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Show Me the Money I

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Overview

- **Key criteria for raising capital**
- **Sources of capital**
- **Mistakes to avoid when seeking capital**

Key Criteria for Raising Capital

- **Market Validation & Telling a Good Story**
- **Unfair Competitive Advantage**
- **Vision for the Future & Pro Forma Financials**
- **Strong Management Team & Chemistry**
- **Understanding your Sales Cycle**
- **Traction**

Market Validation & Telling a Good Story

- Raising capital is about telling a compelling story that connects with the investor (that is backed by facts and reasonable assumptions)
- Cornerstone Question: What pain are you addressing in the market?
 - *Entrepreneurs*: Ready, Fire, Aim problem
 - *Incubators*: Ditto
- Cornerstone Process: Market validation

Unfair Competitive Advantage

- **Barriers to entry**
 - **Entrepreneurs:** Patents/IP; first to market; better, faster, cheaper
 - **Incubators:** What makes your incubator a better choice than the alternatives? What would prevent someone else from establishing an incubator and offering more services?
 - Exclusive relationship with strategic partner(s)?
 - Services (entrepreneurs in residence; business coaches; shared resources; funding; etc.)

Vision for the Future & Pro Forma Financials

- **Lifestyle vs. rapid growth (grow to sell) - pro formas must be consistent with entrepreneur's true objectives**
- **Pro formas must be based on realistic, supportable assumptions**
- **With the financing in hand, will the business be adequately capitalized? (no one wants to invest into a "black hole")**
- **Be honest and create realistic expectations**

Strong Management Team & Chemistry

- **A proven, experienced management team**
 - **Serial entrepreneur**
 - **Relevant industry and position experience**
- **That has worked together before and has good chemistry**
 - **Preparing for presentations and Q&A**

Understanding your Sales Cycle

- **Long sales cycles kill businesses**
 - **How long will it take to close each sale from start to finish?**
 - **What is the fully-loaded cost to close each sale?**
 - **For an incubator, what is a realistic ramp up time to attract adequate tenants, and to go from a meeting to completing a lease?**
 - **Results from market validation & drives adequate capitalization**

Traction

- **Pre-revenue is very difficult in today's environment for angel or VC financing (\$1 million plus is preferred)**
- **Pre-product it almost impossible**
- **The earlier you are, the more important it is to have a strong core group of initial investors/tenants and a strong initial board**

Sources of Capital for Tenants

- **Founders, Friends & Family**
- **Angel Investors**
- **Venture Capital Funds**
- **Investment Bankers**
- **Strategic Investors**
- **Banks, Debt Funds & State Sponsored Funds**

Founders, Friends & Family

- **Savings, credit cards & secured loans – having adequate “skin in the game”**
- **The friends and family decision – Thanksgiving can be rough**
- **Treat friends and family members just like other investors**

Angel Investors

- High net worth individuals that provide 80% of all early stage capital and partially fill the “equity gap”
- They are not all the same – seek value add angels
- Ensure alignment of interest

Venture Capital Funds

- **Very low probability – VCs fund 1% or less of the deals they review each year**
- **Ensure that VC funding is appropriate for the business**
- **Make sure deal is in VC's strike zone/sweet spot**
- **Ensure the VC fund adds value and the general partners are “good guys”**

Strategic Investors

- **Manufacturers of products**
- **Suppliers of components**
- **Distributors of products**
- **Likely corporate purchasers of products**
- **Any potential acquiror of the company (but beware of valuation impact)**

Banks, Debt Funds & State Sponsored Funds

- **Traditional bank loans – must have collateral or personal guarantees**
- **Factoring arrangements with banks or debt funds**
- **CAPCO Funds**

Sources of Capital for Incubators

- **Strategic partners (universities, research institutions, etc.)**
- **Utilities**
- **Service providers (lawyers & accountants)**
- **Philanthropists and Family Foundations**
- **Investment Funds and Angel Investors**
- **Banks**
- **Grants**

Mistakes to Avoid When Seeking Capital (Tenants)

- **Timing: not planning ahead; at least 6 months**
- **Pursuing the wrong investors**
- **Using unregistered brokers**
- **Lack of market validation & not understanding sales cycle**
- **Unrealistic and unsupportable financial projections**
- **Unrealistic valuations & fluctuating valuations**
- **Irrational focus on control**
- **Failure to comply with applicable state and federal securities law**
- **Wrong form of business entity**

Mistakes to Avoid When Seeking Capital (Incubators)

- Lack of market validation, vision & focus
- Incomplete financial projections; lack of transparency about future capital campaigns
- Not understanding donor budget cycles
- Not identifying a tangible benefit to the donor
- Not capitalizing on the ability to create competition among donors
- Not leveraging a strong Board of Directors
- Using an operator to lead the fundraising effort



QUESTIONS

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