Article # 1:

Financing: A Guide to Preparing to Raise

Authors – George Haytko and Daniel Roach

There are many reasons a growing company might require additional financing. During the startup stage, you'll need cash to try and pursue your great idea. Later you might need to grow your sales and your overall team or find a partner. Maybe the founders or investors eventually want to pursue an exit strategy.

Regardless of the stage your business is in, there are many financing paths available. They vary based on the stage and amount of financing you are seeking, but (unless you are very fortunate) securing any kind of funding always requires a lot of planning, preparation, and work. At the outset, it's important to consider whether the existing owners are willing to accept dilution or provide personal guarantees.

Getting Ready to Raise

1. Let's start. What are your goals? Growth funding? Liquidity for the owners or investors? An exit strategy? Do you need a partner to effectively penetrate your target market? If you do bring in a partner, they may steer you toward different financing options depending on your goals.
2. As part of their due diligence, potential investors or buyers may request sensitive corporate information (regardless of whether they invest through a loan, purchase of stock, or a combination of debt and equity). Are you prepared to disclose these details?
3. Can your financial and corporate records and other data withstand a thorough examination by potential investors? Do you have documented policies and procedures?
4. Have you prepared detailed financial projections for at least the next three years, including balance sheets and cash flow statements? You should show year one by month, and years two and three by quarter. Are your revenue recognition policies in accordance with Generally Accepted Accounting Principles? Will they withstand the scrutiny of an audit or due diligence?
5. What is your target market? What percentage of your target market do you plan to control by year three of your financial projections?
6. Do you have a capable management team/staff that can handle the extensive time and effort it takes to respond to due diligence requests, prepare for and participate in investor presentations, and respond to follow-up questions and requests?
7. Have you considered how long the financing process will take? If so, you might have underestimated the time and effort required. During the process, the management team needs to remain focused on growing the business and achieving long-term

goals. Fundraising efforts can be distracting, but it's important to demonstrate to potential investors that you have a capable management team worthy of investment.

8. Do you have sufficient funds to maintain operations if the fundraising process drags on? Think ahead to the date you expect to close your financing round and plan to have a minimum level of cash on hand (some target three months of operating expenses, but you should evaluate your own circumstances and requirements). If the process extends beyond your targeted closing date and the company no longer has sufficient operating cash, you may lose substantial negotiating leverage. Contingency planning is very important.
9. Let's say you expect a round of financing to take three months from start to finish, and you need a minimum of three months' operating cash as a base amount. That means you have to be ready — with financial projections; draft presentations and support, and assembled corporate documents (minutes, articles of incorporation, bylaws, policies and procedures, historical financial reports, and tax returns) — at least six months before your targeted closing date.
10. Are you ready to accept oversight from new board members and investors/partners who may want to play an active role in company decisions going forward? Are key members of your management team comfortable with these changes?
11. If you select a corporate partner, have they worked well with other such organizations, or are they essentially planning to eliminate the competition? Have you checked their references? Are you relying on their resources (not just their financing) to make your company successful? Are you the fly on the elephant's back, meaning you're not big enough to warrant the necessary attention of their resources, but 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 connected and can they open doors to strategic targets?
12. Depending on the funding option you choose, you may incur substantial costs — both during the fundraising efforts and in follow-on reporting. Consider broker's or finder's fees; increased accounting and legal costs; perhaps travel and other expenses for board members; increased PR costs; etc. Be aware that many investors and VCs are reluctant to pay broker's or finder's fees.
13. Will there be substantial new reporting requirements, and do you have the systems and staff to meet those requirements?
14. Be mindful about strategic investment partners because they can both positively and negatively impact the business. On the positive side, your strategic investor is likely influential in your space and can accelerate your traction. However, they may discourage their competitors from engaging with your company and therefore slow your growth if you planned on some amount of revenue from those competitors.
15. What kind of market presence does the company have? Has it kept a low profile? Potential investors will want to know that the market has some knowledge of your

company and that some recognizable potential customers are aware of you and have shown some interest. There are different strategies to raise that visibility depending on the timing and your goals.

Don’t be discouraged or overwhelmed. With the right business advisors and partners, many have successfully raised funds — even in today’s environment.

Since most financing comes from either debt or equity transactions, watch for a follow-up article on different financing options. Marcum LLP has extensive experience with these activities and stands ready to advise and assist you and your company in your plans. Contact your Marcum Partner or local office and find out how Marcum can help you.