeking Equity Funding

- Why do you need capital? Could an equity investor:
 - Help you launch your product/service?
 - Help you reduce your leverage and your business risk?
 - Give you growth capital?
 - Buyout an existing investor in your business?
 - Help you get liquidity through a partial or full buyout of your equity ownership?

- Would you view an equity investor as a strategic/capital resource or as interference?

Funding Sources

Questions to Ask Yourself When Seeking Equity Funding (cont.)

- If you need equity, are you plugged into the equity investment community?
 - Angels - mostly focused on technology, life science, and high growth stories, though in some cases, angels looking to opportunistically invest
 - Private Equity Funds – many have cash to deploy, they are looking for deals
 - Venture Capital Funds – generally looking to invest in larger technology, life science companies

- Are you reaching out beyond your usual network to find equity financing?
 - Equity investors in St Louis - there's a vibrant angel network, fewer institutional investors
 - Seek out funds in Chicago, NYC, West Coast, and secondary Midwest markets (e.g., Indianapolis, Cleveland)
 - Reach out for help to people who work with entrepreneurs and growing companies – investment bankers, consultants, lawyers, accountants – to connect you with equity investors

Funding Sources

From Whom Do Business Owners Raise Money?

- Debt
 - Commercial Banks
 - Non-Bank Senior Cash Flow Lenders
 - Asset Based Lenders (ABLs)
 - Mezzanine (aka Subordinated) Lenders

- Equity
 - Self Funded (Savings, 2nd Mortgage, etc.)
 - Friends and Family (and Fools)
 - Angels (individuals or pools of funds)
 - Venture Capital
 - Private Equity

- Other Non-Traditional Sources
 - Government Incentives
 - Small Business Innovation Research (SBIR)

Funding Sources

Questions to Ask Yourself When Seeking Equity Funding (cont.)

- In what will Institutional VC and PE Funds invest?

Funding Sources

Questions to Ask Yourself When Seeking Equity Funding (cont.)

- In what will Institutional VC and PE Funds invest?

NOTHING

Funding Sources

Questions to Ask Yourself When Seeking Equity Funding (cont.)

- In what will Institutional VC and PE Funds invest?

**NO
THING**

All Funds Have a Niche

- Per the National Venture Capital Association, there are roughly 741 venture capital firms in the United States managing approximately \$257 billion in invested capital

Funding Sources

Find Your Niche

Incubation

Seed/Startup

Early Venture

Mid Venture

Late Venture

Emerging Growth

Middle Market

Buyout

Recapitalization

Industry Consolidation

Mature

Mezzanine/Sub Debt

Bridge

Turnaround

PIPES

One Database (CapitalIQ) – VC and PE Firms Only

➤ # of Firms by Geography – US Offices:

➤ # of Funds by Stage – Early, Mid, Late Venture Only:

➤ Investments in “Life Sciences Tools and Services”:

➤ “Midwest” Offices:

➤ Offices in Saint Louis:

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- # of Firms by Geography – US Offices:

Over 3,000 Funds

- # of Funds by Stage – Early, Mid, Late Venture Only:

Over 1,000 Funds

- Investments in “Life Sciences Tools and Services”:

380 Funds

- “Midwest” Offices:

4 Funds

- Offices in Saint Louis:

None (????)

Funding Sources

Summary

- Understand who you are and what you need
- Understand the most likely investor universe for your venture
- Utilize your network to gain access to that universe
- Be prepared – you may only get one chance to tell your story



Capital Raising Process

Capital Raising Process

Raising Money is as Much of a Strategy as the Business Is

➤ Sound Preparation

- Process planning – what are my funding needs? When do I need it?
- Marketing Document Preparation – know your story...and be able to tell it
- Must pursue multiple simultaneous paths to close
- Start looking before you need it – it's a long process, networking is critical

➤ Effective Marketing

- Contact the right potential partners – industry expertise, business stage, other considerations
- Tell the story well – clear, concise, effective
- Be responsive, not defensive, to questions about your business

➤ Expert Execution

- Sound deal team – not all legal expertise is created the same
- Open process – do not hide the “lemons”
- Complete information – robust and timely information exchange
- Proper structure – Stage, amount, milestones, preference, etc.

