BTUFF CAPITAL VENTURES

Turning Good Ideas Into Real Business Growth

21 Things You Need To Know Before Raising Capital For Your Business

Forward:

This book is written for the aspiring entrepreneur, the small business owner, and the seasoned executive looking to better understand the capital markets so they can raise money for their business or idea. I'm an entrepreneur at heart that began my career at Procter & Gamble in 1988. Over the next 16 years I advanced through P&G, PepsiCo, Kraft General Foods, and all the way to President, of SC Johnson Canada before buying my first company in 2005 in partnership with the capital markets. Over the past 12 years I've worked as CEO for both private and public companies, and I have successfully, and unsuccessfully raised capital for those businesses. Today I take the time to invest my own money and time into consulting for companies with good ideas that are eager to achieve their objectives. My years spent dealing in the capital markets has taught me a lot. The certainty is this, companies fail; some companies never reach their potential; some companies are taken advantage of by Wall Street firms because the opportunity presents itself; and some companies break through with a winning capital strategy and performance that serves all stakeholders as planned. This book is designed to present lessons learned that are not openly taught about raising capital for your business and how to improve your chances of success. The intent is to provide initial insights into what's important to help the next business leader navigate forward in the hope of achieving a capital strategy that best serves their business and objectives.

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Table of Contents:

Chapter - I

Investors are not your friends

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I. Investors are not your friends:

It is very easy to assume that once a person decides to invest in you, regardless of your previous relationship, that a friendship exists that allows for a comfort zone in the new partnership. Be very careful of this perception. It can stand in the way of you managing your investors as effectively as you should.

The truth is, as long as the business goes well and you as the operator deliver against the things forecasted in the business plan, your investor(s) will always believe in your abilities. But the opposite is also true. When your performance falls short of even the first business milestone, that belief quickly falls into question and the true essence of your investment relationship takes over.

Strong business leaders put the investor/shareholder relationship first. This serves as the best protection of any friendship.

Now here is how the process works. Investors make two core business decisions that are best illustrated in a simple decision tree that guides the process:

I. Investors are not your friends:

Do I believe in this business/idea and its financials?

Yes

No → Exit

Do I believe in Management?

Yes

No

Invest

Change or Enhance Management or Exit

Then Invest

It's business, not friendship.

I. Investors are not your friends:

Getting to the actual investment is often a long process that is far from easy. Smart Investors spend significant time and money conducting due diligence. This is simply a professional form of tire kicking to access you, your business, and the plan that you have set out to achieve. Over that time period real relationships are built. But these are investor relationships, not personal relationships regardless of pre-existing circumstances. And even though the due diligence process can be as painful as a root canal, the difficult work really begins once the investment is made. From there forward, the only thing that really matters are results. Falling short of planned performance creates investor tension. This is when managing the relationship is most critical. Assuming the investor relationship is based on friendship will negatively influence your ability to effectively manage any given situation. It can falsely insulate your thinking into believing that you will not be subject to real pressure to perform, loss of autonomy or control, or even legal action. This is a mistake you must avoid. Always proactively

I. Investors are not your friends:

manage your investor relationships. Not every investment is successful. As the CEO of your business, you must always take specific and proactive steps to effectively manage your investor relationships beginning with communication.

Chapter - II

Investor communication is critical

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II. Investor communication is critical:

The more communication the better. Transparency is your friend when it comes to managing investors. The more investors understand in real time, the more they can help you and have the desire to do so. Nobody wants you to succeed more than your investors. Your success is their success. A common mistake is holding back information or not sharing certain risk factors because you don't feel they are material, or believe things will be ok. This is not a reason to withhold potential threats as they emerge. Their disclosure reinforces your understanding and ability to effectively manage of the dynamics facing your business. When these issues you've now highlighted do not turn into problems, it is perceived to be in full, or in part, due to your effective management. On the other hand when undisclosed and problems emerge, the opposite result often is the reality. Do you really have a complete handle on the business you're running? Proactive and continuous communication with investors in set intervals, ideally quarterly, builds confidence, investor support, and overall success rates.

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Chapter - III

Are you open to feedback...
even criticism?

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III. Are you open to feedback… Even criticism?:

There is no person who is always right 100% of the time. And on very few occasions can a person truly get things done corporately without the involvement of others. Your ability to listen to and learn from experiences and view points beyond your own, directly improves problem solving and overall results. Most importantly it influences an investor's willingness to invest in you. Remaining level headed and seeking input to further validate your strategy is a value added trait that investors like to see. Business is an art, not a science. Your ability to find the best answer is not proprietary to your own thinking. Conversely, your ultimate effectiveness depends on your ability as CEO to find the best solutions to your companies challenges. As you seek capital for your business, the questions on strategy will come aggressively. How you respond matters. Being able to discuss openly the challenges your business faces and seeking guidance in those areas is reassuring for many investors. Knowing you don't have all the answers puts you on the path to find the best answers as you navigate your company forward.

