



Build Your Business

An eNewsletter for
CEOs looking to
grow their companies.

High-value, "how-to" articles on customer-attraction, sales development, leadership, and best-practices in HR, IT, product development, communication, financial operations, engineering and M&A/value creation.

How to Find & Attract Capital to Grow Your Company

If you are looking to find capital to grow your company, this article will show you how prepare critical documents required to find capital from non traditional sources.

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How to Find and Attract Capital to Grow Your Company

Company leaders who are the most successful in finding and securing capital are the ones that understand two things. One -, how to prepare an investment request (more commonly known as an offering memorandum) and two - how lenders or investors evaluate risk and return. This article walks through the process of how to prepare an offering memorandum and how to find capital. When dealing with capital placement, it is paramount that you understand how lenders evaluate risk and return in addition to the different availability of capital.

Offering Memorandum:

The first step is the most time consuming but is also the most important. I cannot over emphasize the importance of a well-written and documented offering memorandum. You will only get one chance to make a first impression regarding your investment opportunity. A couple words of caution go with writing an offering memorandum. The first is being incredibly honest and upfront. Under no circumstance hide or sweep under the rug anything that is negative. In fact, inform the capital group about the issue and explain how you are overcoming the issue. The last thing you want to create is an atmosphere of distrust with investors. A well-written memorandum should allow investors to come to a very quick decision regarding your opportunity. Most memorandums are split into four sections.

Section One:

In this section you will want to present the past three years' financial history that includes tax returns, year-end financials including your balance sheet and Profit and Loss statement. You will have to perform some level of analysis and have a detailed write up of the findings. This is a short list of items that you will want to include:

- History of the Company
 - When founded
 - What entity
 - List of Company Owners and titles
 - Location of business
 - What products or services that you provide
 - Current Customer Base
- Description of current operations
 - List and description of facilities
 - Assets
 - Intellectual property including patents

- Financial History:
 - Sales History by Month
 - Gross Margin Analysis
 - Recast Income Statements
 - Cap X requirements
 - AR Aging.

Section 2:

The second section will outline the request and present the opportunity. If you're launching a new product line that requires an investment of \$1,000,000 you will want to clearly define the following;

- Amount of request
 - Timing of funds needed. Do you need all the funds up front or can they be delivered in tranches over a period of time or against key milestones.
- Rate of Return of your offering
 - Example: 6% amortized over a 10 year period
- Security that you're willing of offer.
 - Secured against company assets, equity position in the company.

Section 3:

Depending on your request, you will need to prepare a one to three year budget that shows how the capital will be used. If the capital is going into your existing company, use the last year's financials as a starting point. Show when the capital will be expended and the associated expenses. You should be able to clearly demonstrate cash flow and set milestones with regards to major activity. In addition you will want to prepare an in depth market analysis.

- One to three year budget
- Major Milestones set
- Return on Investment
 - By year
- Market Analysis with regards to product launch
 - Market segmentation
 - Market size
 - Target Customers

Step 4:

Writing an Executive summary is the last thing you do. Having written many offering memorandums over the last twenty years, I have found that this is the easiest way to write the executive summary. Having gone through the process of building sections one - three, this section is actually the last one, even though it will be the first two pages of the memorandum. Most investors will read the executive summary and go to the financials. If they like what they see they will

then read the entire memorandum. It is important to keep the executive summary to no more than two pages. You should address the following:

- Introduction
- Financial History
- Funds Request
 - Amount & Terms
 - Return on Investment
- High level 3 year budget summary
 - Milestones
 - Market analysis

Now that you have a complete offering memorandum written, take the time to have it printed, bound, with a cover and a table of contents. Don't print any more than 10 at a time to avoid costs. You will also want a PDF version for electronic delivery as well as 10 to 15 slide power point presentations covering the highlights.

Finding Capital:

Having a complete offering memorandum, you're ready to start your search for capital. The saying "if it was easy everyone would be doing it" applies to this next step. You must be willing to spend the time to secure capital. A lesson learned from my years in mergers and acquisitions as an investment banker is to talk to as many prospects as you can simultaneously. The more activity you can create with regards to your offering the better. As you talk to potential investment partners and learn from the conversations, do not hesitate to change your offering memorandum to reflect those learning's. Unless you're very fortunate you will be turned down a number of times. Depending on your capital needs and current financial position you may want to consider the following:

- **Financial Institutions:** Community, Regional and National Banks represent the largest opportunity for companies with good financials. The commercial banks are now starting to lend again, but very cautiously.
- **Private Capital Companies:** These are privately owned investment companies that act like a commercial bank with regards to lending but they will take more risk than Banks and will charge for the risk. They will require security. These companies are usually run by ex-commercial bankers that understand the need in the market for capital and fill a void that the commercial banks are unwilling or unable to fill. Your private or business banker at your commercial bank should be able to give you several referrals.
- **Friends and Family:** To access what is commonly known as "Friends and Family" you will most likely need to secure a broker or an Investment Banker. Friends and Family are privately owned investment groups or

organizations that tend to have access to funds that take advantage of unique investment opportunities. They may or may not require an equity stake in your company but will most likely require a higher return on their investment without it. Depending on the size of your company they may require one or two investors be appointed to your board of directors.

