

FINANCING BUSINESSES

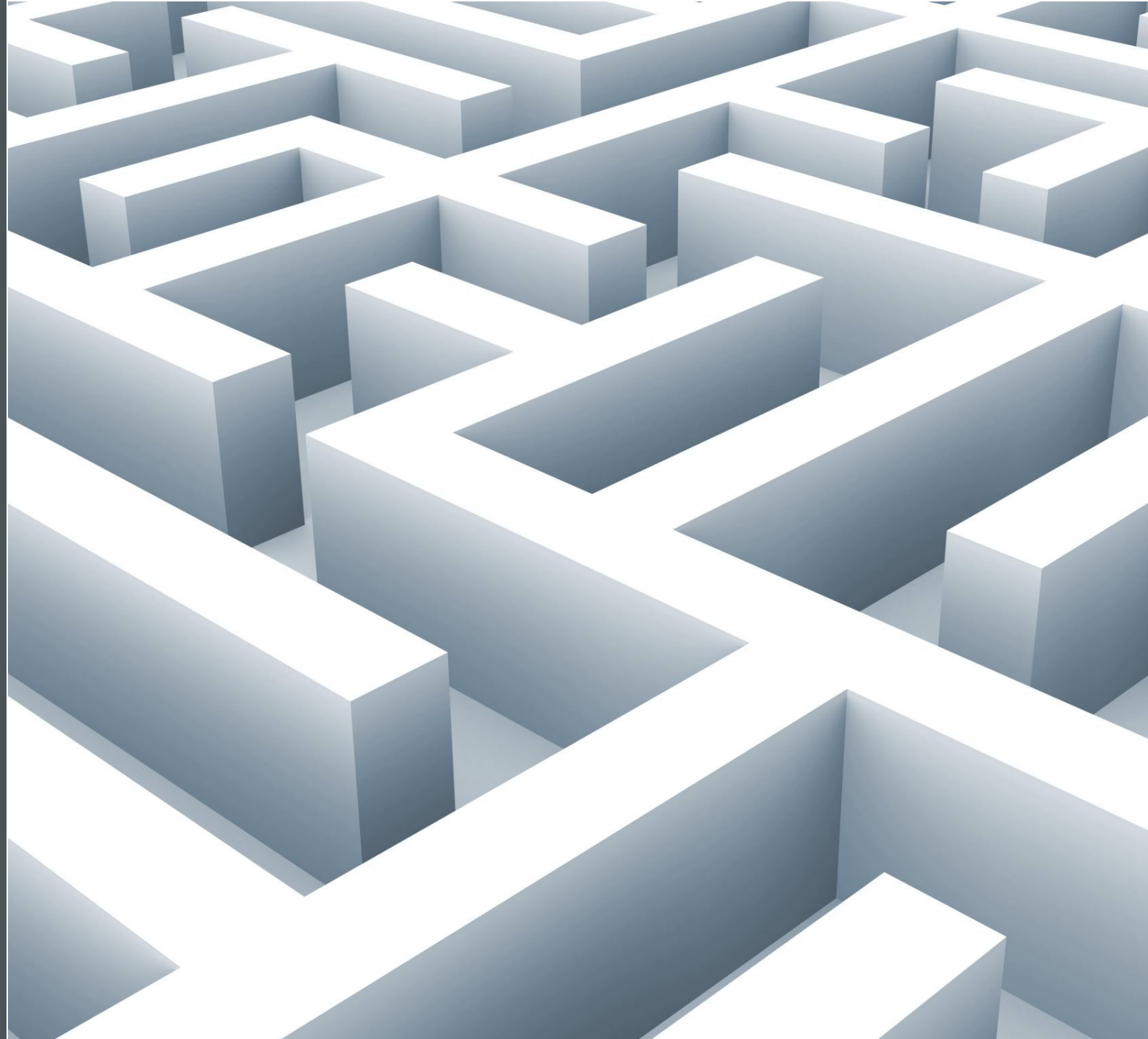
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WHAT TO SAY WHEN YOU'RE ASKED FOR \$\$

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For Weston Pop-up University

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TWO SHORT
STORIES

A week after
Investing, we
Learned that 75%
of Employees were
Members of a
Religious Cult!