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Chapter - IV

Time is not your friend

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IV. Time is not your friend:

It's very important to understand that as soon as you take capital from an investor the clock starts ticking. From this point forward it is good to assume that time is not your friend. Successful businesses operate with a high sense of urgency. This is particularly important for young companies and companies in growth mode. It is critical that you have a structured plan that progresses toward your objectives in real time. Consistent progress in your business drives investor confidence. The opposite is equally true. Investors want to know that their dollars are hard at work and delivering against the outlined objectives. The absence of material progress reduces investor confidence. This means be deliberate and thorough in execution of your plan without letting the grass grow under your feet. If you make a mistake, declare it and keep moving forward. Time is not your friend but aggressive execution of your plan ensures you have all the time you need to be successful or prove it out otherwise. Failure is not bad. Taking too long to figure that out and moving to the next opportunity is.

Chapter - V

The biggest mistake people make regarding why they should raise capital

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V. The biggest mistake people make regarding why they should raise capital:

All companies struggle to succeed in the beginning as they move through different phases of growth. Many times, entrepreneurs and founders are trying to find ways to raise capital so they can ensure their own financial well being while they determine if the business will work. This type of thinking runs counter to success. Over the last two decades working on both sides of deals, you learn that successful management teams put the business ahead of personal interests. By doing so there is a strong will to succeed because everything depends on it. Capital should be geared towards advancing the business over existing hurdles to become cash flow positive and opening new doors for growth. Here is a simple way to think about it. Strong businesses pay strong salaries, not investors. Investors want to invest in specific strategies that will make a company stronger. That stronger company is what facilitates the payment of strong salaries and the shareholders internal rate of return. Remember that an investment

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V. The biggest mistake people make regarding why they should raise capital:

in your company is an investment in you and your dreams. The investment is not the dream. Creating a strong company is the dream. If your focus begins and ends with creating a strong company, then your chances of success are already far greater and an investors willingness to invest is more likely.

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Chapter - VI

How does dilution really work?

VI. How does dilution really work?:

There are several schools of thought on whether allowing dilution of your share position is good or bad to help advance your business. The simple answer is it depends… But this never helped anyone. Let's begin by explaining the math that determines your level of dilution first because this is often misunderstood. Here is a simple example:

Let's assume your business has 2 shareholders:

Yourself owning	80,000 shares	80%
And your partner with	20,000 shares	20%
Total Shares	100,000 shares	100%

Now, to take in money for your business you must determine and agree with the investor(s) what your company is worth. This is called your **pre-money valuation.** So in this example lets assume your pre-money valuation is $2,000,000 or $20 per share. ($2,000,000 divided by Total Shares of 100,000 = $20 per share)

This means every investment dollar you take in the

VI. How does dilution really work?:

business increases the company value starting from that point. So if you we're raising $500,000 dollars for your business the math looks like this:

	Valuation	Totl Shares	Share Price
Pre-Money Valuation:	$2,000,000	100,000	$20
New Money:	$ 500,000	25,000	$20
Post-Money Valuation:	$2,500,000	125,000	$20

Now to understand the impact of dilution you must understand what happens to your Company's value relative to the change in your percentage ownership. As you can see from the example above, the share price does not change when money comes in your business. This means the total value of your shares don't change either. Only your % ownership in your company is diluted:

	Pre-Money Ownership /Value		Post-Money Ownership/Value
You own	80% / $1.6M	80,000 shrs	64% / $1.6M
Your Partner	20% / $0.4M	20,000 shrs	16% / $0.4M
New Investor	0% / $0.0	25,000 shrs	20% / $0.5M
Total Shares	100% / $2.0M		100% / $2.5M

In this example you go from 80% to 64% ownership, but the value of your shares remain at $1.600,000.

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VI. How does dilution really work?:

What happens next determines everything... If you effectively put the new money to work and grow your business from a $2.5M valuation to $4.0M, then being diluted from 80% to 64% created real value for you. Here's How:

	Pre-Money Ownership /Value	Post-Money Ownership/Value	$4.0M Post Growth Valuation Ownership/Value
You own	80% / $1.6M	64% / $1.6M	64% / $2.6M
Your Partner	20% / $0.4M	16% / $0.4M	16% / $0.6M
New Investor	0% / $0.0	20% / $0.5M	20% / $0.8M
Total Shares	100% / $2.0M	100% / $2.5M	100% / $4.0M

In this case you created material value by growing your equity from $1.6M to $2.6M as a result of the capital raise. Your strategy was right for the use of funds and it grew the value of your business. Being diluted helped you add $1.0M to your net worth.

