

How to Raise Capital Without Overpaying



Presented by:

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A G E N D A

✓ Where the Money Is:
Components of Capital
Markets

✓ The Process: How to
Get to the Money

The Components of Capital Markets

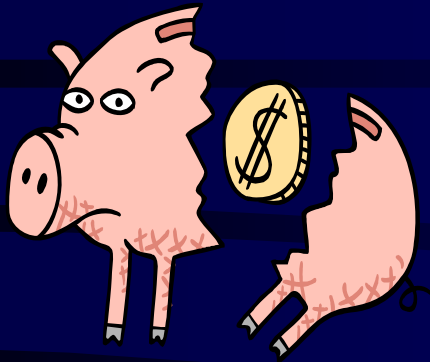
1. Capital Market Providers
2. The Consumers of Capital
3. The Advisors
4. The Business Plan
5. The Process

1. Capital Market Providers



Equity is almost always the Seed Capital.

Sources of Equity

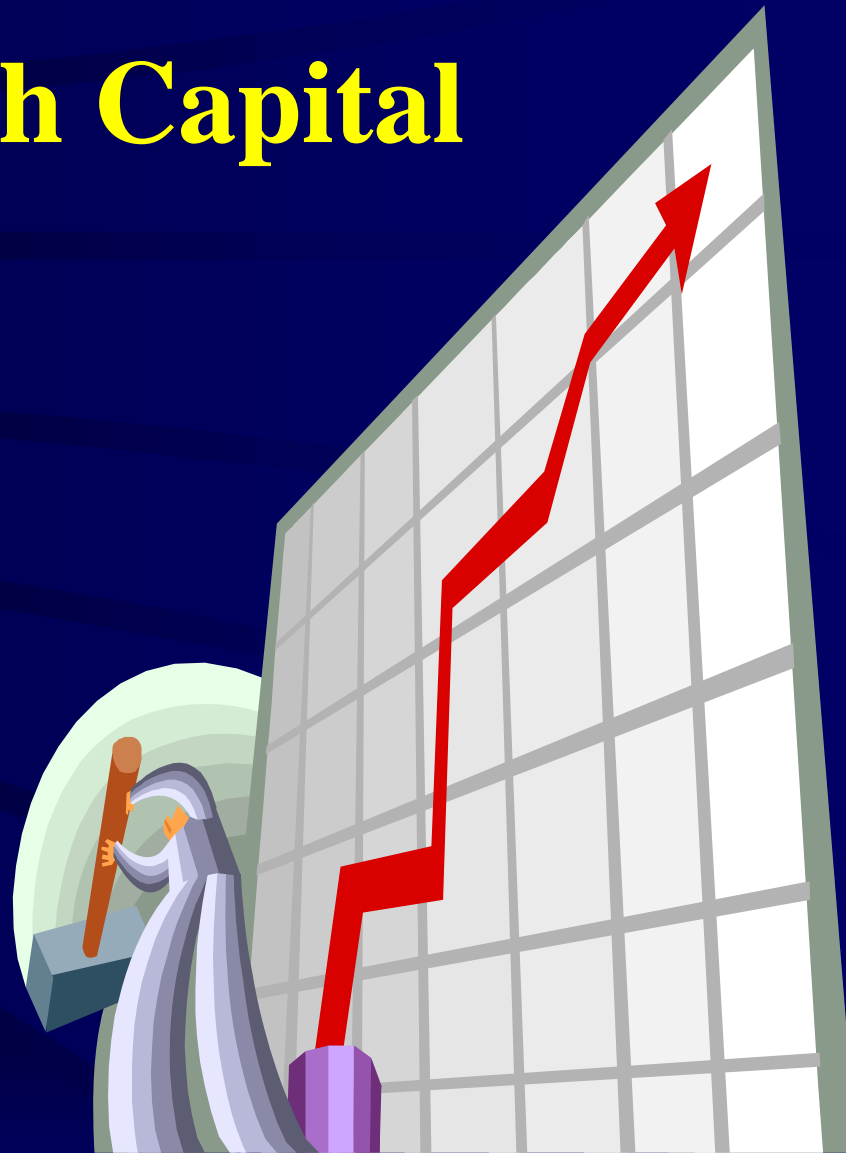


- Entrepreneur
- Angel / Friends
- Institutions



Growth Capital

- Mezzanine
- Venture Capital
- Public Markets
- Government
 - SBA Loans, IRBs,
State Loans
- Suppliers
- Lessors