Capital Raising Process

Effective Process Management Preserves Value

- Pre-transaction guidance based on industry knowledge of:
 - Valuation drivers, financial/operational metrics, market timing
 - Which investors are seeking positions in a respective industry or investment stage

- An effectively managed fund raising process will optimize the economic and intangible outcome by:
 - Creating competition for the right to invest in your business
 - Effectively communicating the business model to prospective investors
 - Leveling the negotiation playing field with sophisticated buyers
 - Providing an emotional buffer between buyer and seller
 - Structuring the transaction to maximize value/liquidity based on your needs
 - Maximizing the likelihood of closing

Capital Raising Process

How to Impress Equity Investors – Hot Buttons

- Strong Management Team
 - Integrity and openness with investors
 - Necessary experience/core competencies to run the business
 - Realistic about strengths and weaknesses – a plan for now and the future
 - Taking aggressive action in a rough economy:
 - Cut costs
 - Take market share from competitors (more so for equity investors)

- A core business/business model that is sound, even if the economy has depressed business performance
 - Strong competitive position and customer value proposition
 - Strong and sustainable gross margins, manageable SG&A
 - Proprietary technologies, processes, relationships
 - Profitable, breakeven or temporarily cash flow negative (low risk of going under) – if you're financially distressed, do you have a realistic turnaround plan?

Capital Raising Process

How to Impress Equity Investors – Hot Buttons

- Good to great:
 - Legal documentation
 - IT, financial and management reporting systems

- No material environmental or litigation issues that have not been addressed/reserved for

- No glaring deficiencies that management is delaying addressing

- A compelling lending or investing story

- A complete information package

Capital Raising Process

The Basics of Getting Funding in a Good or Bad Market

- Provide business, financial and investment information that is complete, well written and relevant – Less is More

- Provide a compelling reason for the funding source to provide funding
 - Your materials must:
 - Get an investor to pay attention to you right now
 - Present an attractive lending or investing opportunity
 - Show how much capital you need and what it will be used for
 - Ask directly for what you need up front
 - Anticipate any issues from the funding source's perspective and proactively address these issues – it saves your time and money
 - Have an elevator pitch – it's not just for startups

Capital Raising Process

The Basics of Getting Funding in a Good or Bad Market

- Plan ahead
 - It takes longer to get funding now, don't wait until the last minute to start
 - Factor in the necessary time, fees, shareholder/management attention

- Ask the Right People for help!
 - Ask your lawyer, accountant, management consultant, investment banker for help getting prepared to raise money, finding the right funding sources, structuring, negotiating and closing the deal
 - The 'Right People' may not be the people who helped you get funded when the economy was strong

Capital Raising Process

How Long Does It Take to Raise Capital?