On the other hand, if you spend the money from your capital raise and your business does not grow, in most cases your valuation goes down leaving you with a smaller piece of a smaller pie.

VI. How does dilution really work?:

Here's How:

	Pre-Money Ownership /Value	Post-Money Ownership/Value	1.5M Post Growth Valuation Ownership/Value
You own	80% / $1.6M	64% / $1.6M	64% / $1.0M
Your Partner	20% / $0.4M	16% / $0.4M	16% / $0.2M
New Investor	0% / $0.0	20% / $0.5M	20% / $0.3M
Total Shares	100% / $2.0M	100% / $2.5M	100% / $1.5M

As you can see, in this case your value eroded from $1.6M to $1.0M as a result of the capital raise. Your strategy to accelerate growth through investment did not happen. Now, you have a new investor who owns twenty 20% of your company with no increase in corporate value. This is where dilution hurts you.

Therefore, dilution can wear many faces. Some good and some bad. Here is the key… You must know the true drivers of your business and if investment in them will deliver the desired gains. Understanding each of these 21 principles and seeking guidance through the process will only increase your likelihood of success.

Chapter - VII

What does your cap table need to look like?

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VII. What does your cap table need to look like?:

Your capitalization table for your business is an important item. Depending on your ownership structure, various investors may request different things. Here is the Golden rule… simple is better. In rule number VI, we spoke about dilution. In the unfortunate example of having capital invested in your business but the results not being achieved, this hurts your cap table. The more shareholders, the more complex the deal may have to be. Complexity kills support for deals. Depending on the amount of complexity weighed against the growth potential that is believed to be in your business may influence the investors willingness to invest. Here are some of the things that investors think about when looking at your cap table:

- Where does the control of the company really rest?
- Who must be involved in major decision making?
- How much capital has gone into the business?
- Is there a history of ill will with any current investor(s)?

VII. What does your cap table need to look like?:

Here is an example of a simple and straight forward cap table that clearly illustrates the make up of an organization that you can use as a guide:

Your Business LLC					
Dec 31, 2016 - Cap Table			**Cap Table & Current Valuation**		
Stakeholder	**Role**	**Contribution**	**Common Shares**	**% Common Equity**	**Post Money Valuation**
Total Common Shares			**10,000**	**100%**	**$16,000,000**
You	Founder & CEO	Seed funding & Sweat equity	8,700	87%	$13,920,000
Partner	Strategic Consulting & Capitalization	Consulting, Operations & Angel Investor	1,000	10%	$ 1,600,000
Joseph Brown	Engineer	Design and CAD work	100	1%	$ 160,000
John Doe	Investor	Angel Investor	200	2%	$ 320,000

Chapter - VIII

Who really controls your business when it matters most?

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VIII. Who really controls your business when it matters most?:

Every CEO truly works for the shareholders of the company. If you are the sole shareholder then you work for yourself. In all other situations you may be making the decisions but you must always answer and service the needs of your shareholders. When you raise capital this takes on new levels of complexity depending on the structure of the deal that brings the money into your business. Pay close attention to voting rights, board structure, negative rights clauses and authorization levels.

Here is a golden rule… Always seek counsel before taking in capital. There are an infinite number of ways that deal terms can be structured and you must be sure that you understand every nuance. This matters for one simple reason, when business is good, you can do no wrong… when business is underperforming, shareholders want change. How your deal is structured can determine if that change will always include you.

Chapter - IX

How important are trailing and forward looking financials?

IX. How important are trailing and forward looking financials?:

Trailing and forward looking financials play an important role in answering certain questions for investors. Lets begin with established businesses because trialing revenues obviously don't directly apply to new business ideas but we will discuss new businesses next. Here is the first of two examples that help illustrate the current business trending, investment behavior, seasonality and other key insights for and investor:

Actuals	Trailing 3 Year Financial Summary							
	3 Years Ago		2 Years Ago			Last Year		
	Revenue	% Of Net	Revenue	% Of Net	Chg vs PY	Revenue	% Of Net	Chg vs PY
Gross Sales	**$ 6,570,000**	**116.9%**	**$ 7,570,000**	**118.1%**	**15.2%**	**$ 9,455,000**	**125.4%**	**24.9%**
Discounts	$ 723,000	12.9%	$ 873,228	13.6%	20.8%	$ 992,320	13.2%	13.6%
Returns	$ 227,000	4.0%	$ 288,328	4.5%	27.0%	$ 922,489	12.2%	219.9%
Net Sales	**$ 5,620,000**	**100.0%**	**$ 6,408,444**	**100.0%**	**14.0%**	**$ 7,540,191**	**100.0%**	**17.7%**
Sales	$ 1,236,400	22.0%	$ 1,409,858	22.0%	14.0%	$ 1,658,842	22.0%	17.7%
Marketing	$ 1,517,400	27.0%	$ 1,666,195	26.0%	9.8%	$ 1,885,048	25.0%	13.1%
G&A	$ 2,023,200	36.0%	$ 2,114,787	33.0%	4.5%	$ 2,563,665	34.0%	21.2%
EBITDA	**$ 843,000**	**15.0%**	**$ 1,217,604**	**19.0%**	**44.4%**	**$ 1,432,636**	**19.0%**	**17.7%**

From this simple three year financial summary, we can learn a lot about this business to help us make decisions. Use the next page to make a few notes and see if you come up with the same things I do.

IX. How important are trailing and forward looking financials?:

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What do you see:

IX. How important are trailing and forward looking financials?:

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What Investors see:

- A small emerging company experiencing double digit sales growth
- Net sales growth is healthy but trails gross sales because their appears to be a product performance issue based on the dramatic rise in returns
- Sales force expense appears to be a fixed component of net sales indicating a broker or commission structure that scales
- Increases in marketing investment appears to drive top line growth at a ratio close to 10X for every dollar invested.
- Correcting the product performance issue and streamlining G&A expenses can quickly grow the profitability of this company.
- I wonder how fast it can grow with the right investment?

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IX. How important are trailing and forward looking financials?:

As you can see, a lot can be quickly determined by investors based on a company's trailing financials. Now let's take a look at forward projections which equally make a statement about the business and also management. All businesses should be able to provide a forward looking estimate of performance based on set of assumptions ranging from historical norms, consumer trends, planned investment, assumed market penetration, new products or acquisitions, etc.. Most of these things apply to new and existing businesses equally. Here is an example of forward looking financials as a guide. List the things you see about this business on the next page:

Actuals	Forward Looking 3 Year Financial Summary								
	Year 1			Year 2			Year 3		
	Revenue	% Of Net	Chg vs PY	Revenue	% Of Net	Chg vs PY	Revenue	% Of Net	Chg vs PY
Gross Sales	**$ 10,733,000**	**124.7%**	**13.5%**	**$ 13,970,000**	**115.0%**	**30.2%**	**$ 18,655,000**	**116.4%**	**33.5%**
Discounts	$ 1,290,000	13.6%	**30.0%**	$ 1,302,320	10.7%	1.0%	$ 2,002,320	12.5%	53.8%
Returns	$ 833,000	8.8%	**-9.7%**	$ 522,489	4.3%	-37.3%	$ 632,489	3.9%	21.1%
Net Sales	**$ 8,610,000**	**100.0%**	**14.2%**	**$ 12,145,191**	**100.0%**	**41.1%**	**$ 16,020,191**	**100.0%**	**31.9%**
Sales	$ 1,894,200	22.0%	**14.2%**	$ 3,400,653	28.0%	79.5%	$ 4,485,653	28.0%	31.9%
Marketing	$ 1,980,300	23.0%	**5.1%**	$ 2,429,038	20.0%	22.7%	$ 3,364,240	21.0%	38.5%
G&A	$ 2,755,200	32.0%	**7.5%**	$ 3,036,298	25.0%	10.2%	$ 3,684,644	23.0%	21.4%
EBITDA	**$ 1,980,300**	**19.0%**	**38.2%**	**$ 3,279,202**	**27.0%**	**65.6%**	**$ 4,485,653**	**28.0%**	**36.8%**

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List the things you see about this business here:

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What Investors see:

- Management expects to nearly double sales in the next three years at the same time they solve their returns issue and hold their deal structure basically constant.
- The growth appears to be attributed to a material expansion in sale force investment and increased in marketing dollars driving awareness & trial.
- Planned reductions in G&A as a % of Net Sales is driving EBITDA growth at 127%
- Material risk to the P&L if the marketing and sales force investments do not meet financial expectations. Contingency planning will be important throughout the investment windows.