Working Capital

- Traditional Financing
- Regulated Lenders
- Non Regulated Lenders
- Public Markets



2. The Consumers of Capital

- The Start-up
- The Holder
- The Grower
- The Acquirer



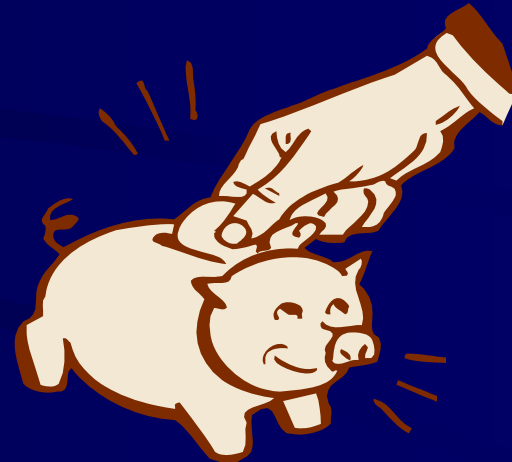
The Start-up

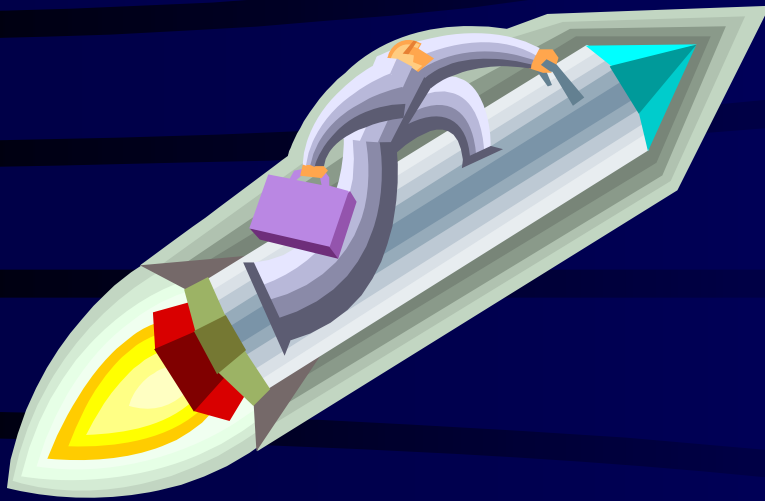
- The building of a business from scratch
- Usually an inventor / entrepreneur
- Single product / idea
- Ex. Amazon.com,
Dell,
& Jerry's



The Holder

- Privately Held
- Manager is the Owner
- Limited Professional Management
- Limited Growth Potential
- Must Qualify its Successors or Purchasers





The Grower

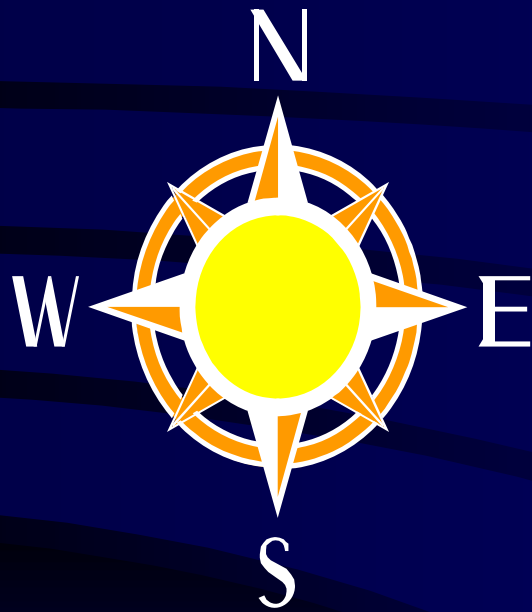
- Focused on Growth
- Inc. 500/
“Weatherhead 100”
- Goal is Institutional Structure
 - Public Company Valuation
 - Professional Management
 - Long-lived with Multiple Products