RISK

Versus

“We just sold the
Company for \$95
Million!”

REWARD



BACKGROUND

- 12 Revenue (Royalty) Investments
- 50+ Equity & Mezzanine Investments
- 3 Prior Funds, now launching a 4th Fund
- Transatlantic M&A: Downer & Co. Boston/Paris
- Equifax Research - President
- Arthur D. Little – Transatlantic Consulting
- General Electric – MMP Program
- Clarkson University BS; Dartmouth/Tuck MBA

SO, YOU'VE
BEEN ASKED
IF YOU'D
LIKE TO
INVEST IN A
BUSINESS?

- **By a Friend or a Family Member**
- **By a Former or Current Work Colleague**
- **How do you Respond**
 - It's a Delicate Situation
- **What do you Look for? Questions to Ask**
- **Do you have to be an Accredited Investor?**
 - Not Usually If it's an Offering Directly from the Company
- **Crowd Funding – Getting Lots of Attention**
 - Regulatory Issues and You Have to Source Most of the Investors
 - You Don't have to be an Accredited Investor

LOCAL RETAIL OR SERVICE BUSINESS



For a Local Business such as Retail

- Need to Look at their Forecast
- Will this Remain Local, i.e. a Bakery or Clothing Store? Probably Limited Scalability
- Probably Needs Only \$25,000-\$100,000
- **Your Equity Stake** would be modest, i.e.. 10-25%.
- Maybe They could Finance it with a **Bank Loan** if you Co-Signed
 - But they Really should Keep their Initial Debt Low
- Maybe you can Provide Advice, or Work there Part Time
 - Then, **Are you a 'Partner' or an 'Investor' or a Willing Supporter?**
 - Because there is a Personal Element, it's Complicated

STARTUP STAGE

SALES:
ZERO-\$10K/MONTH



Startup with No History but Scalable

- Highest Risk - **80%+ Fail** in the 1st 5 years
- Don't be Overly Critical or Unsupportive
 - This is their Dream – They especially need your Support
 - But Limit your Investment
 - And Make it Clear that they should Not ask for More, period! . . . However, They will be back!
- Ask for a Business Plan and a Forecast
 - Insist on Quarterly Updates
- **Don't take a Board Seat if Offered - Advisory Board is OK**
- Ask to see organizational docs and Investment docs
- Often Invested Through a SAFE note, i.e., convertible Debt
 - Better for you if it fails – You get to write it off
 - Better for the Company as it converts at a discount, later, when the valuation is higher than they could get today
- Angel Investors (beyond Family & Friends) are Major Source

SAN FRANCISCO
STARTUP
SALES = \$0

MEDICAL
TECHNOLOGY



- Challenging Startup in San Francisco
 - *Mass Spectrometry as a Service plus Development of 'Workflows'* - Vital for New Drug Development
 - Founder is a Brilliant Foreign born Ph. D. but she's Never run a Company
- Friends invested \$50,000+
- A Local Incubator Invested \$50,000 and enrolled her in their 3 month 'training program' for entrepreneurs
- Made Dozens of Pitches to Angel Investors
- Hired a 'friend' in Germany for \$10k/month
 - Ran out of money 2 months later
- Spooked a Strategic Investor (\$billion Company)
 - Not a Good Listener or a Good Manager
- She Needs to Find a CEO or She Won't Raise more \$

STEVES ICE CREAM

- A Boston Distributor Related this Tale to me About his Son's Venture
- No Experience so he Franchised
- Raised \$ from Friends and Family
 - **Guaranteed their Investment-No Risk!**
- He Opened a Steves Store in Texas
- Shut Down within the 1st Year!
 - Didn't Consider Climate and How Hot Cars got within Minutes and how Quickly Ice Cream Melts!
- *Paid Back All Investors as He Promised!*
 - Painful Lesson



