

# 8a Magazine

## Raising Money Capital In Uncertain Times: There Is Capital For The Good Deals

By John M. Collard



I have yet to enter a turnaround situation that I didn't hear the owner, or CEO or the board say that the answer to all of their problems is more money. While in some cases this is a real need, it is seldom the systemic problem within the company. Chances are that they have some work to do. Needing 'dollars' is one thing ... being ready to raise 'dollars' is another.

There is an abundance of funding available in the marketplace for good deals. The key wording in this statement is of course "good deals." When a company is in trouble rarely is it considered a good deal without some fixing.

Don't be surprised when you come to the realization that the company isn't attractive to investors or lenders. This means that you have the opportunity to rebuild the company, or parts of it, so that it can be considered a "good deal." Build a company that investors want to invest in.

### Buyers and Investors Look For:

- **Businesses that create value.** Consistency from period to period.
- **High probability of future cash flows.** History of performance and improvement, or the promise of cash. Troubled entities must be on the mend and making progress.
- **Market-oriented management team.** Focus on producing revenue. Cost cutting is only a temporary fix, you must generate revenue to make growth viable.
- **Ability to sell and compete; produce on-time and on-budget; thrive and grow.** Track record or demonstrated changes in the right direction. Make certain that the problems are fixed.
- **Fair entry valuation.** Realistic return potential is a must to attract investors.
- **Exit options.** Lenders want their interest and the repayment of principal. Investors want ROI multiples.

### Raising Capital

Once the company is rebuilding and perhaps restructured you are ready to raise capital. With technology available today the internet can be a valuable resource to get in front of many interested investors. Approaching one investor at a time can be very time consuming. The risk of finding the right one early in the process is very high. Often the answer lies in casting a wide net to 100s and 1,000s of investors to solicit interest.

Private equity funds use a 'funnel approach' viewing 1,000 deals to find 100 worth a deeper review, which results in one or two worth their investment. Lenders go through a similar process. Be either #1 or #2.

To present the company in the most favorable light the business operating plan must describe the opportunity to investors and what is in it for them. Why will they invest in you? To finance transition the plan must detail how you are fixing systemic problems and will use the funding for that purpose. Treat the potential investor as your audience, where the product is your company.

## The Business Operating Plan Includes:

- 1. Executive Summary.** Catch the interest of prospective sources of financing. Position the company accurately and distinguish your concept from others competing for money.
- 2. Business History.** Who founded the company, when, capital structure and progress to date. Openly discuss why the company was in trouble and how it is being fixed. What sound reasons support a change in performance — for the better.
- 3. Product/Service.** Define precisely what you develop and/or market. What customer need does your product satisfy and how? Why will customers buy from you? What distinct competencies do you offer?
- 4. Market.** Who are your customers? Why will they buy the product? Trends in customer purchases? How will you sell to the market? What are critical product characteristics?
- 5. Competition.** Identify specific competitors' strengths and weaknesses. Principal competitive factors in the marketplace? Where will your market share come from? How will you convince buyers that you are worthy of their trust?
- 6. Marketing.** Define strategy and chart the marketing direction for your staff. Give prospective investors confidence that you can convert ideas and assets into a strong marketing position and stream of profits. Be prepared to market why customers should trust your recovery. Discuss distribution channels, pricing strategy, promotion and sales incentives.
- 7. Manufacturing and Operations.** What is the nature, quality, extent and efficiency of production facilities? What is the capacity and utilization?
- 8. Management.** Emphasize the experience and competence of the key management team members. What changes have been made, are planned and when? In a troubled company, changes are required. How are executives compensated and incentivized?
- 9. Financial Projections and Assumptions.** Past, present and future balance sheet, income statement, cash flow statements. Most importantly, investors want to validate your assumptions. Make sure that the numbers tie together to tell the story.

Your business plan is only as good as the intelligence and work you put into it and

the uses that you make of it. The plan must persuade your team and prospective investors that your concept merits their consideration and buy-in.

Think about it, no one wants their investment or loan to pay for past sins. The capital infusion must be used to take the company forward. Address in detail why the company got into trouble, how you are fixing the problems and how the new capital will be allocated to these efforts. How do you plan to handle, preferably avoid old obligations while rebuilding the company?

### Three Step Approach to Get Results and Money:

1. Send a *personalized* letter to solicit interest to many investors and lenders. Include a 2-3 page Overview of the transaction. This letter should go to 100s of potential investors. Email Merge works very well for this task.
2. When you receive responses of interest, immediately send a 10-12 page Executive Summary to detail the opportunity.
3. For those with continued interest, present them with a detailed Operating Plan including the assumptions and financial forecasts for use during due diligence. Be prepared for their detailed investigations.

It is very important that the Overview, Executive Summary, Operating Plan and due diligence all be prepared and ready, subject to revisions, before the Emerge process begins. When you attract an interested investor, they will move very quickly. If you are not ready to respond immediately, they will move on to the next opportunity in their funnel. Dedicate executives' time and be prepared to schedule personal meetings to answer questions and close the deal.

Most turnaround specialists will have a list of investors and lenders who are looking for deals, some have longer, more quality lists than others. These specialists can help the process of preparing the solicitation documents, perform the Emerge to locate investors and negotiate the transaction, or help you along the way.

The raising money process is complex and time consuming. The U.S. Securities and Exchange Commission has rules governing how 'Broker/Dealers' and 'Finders' can operate, and what each can or cannot do. Working with a Broker is

very expensive for small and mid-size companies and you lose some control. Working with a Finder is much less expensive; you maintain control, and prepare documents. An outside director, as part of the company, can be a Finder to introduce you to investors and /or lenders — you then negotiate a deal that you can live with. When an outside director has a large database to utilize during this introduction process, measured in 1,000s of contacts, you can be in front of many investors. The key is prioritize the flow of introductions and manage due diligence.

Compensation for the money raising process varies by specialist, but there will be retainer and fees for preparing the process and a Finder's Fee upon completion of the transaction. Most specialists will use a Modified Lehman Formula geared to the size of the deal. One example of a Modified Lehman Formula might be 7.5% fee for the first \$1.5 million involved in the transaction, 6.0% for next \$1.5 million, 4.5% for next \$1.5 million, 3.0% for next \$1.5 million, and a 1.5% fee for the remainder of the transaction. Because there is a similar amount of work to locating financing for smaller deals as there is for larger ones, expect the percentage fee to be higher for smaller deals.

It is not hard to raise money if you put the right tools in place and the deal is investable. There is money available, just be the 'good deal' and you will raise capital.

### About the Author

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