The Acquirer

- The Roll-up
- The Institutional Investor
- The Vertical Integrator



3. The Advisors



- Accountants
- Attorneys
- Money and Deal Finders

Accountant

- Auditor / Controller
- The Management Guru
- Deal Maker
- Facilitator



Attorney

- Regulator
- Warrior



- Deal Maker
- Facilitator

The Money and Deal Finders

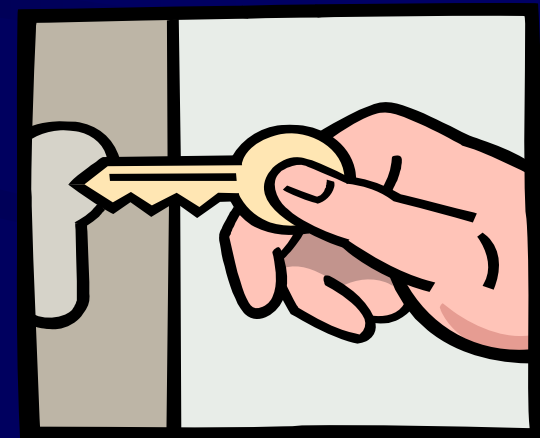
- Investment Bankers
- Lenders
 - Commercial, Nonregulated
- Leasing Agents
- Community Development Personnel
- Insurance Industry Investment Personnel
- MBA-type Consultants



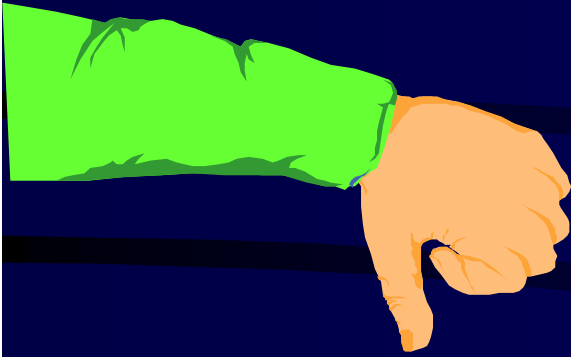
4. The Business Plan

The business plan is the key to money:

- A management tool,
- An information device,
- A sales and marketing agenda, and
- A strategic plan.



Business Plans: The Wrong Approach



Most business plans are nothing more than brief descriptions of management, the company's product or service line and a budget with projections.

Business Plans: The Correct Approach



The business plan must contain all the information that a decision-maker needs to make a determination to buy a business.

(A number of books and computer programs are available to help write the plan.)

The Structure of the Business Plan

- a. The Executive Summary
- b. History and Description of the Company
- c. Overview of the Industry
- d. Operational Strategies
- e. Marketing Strategies
- f. Competition
- g. Organizational Structure
- h. Financial Overview
- i. Financial Ratios
- j. Projections
- k. Appraisals



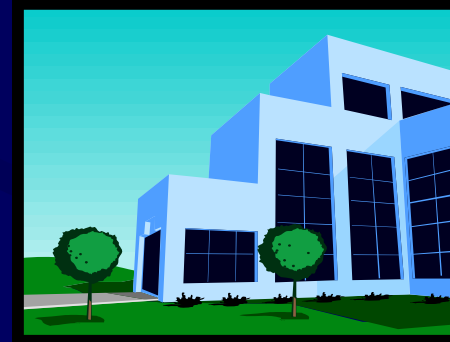
a. The Executive Summary

- An Overview
- Directed toward a Specific Audience
- Describes:
 - Sources and Uses
 - Facilities
 - Key Deal Points