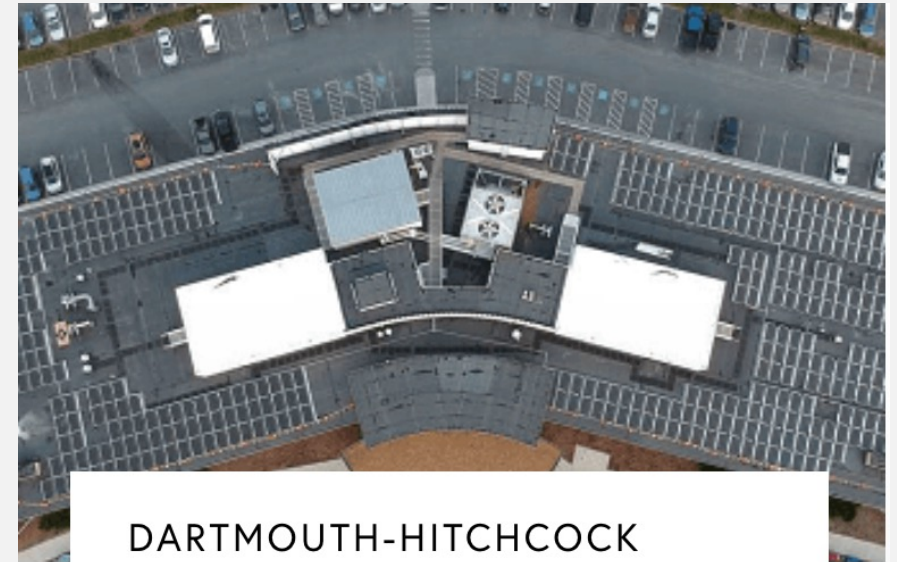
GROWTH STAGE:

COMPANY HAS
SALES OF \$20,000-
250,000/MONTH

- The Company should have Customers
- It Has Proven Viability, i.e., has at least an MVP (minimum viable product) that is Selling
- Now it's Ready to Scale
 - Still Negative Cash flow - will continue
- Wants to Raise \$1-5 Million in a Late Seed Round (Possibly SAFE Note) or Series A
 - Usually from Institutional Investors:
 - Venture Capitalists
 - Family Offices
 - Strategic Investors (Corporations)
- Rarely are Individual Investors Invited
- This is the Area I'm Now Focused on

VERMONT SOLAR FIRM

- Company Previously Funded with Grants
- Limited History: Sales of \$1.5 Million/year
- But Has a Sales Pipeline of \$5 Million!
- Very Little Investment by Founders and No Outside Investors – so No Equity Underneath us – Risky!
 - We Provided Debt/Royalty Funds as Amortizing Debt + Royalty
 - *Gave them 3 months to Raise Equity or We would Seek Warrants Exercisable into Stock Because We were Assuming 'Equity Risk'*
- Company has Done Well Since Funding



DARTMOUTH-HITCHCOCK
MEDICAL CENTER



COLONIAL HOUSE INN &
MOTEL

EARLY-STAGE
COMPANIES ARE
THE MOST
CHALLENGING
TO FUND

SO, WE DEVELOPED
A VARIANT TO MAKE
IT LESS RISKY IN
THE BEGINNING

Debt + Royalty Security Convertible into Equity

- Balloon Note, Principal due in 5 years
- Interest Payable Monthly
- Plus, Royalty on Sales
- Might Include Warrants For Equity at a Low Price
- Our Loan Then Converts into Equity When:
 - *The Company is SOLD or receives another INVESTMENT*
 - *Or Earlier if we Sense it's the Time is right, and Then:*
 - Sit Down and Negotiate Terms, but if we can't Agree ...
 - Hire Two Outside Appraisers
- Fund with **Debt** Initially So we're in a Senior Position
- Convert to **Equity** when the Prospects are Best
 - Good for the Company ... Good for the Investors

APPLICATION OF THIS VARIANT FOR A COMPANY IN MASS.



