Article # 2:

Financing: A Primer on Different Options

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Now that you have laid out a proper roadmap for your company's future, it's time for a successful financing raise to fund those plans. Additional financing is critical to your company's long-term success.

Fundraising options vary depending on the stage and history of the company; the company's future financial goals; and the amount of financing you're seeking. Options include:

1. Family and friends: This option is typically best for earlier-stage companies, and for (relatively) smaller amounts of financing.
2. Angel investors: Similar to family and friends, but perhaps for larger amounts of financing. Angel investors tend to evaluate potential investments in a manner similar to venture capitalists, though often without such stringent requirements.
3. Crowdfunding: This option depends somewhat on the nature of the product or service and the amount of financing sought.
4. Venture capital funds: These funds typically look for companies targeting larger market presence (and related revenues) and seeking an initial investment of at least $1 million. Companies may seek other investment partners in the initial round of financing, with the expectation that they will seek additional rounds later. The VC investment rounds typically fund the cash requirements to reach a certain milestone in the company's growth plans, with later rounds planned for similar milestone achievements. VC investors typically plan for a liquidity event (sale, merger, IPO, etc.) in five to seven years depending on the life of their fund, with an ROI of at least 20% annualized.
5. Private equity (PE) funds: Similar to venture capital funds but may focus on shorter-term liquidity events (three to five years). Many focus on larger small businesses and middle-market companies. While some PE funds invest in the company and its existing management teams, many bring in their own management teams.
6. Corporate partners: Some larger companies have their own internal funds to pursue investments in complementary products and services. But it's important to consider their history of investing from the investee perspective. Are you seeking their investment dollars, or do you need access to their resources — technical, sales, marketing? If you select a corporate partner, have they worked well with other such investments, or do they do these kinds of financing or partnership deals to eliminate the competition? Have you checked their references? Are you relying on their resources (not just financing) to make your company successful? Are you significant or innovative enough to warrant the necessary attention of their resources, if you are relying primarily on the corporate partner for future success? Are you competing with their product or service, or are you complementary to their business? Other than capital, what value will

the funding source bring? Are they well-connected and can they open doors to strategic targets?

7. Banks: Do you have a line of credit (LOC) or perhaps need a larger LOC to finance your growth? Will they require personal guarantees, and could that be a problem?
8. Asset-based lenders (ABLs): These are typically best for companies unable to obtain a bank LOC. They often charge somewhat higher interest rates than banks, but they lend against assets such as accounts receivable and inventory.
9. Simple agreement for future equity (SAFE): This option is true to its name and keeps investing as simple as possible. In exchange for funds, the investee promises to issue shares to the investor in the next round of financing. There is no interest or maturity date.

Now that you know about the available options, how do you decide which one makes the most sense for your company? Here's what to consider:

1. If you request too little funding, you'll eliminate the options that require a minimum level of funding (such as venture capital and private equity funds).
2. Do your potential investors have a specific industry or geographic focus?
3. Do the investors require majority control after their investment? If so, is that acceptable to the current owners and management team?
4. Have you done any research on the potential investors? Are they good partners to work with? Have you checked references with past investees, both for the fund as well as the individual partner or team member who would join your board or act as your liaison with the fund?
5. Besides cash, what other benefits can the potential investor provide? Access to customers? Technical or industry knowledge? Special strengths in sales and/or marketing? Manufacturing skills? Access to potential investors for planned future financing rounds?
6. Is the potential investor currently invested in any of your competitors? What proprietary information will be exposed? How will the potential investor prevent your proprietary data from being exposed to a competitor?
7. What are the potential investors' goals? Is this a long-term investment or do they plan to liquidate in the next few years? Are their goals compatible with those of the current owners and management team?
8. Can the current owners exit the company after the financing if they wish, or do the new investors require the current owners to remain with the company for two or three years?
9. What are the company's goals for revenue, profitability, and market share? If not large enough, that may eliminate certain potential investors, such as venture capital funds or some private equity funds. Do the current owners and management team want the company to be large enough to attract those potential investors?

10. Have you talked with your accountants, lawyers, or other business owners who have had similar experiences?

Financing activities are critical and complicated, and they require a great deal of time and effort — not just from the current owners, but also from the management team and key employees. It takes a lot of planning and research, and probably some cash as well.

As they say, there are no guarantees in life except death and taxes. But with a careful, well-considered plan, you’re more likely to raise additional financing to help you achieve your goals.

Marcum LLP has extensive experience in these activities and stands ready to advise and assist you and your company. Contact your Marcum Partner or local office and find out how Marcum can help you.