b. History and Description of the Company

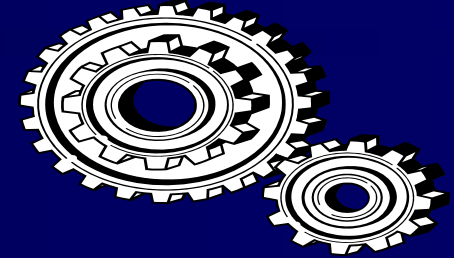
- Enough detail to leave a clear impression of the business
 - historical development of the business,
 - cultural drivers,
 - the vision,
 - the mission, and
 - the core beliefs



c. Overview of the Industry

- Products or Services
- Markets and Distribution
- Technology
- Regulatory / Governmental Issues
- Market and Product Cycles
- Competition in General
- Comparable Public Companies

d. Operational Strategies



- Product lines and SIC #s
- Production functions
- Components and materials
 - component sources, raw material sources, special considerations
- Equipment
 - unions, skills required
- Labor (direct and indirect)
- Facilities
 - owned / leased, costs

e. Marketing Strategies

- Product distribution channels
- Types of distribution
- Types of customers
- Geographic distribution
- Costs of distribution
- 10 largest customers
- Parado rule (80/20)
- Market trends
- Market share analysis
- Sources of market information

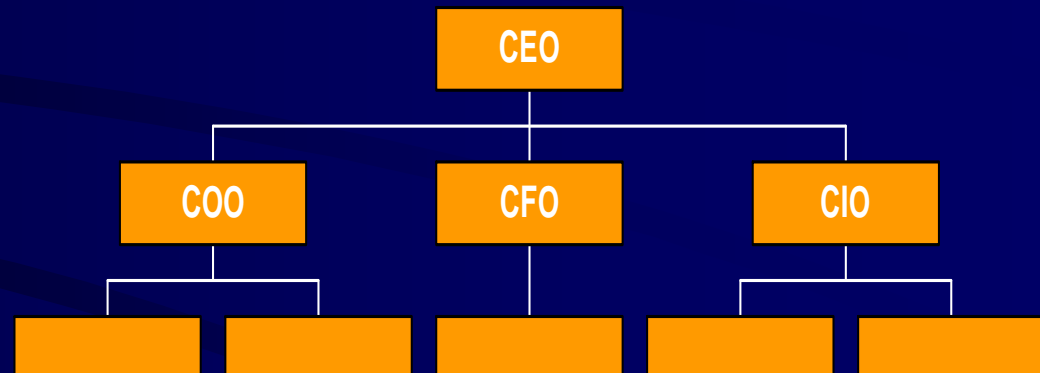
f. Competition

- Competitors
- Competitors' effectiveness
- Competitors' impact on market trends
- SWOT analysis
 - Strengths, Weaknesses, Opportunities, Threats
- Unique advantages



g. Organizational Structure

- Corporate Organization
- Management
- Proposed Changes
- Resumes and Profiles



h. Financial Overview

- Sales
- Gross Margins
- SG&A
- EBITA
- Financing
- Net Income



i. Financial Ratios

- Ratios
 - current, quick, gross margin
 - profit percentage
 - return on assets
 - return on equity
 - debt to equity
 - debt to tangible assets
 - coverage of fixed charges
 - interest coverage
- Other factors:
 - inventory turnover
 - agreement of accounts receivable
 - fixed asset turnover
 - total asset turnover



j. Projections

- Detailed first year / monthly
- Quarterly with assumptions in the second and third years



- Annual with major assumptions in the fourth and fifth year

k. Appraisals



Independent evidence of
value at fair exchange and
under forced liquidation

5. The Process: How to Get to the Money

1. Funding Process
2. Due Diligence Questionnaire



1. Funding Process

- Business Plan
- Target Market
- Proposal
- Commitment
- Timetable
- Documentation
- Closing the Deal!



2. Due Diligence Questionnaire

(please refer to handout)

- 
- Corporate documents
 - Stock exchange filings and reports
 - Financing
 - Employee relations
 - Insiders
 - Contract generally
 - Real property documents
 - Governmental licenses
 - Intangible personal property
 - Insurance
 - Industry
 - Financial accounting
 - Litigation and regulatory compliance
 - Miscellaneous

Questions?

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