- It depends

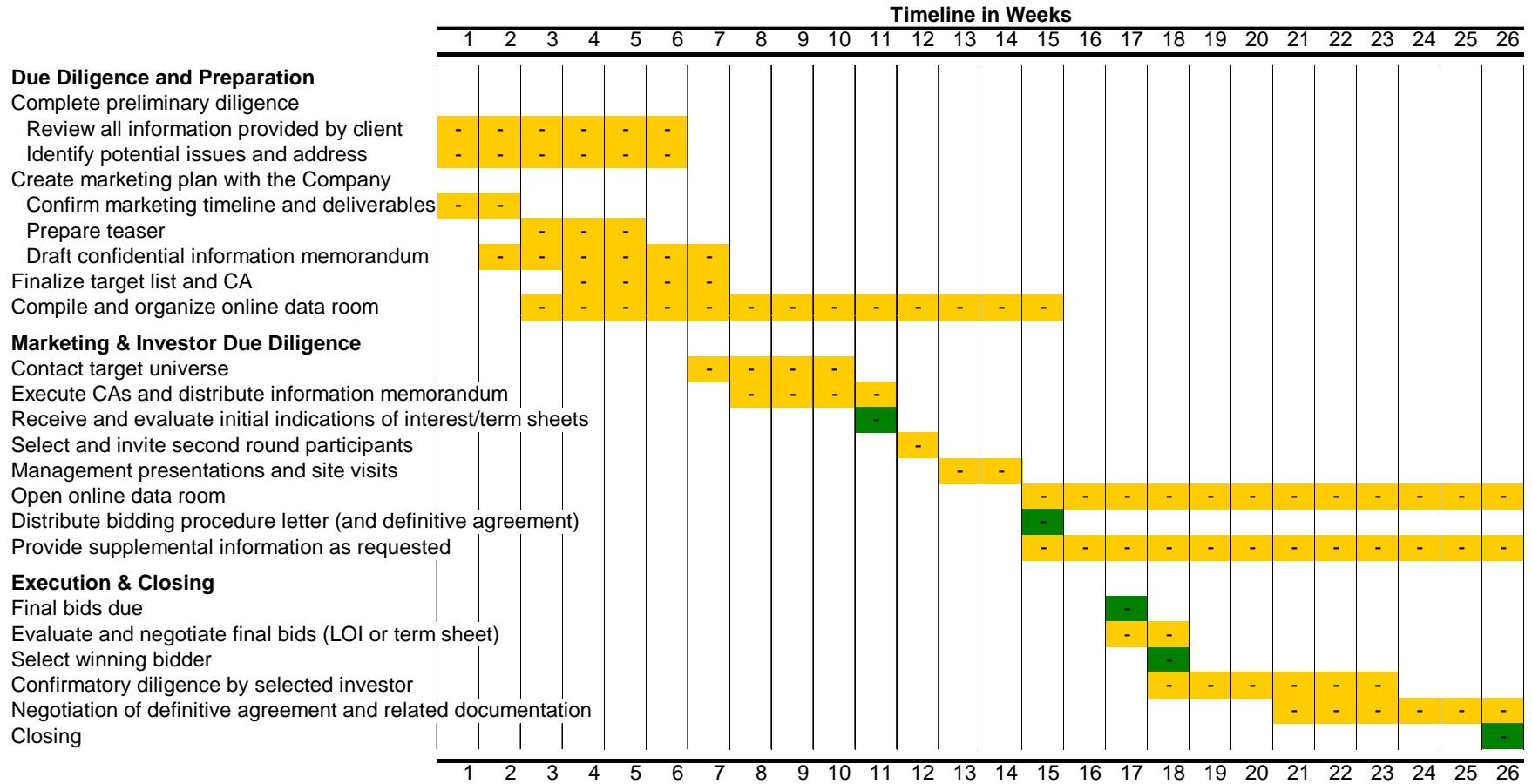
- All processes are different

- Depends on a multitude of factors:
 - Preparation and execution
 - Valuation expectations
 - Investor interest
 - Negotiating experience and expertise

- Most will say anywhere from 90 days to a year or more

Capital Raising Process

Illustrative Process Timeline



Capital Raising Process

Illustrative Process Timeline

July							August							September							October							November							December								
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S		
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Due Diligence and Preparation

Complete preliminary diligence

Review all information provided by client

Week 1 - 2

Identify potential issues and address

Week 1 - 2

Create marketing plan with the Company

Confirm marketing timeline and deliverables

Week 2 - 4

Prepare teaser

Week 2 - 4

Draft confidential information memorandum

Week 2 - 4

Finalize target list and CA

Week 3 - 6

Compile and organize online data room

Week 2 - ongoing

Marketing & Investor Due Diligence

Contact target universe

Week 5 - 6

Execute CAs and distribute information memorandum

Week 5 - 8

Receive and evaluate initial indications of interest/term sheets

Week 9

Select and invite second round participants

Week 9

Management presentations and site visits

Week 10-11

Open online data room

Week 10-13

Distribute bidding procedure letter (and definitive agreement)

Week 11

Provide supplemental information as requested

Week 11 - ongoing

Execution & Closing

Final bids due

Week 13

Evaluate and negotiate final bids (LOI or term sheet)

Week 13

Select winning bidder

Week 13

Confirmatory diligence by selected investor

Week 13-22

Negotiation of definitive agreement and related documentation

Week 13-23

Closing

Week 23

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Capital Raising Process

Due Diligence and Preparation

- Evaluate business needs – financial and non-financial
- Assess market environment and timing
- Prepare a business plan
- Develop the investment thesis
- Perform a self-assessment of your business and management team capabilities

