

# How to Find and Attract Capital for Your Company

By Brent Freeman

Companies that 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 investors or lenders evaluate risk and return. This article will walk you 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 investors and 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. Telling the story of your company and creating a position of strength is paramount. 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 potential investors or 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 be 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 Two:*

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 that your offering
- 6% amortized over a 10 year period.
- Security that you're willing of offer.
- Secured against company assets, equity position in the company.

### ***Section Three:***

Depending on the 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

### ***Section Four:***

Writing and 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 anymore that 10 at a time to avoid costs. I know that this may sound like a no brainer but you just spent 30 to 45 days to build an offering memorandum that will be the cornerstone of presentation with potential bankers, investors, capital partners or equity investors. 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 an investor, a partner or 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 the right partner, investor or lender. 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 be hesitant 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.
- **Strategic Industry Investors:** There are many companies within the lawn and garden industry who are poised for growth and have the capital or credit lines to acquire capital but they don't have the products they need to drive their growth. They are looking for synergistic companies, brands or products to invest in, merge with or form a strategic alliance that will benefit both companies. These Strategic Industry Investors are looking to benefit from an investment in ways other than just a direct financial return. These investors are typically companies or holding companies that either invest directly into a portfolio business or have established an investment subsidiary to do the same. These lawn and garden companies systematically seek out and routinely invest as part of an ongoing strategy of growth and innovation. They opportunistically invest or do so only to meet a certain strategic goal.
- **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 they of your company they may require one or two individuals be appointed to your board of directors.
- **Private Equity Companies:** These are firms that will make investments in companies but may 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.

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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