- **Private Equity Companies:** These are firms that will make investments in companies but will likely require equity in your company in return. Most of these firms are very transparent and well managed, but you need to be careful with regards to equity positions and terms.
- **Endowments:** These are investment funds that are set up and managed for non-profits. Think Stanford Endowment Fund. Past Stanford Graduates or individuals may donate large sums of money to the university endowment fund. These funds are managed either by the university/non-profit or by a Private Fund Manager. They can be a source of capital for companies that are positioned with the funds mission statement or purpose. They traditionally do not take on much risk in association with their investments.
- **Government Grants/Loans and or Reinvestment Programs:** Depending on the size of your business and what the capital is to be used for, this can be a good source of low interest rate funds. Federal, State and some City programs exist that can be used in this matter. They may supply a portion of the capital required leaving you with additional capital requirement to fill. They may also have restrictions that associated with the capital. Just be prepared to do all of the paperwork and be patient.
- **State Lottery Funds:** I know this last one may appear to be out there a bit, but some State Lottery Funds were set up with a portion of the funds going to small business development. The Oregon Investment Fund is one of them.

As you can see, finding and securing capital is not as easy as it looks. To do it right it takes a lot of effort and work. But the side benefits of preparing an offering memorandum, is that you can use the exercise to dig deep in your business and understand what you may need to do to improve your company. This may seem like a daunting task but the rewards of growing your company can pay large dividends in the end.

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Authors' Biography:

Brent Freeman brings 30 years of Senior Management experience in the Financial Services industry to Piper Group International. Prior to joining PGI, Mr. Freeman served as Chief Operating Office for NestWorth Inc., a closely held real estate investment company located in San Francisco California. Mr. Freeman has held Senior Management level positions at Bank of America, ITT, GMAC and GE Capital. Having served on acquisition teams for Bank of America, GMAC and having personally bought, built and sold several business, Mr. Freeman brings his extensive personal, corporate experience and expertise to the purchase and sale of middle market business interests.

Mr. Freeman holds a Private Pilots license and he and his wife Mary, own and operate La Dolce Vita Vineyards, Inc.

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Mergers and Acquisitions

Piper Group International has been providing M&A advice to our clients on a national and international basis for three decades. Our unique combination of professionals with deep industry expertise and extensive transactional M&A experience enables us to deliver a consistently high quality of strategic advice and M&A execution to our clients. We specialize in the middle market for both publicly traded as well as closely held companies.

Our capabilities include:

- Acquisitions
 - Sell Side
 - Buy Side
- Exclusive sales and divestitures
 - Divisions
 - Product Lines
- Fairness opinions
- Management buyouts
- Consulting



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March's eNewsletter summaries are provided below. If you would like to receive the three trial issues, please go to:
www.synergy-usa.com/eNews.html.

How a \$3 million/yr Company was Acquired for nearly \$20 million: in 6 Months **Mark Paul**

Are you looking for ways to increase the value of your company? As one CEO found out: Attracting significantly more "A" customers, while decreasing expenses is the surest way.

How to Improve Your Company's Cash Flow

Patrick Wheeler

Do you need extra cash? Are you searching for new sources of capital to help you survive & thrive? This article is for nonfinancial CEOs and discusses the different "levers" you can pull to improve your cash flow.

Using HR to Boost Company Performance

Iris Sasaki

If you are interested in dramatically increasing your employees' and managers' performance, there is a little-known secret that will leverage your strengths – and those around you – to accomplish far more.

Simplifying the Sales and Channel Strategy

Bill Etheredge

Is your sales and channel strategy defined? Have you assessed the effectiveness of existing strategies? Are changes in market conditions causing chaos in your strategy? This article defines what to do to boost effectiveness.

How to Really Get Things Done

Alexander Stein

Are you always short on time? Does your To-Do list only get longer? Are you at the end of your rope with trying to get ahead? In this article, learn how to get you and your business ticking.

How to maximize the value of IT in your business - IT Outsourcing

Manoj Garg

You know that you spend a lot of money on IT and that you need to maximize the value of your investments in IT. Do you know if you have made the right decisions on make vs. buy on IT functions and services?

Are You Jumping on the Lean Bandwagon?

Rick Pay

Are you trying to reduce operations cost – and considering Lean Manufacturing? Companies are climbing on the Lean bandwagon in droves, but how do you know if Lean is the right approach for your organization?

Got Heart?

Dan Duggan

Is morale an issue at your company? Do employees act listless? Is absenteeism beginning to be a problem? Learn how to recognize and transform "lost heart" into "loving your work".

Ten Reasons to go International

Richard Biggs

If you are pondering whether to go global, recognize the fact that you are already "global", in that you very likely have global competitors. You are in a competitive global marketplace.

Engineering Resources: Captive or Consultant?

Mike Miles

Too many projects and too little staff? Can't afford to hire anyone full-time? This article outlines how CEOs can clarify what is important in choosing to hire technical staff or to retain an outside consultant.

Can you do it in 6:40?

Dave Yewman

Chances are your presentations are too long. Why? Because everyone's presentations are too long. So how do you fix that? Here's one option, a radical option. Are you feeling brave?

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This is the third edition of a three-month trial of the Build Your Business eNewsletter. We are interested in your thoughts via a survey. To receive past months' articles and to take the survey, please 'subscribe' at www.synergy-usa.com/eNews.html. Thank you.