



# The Mechanics of Raising Capital

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# The Mechanics of Raising Capital

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*Overview*

- Funding Sources
- Capital Raising Process
- Summary



# Funding Sources

# Funding Sources

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## *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

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## *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

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## *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, 2<sup>nd</sup> 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

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

- In what will Institutional VC and PE Funds invest?

# Funding Sources

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

- In what will Institutional VC and PE Funds invest?

**NOTHING**

# Funding Sources

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

- In what will Institutional VC and PE Funds invest?

**NO**  
**X**  
**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

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*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:

# Funding Sources

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*Find Your Niche*

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## One Database (CapitalIQ) – VC and PE Firms Only

- # 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

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## *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

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*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

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## *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

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## *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

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## *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

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## *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

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## *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

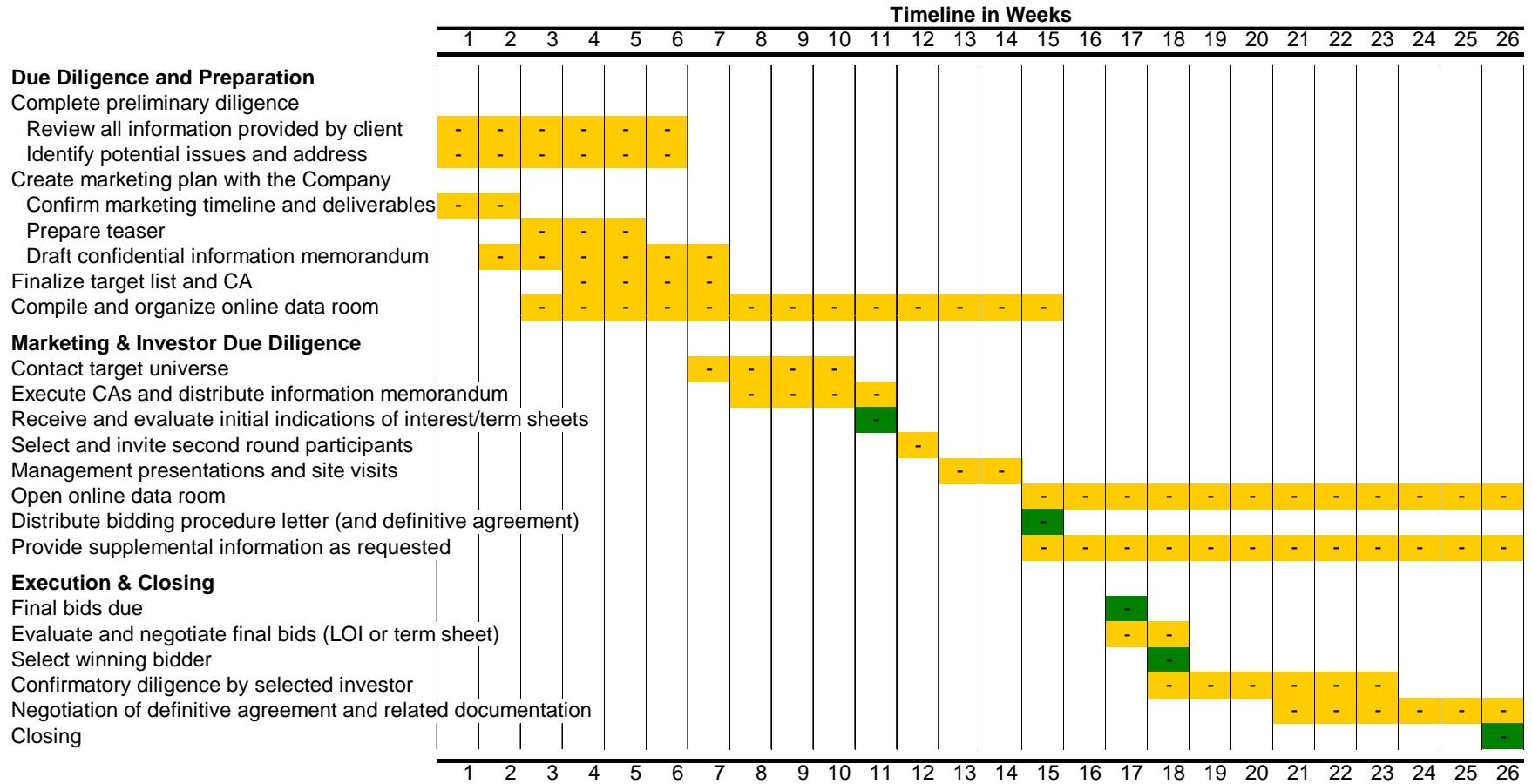
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## *How Long Does It Take to Raise Capital?*

- 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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																			30	31													31										

### Due Diligence and Preparation

Complete preliminary diligence

Review all information provided by client

Identify potential issues and address

Create marketing plan with the Company

Confirm marketing timeline and deliverables

Prepare teaser

Draft confidential information memorandum

Finalize target list and CA

Compile and organize online data room

Week 1 - 2

Week 1 - 2

Week 2 - 4

Week 2 - 4

Week 2 - 4

Week 3 - 6

Week 2 - ongoing

### Marketing & Investor Due Diligence

Contact target universe

Execute CAs and distribute information memorandum

Receive and evaluate initial indications of interest/term sheets

Select and invite second round participants

Management presentations and site visits

Open online data room

Distribute bidding procedure letter (and definitive agreement)

Provide supplemental information as requested

Week 5 - 6

Week 5 - 8

Week 9

Week 9

Week 10-11

Week 10-13

Week 11

Week 11 - ongoing

### Execution & Closing

Final bids due

Evaluate and negotiate final bids (LOI or term sheet)

Select winning bidder

Confirmatory diligence by selected investor

Negotiation of definitive agreement and related documentation

Closing

Week 13

Week 13

Week 13

Week 13-22

Week 13-23

Week 23

# Capital Raising Process

## Illustrative Process Timeline

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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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Week 1 - 2

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Week 2 - 4

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Week 3 - 6

Compile and organize online data room

Week 2 - ongoing

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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

# Capital Raising Process

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## *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

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## *Key Elements of The Capital Raising Process*

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

# Capital Raising Process

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*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

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## *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

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## *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

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*Data Room*

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

# Capital Raising Process

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## *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

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## *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

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## *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

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## *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

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## *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

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## *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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