Capital Raising Process

Key Elements of The Capital Raising Process

- Investor Target List
- Confidential Information Memorandum
- Data Room
- Management Presentation
- Closing Documentation

Capital Raising Process

Confidential Information Memorandum

- Executive Summary
- Key Investment Highlights
- Company Overview
- Industry Overview
- Key Revenue/Growth Opportunities
- Summary Historical Financials and Forecast

Tell the story in 20 pages or less

Capital Raising Process

Confidential Information Memorandum – Sample Table of Contents

- Executive Summary (2 pages)
 - Summary of the Company and Opportunity – i.e. why this deal? Why now?
 - What do you need? Investor, industry expertise, both
 - What are you looking for? Equity capital, and how much

- Key Investment Highlights (1 page)
 - Answer the question – “why should I invest in this deal?”

- Company Overview (5-10 pages)
 - Overview
 - History
 - Products and Services – IP protection?
 - Management and Employees – Bios, org chart (relevant expertise and track record)
 - Facilities & Equipment Summary
 - Corporate Structure and ownership, Advisors, Board
 - Key Customers, Suppliers, other relevant facts (i.e. supplier concentration, customer concentration, contractual relationships, etc.)
 - Sales and Marketing plan

Capital Raising Process

Confidential Information Memorandum – Sample Table of Contents (cont.)

- Industry Overview (2-3 pages)
 - By End Markets Served
 - Total Market Size, Target Segments Size & historical/projected Growth Trends
 - Competitive Position by end market – Market Share, concentration/fragmentation
 - Industry Pricing and Cost Structure
 - Cyclicity

- Key Revenue/Growth Opportunities (2 pages)
 - By end market
 - By application
 - Scalability

- Summary Historical Financials and Forecast (1 page chart, 2-3 page discussion)
 - Clear Sources and Uses of Funds
 - Summary Historical and Forecasted Performance Charts (5 yr history, 5 year forecast)
 - Historical Performance Discussion
 - Key Forecast Assumptions

Capital Raising Process

Data Room

- Formation Documents
- Legal Documents
- Financial Documents
- Other Relevant Data

Capital Raising Process

Closing Documentation

- Hire good transaction counsel with expertise in the PE/VC field
- And listen to them – your first (or second or third) deal should not be their first (or second or third) deal

Capital Raising Process

Exit Strategies

- Venture companies are not lifestyle companies
- Know your exit before you enter
- Exits change with the marketplace
- Strong Advisors and Board are critical
- Company structure can help or hinder
- No exit strategy = no venture money

Capital Raising Process

What Does an Investor Look for in a Deal?

- Management
 - Full time, committed and enthusiastic
 - Skilled, willing to listen
 - Track record
- Clear, concise executive summary (and elevator pitch)
- Written business plan with financials
- Feasible business model
- Knowledge and understanding of industry, market, competition
- Proprietary intellectual property
- Realistic time frame/milestones
- Revenue generation via unique/effective business model
- Clean balance sheet
- Detailed uses of funding
- Identifiable exit strategy



Summary

Summary

Getting Funding in a Good or Bad Market

Put together the proper information package for your audience

- The type of information provided will depend on type of funding being sought
- Brief PowerPoint summary (10-20 slides; clear, direct, compelling)
- Executive summary (2 pages)
- Audited/reviewed financials
- Detailed, realistic 3 yr projections
- Business plan (not always necessary to include)
- Information memorandum (depends on circumstance)

Summary

Avoid Pitfalls During a Sales or Fundraising Process

- Do not hide a “lemon” that will be uncovered later
- Do not invite too many of the wrong investors to the process – know what you need and who will provide it
- Do not believe “same value, different structure” – structure matters!
- Do not overlook the impact of deal fatigue – the capital raising process is a long one

Summary

To Get Funded, You Must:

- Know what you need
- Know your funding options
- Seek out help where/when needed
- Provide a superior investment information package and presentation
- Find the funding sources that are a match for your business needs and values
- Properly structure, negotiate and close the best possible deal



Questions & Comments?

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