Lighting Company– Unique Patented Technology

- Company doing \$300,000/year, Sales Affected by COVID
 - On Cusp Of High Growth with Two Introductions in Q3
 - Already Raised \$10M Including 2 Corporate Investors
 - They Believe the Company is worth \$22M; we think \$15M
- We Offered to Invest \$2M as Debt plus Royalty of 5%
 - Debt Will Convert with Next Round into Equity
 - OR on Negotiated Terms OR At The Average of two Independent Appraisals
 - We Also will Receive Warrants for Stock in the Company
- **This allows for a Safer Investment Initially but with Same Upside Later**

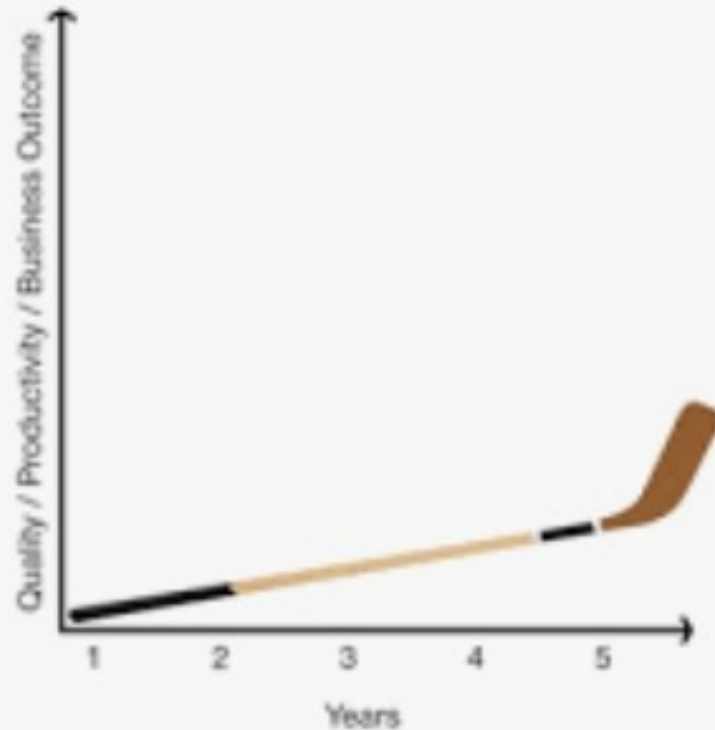
APPLICATION
OF THIS
VARIANT FOR
A COMPANY IN
THE MIDWEST



Bicycle Manufacturer did \$3 Million Last Year

- Industry Sales Boosted by COVID but not the Company
- Company Received a \$16 Million Order from a Big Box Store –WHOA!!!
- Company's Bikes & E-Bike (Electric) Has Great Reviews
- BUT the Huge Demand for Parts from competitors, Created an Impossible Situation for the Company
 - Without Cash & Parts, the Company Can't Meet Demand
- We Proposed Three Steps
 - Help them Get Purchase Order Financing - *In Process*
 - Help them Get an SBA Guaranteed Loan - *In Process*
 - THEN Invest and/or Raise \$3-6M Financing
 - But not til the Company has Stabilized

INVESTMENT OBJECTIVES



- For a Startup Business
 - Help them and Invest Cautiously
- For a Company doing \$200,000-\$3 Million/Year
 - Seek At least 10 times your Investment
- For a Company doing \$2-3M/Year
 - Still Seek 10 times
- For a Mature Company
 - 10-20%+ Return / year
- Beware the Hockey Stick Forecast! They Never Make it



RULES TO FOLLOW

- Choose Those Businesses that Interest You and Which you Understand - *Per Peter Lynch*
- Diversify your Investing
 - Different Industries, Stages, Companies, Managers
- Limit your Investment In a Company
- Limit your Investment in 'Alternative Investments'
 - To Perhaps 5-10% of your Portfolio
- **Invest in People, Not just Ideas**
 - Seek Substance, Balanced Team, not Charisma
- Invest Alongside or With Good Managers
 - Who Understand the Business
 - Who will Actively be Involved
 - Who will Keep you Informed with Quarterly Reports



EXITS TAKE TIME

- These are Illiquid Investments.
- The Earlier the Stage, the Longer to 'Exit'
 - Figure 3-7 Years
- Companies are Usually Sold to a Large Company but Rarely an IPO
- Let Someone Else do the 'Driving' if you're New at This
- Get Involved, Possibly Sitting on a Board
- Enjoy the Ride Because It Can be a lot of Fun

- Thanks!

QUESTIONS?

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