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IX. How important are trailing and forward looking financials?:

As you can see just at a very high level, trailing and forward looking financials play an important role in answering certain questions for investors. It provides insight into how management performs over time and how they intend to run the business going forward based on historical learning if applicable. Be fact based and thorough in your forecast with a high degree of confidence and conservative principles. It is not uncommon for an investor to cut your numbers in half and see what happens to the business. This helps manage downside risk in their eyes. You should know what happens in that case and contingency plan accordingly. These actions build investor confidence in management when the questions come.

Chapter - X

What if you just have an idea
and you're pre-revenue?

X. What if you just have an idea and you're pre-revenue?:

Most great businesses start as a simple idea designed to meet an unmet need or a path to new innovation. The key is to be able to qualify your idea to determine its merits. "All ideas are not equal" as the saying goes. So the question is how do you know your idea is a good idea? The truth is, in many cases it really depends on who you're talking too. There are endless business sectors and categories, all with various competitive sets, saturation, and need for innovation. And the world is always looking for innovation that makes life simpler and tedious tasks faster. Venture capital firms target areas of specific interest and internal experience in most cases when considering new ideas to fund. This means its important to identify the correct audience for review of your idea for the highest chance of success. Don't be afraid to seek counsel for your idea. Many firms like BTUFF Capital Ventures & Consulting will sign protective non-disclosure agreements in order to help qualify and build your idea into something of material value. Let's take a moment and begin to

X. What if you just have an idea and you're pre-revenue?:

qualify your idea:

- If it is not simple to communicate and even easier to understand, you have an uphill battle before you begin. Simple ideas with simple logic gain traction quickly with the right guidance.
- This means your idea should be clear, concise, and not take more than a couple sentences to explain. You also should not be trying to sell multiple streams of revenue out of the gate to justify your idea. Complexity kills support for ideas in the early stages.
- The size of the revenue stream matters. There are big ideas and small ideas. It is important to know the difference because your time dedication to the idea is an opportunity cost to you. Strong simple ideas have a clear link to demand and in the best case scenario, a recurring revenue stream.
- Other key points are how capital intensive is the idea, is it protectable, and who represents the

X. What if you just have an idea and you're pre-revenue?:

biggest threat to the idea reaching its potential if funded.

Being able to have open dialogue about your idea regarding these points and others are critical to success. There is a clear VC model to advance your ideas however the Wall Street version is traditionally very expensive. Particularly if you do not have capital to place along side the firm that invests in you. Your idea is still your idea, but it's really owned by the people that fund it. Having been through the process, I now take a different approach at BTUFF Capital Ventures & Consulting. My approach is designed to build as much value as possible behind good ideas that allows the founders to maintain control whenever possible. Depending on how capital intensive your idea is, maintaining full control is not always possible. However, it is possible to advance the intrinsic value of good ideas in many cases beyond what is expected with smaller targeted investments that deliver proof of concept. This

X. What if you just have an idea and you're pre-revenue?:

creates significant value for the founder before more capital is needed to expand the idea in its next stage of development. This strategy preserves wealth for the inventor which is a strategy we execute for ideas that we believe in.

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Chapter - XI

What if your sales are growing but you're losing money?

XI. What if your sales are growing but you're losing money?:

Growing sales is the first sign of a business with potential. Just because you're not yet profitable does not mean you do not possess something of material value. In the traditional sense of valuing a company based on EBITDA, companies like this are greatly penalized. I don't unilaterally agree with this premise. Taking a deeper dive into the given business almost always reveals a pathway to profitability if the revenue is consistent and trending upward. Firms that invest in these types of companies are looking to capitalize on big ideas that are in need of structure, improved sourcing, expense controls and potentially new management. In these cases I've always recommended seeking counsel prior to raising capital to solve your situation. If you can secure advice on how to make adjustments to your business that will drive profitability, then with this move alone, you can drive up the Pre-Money valuation of your business. These are the things I like to focus on first in order to truly define what is needed for a given business. Very often there are

XI. What if your sales are growing but you're losing money?:

companies with this profile that can generate their own financial solutions with the right guidance. These are the same things that will be implemented post the injection of capital at a much lower valuation. As a former CEO and current Investor, I find this to be a bit disingenuous. All investors, invest to make money. However, I believe there is a moral difference between taking advantage of a company through your investment so you can make more money vs truly investing in good ideas to create value for all stakeholders with mutual benefit. I believe the later creates stronger businesses and partnerships.

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Chapter - XII

How will your business be valued?

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XII. How will your business be valued?:

How your business will be valued is always a moving target and influenced by a series of quantitative and subjective factors. Some of these factors include current market conditions, recent transactions in your space or sector, trailing and forecasted financial trends, competition, and even how big the idea is believed to be. Your company's stage of development is also a key factor. Are you in the ideation stage; are you still pre-revenue and working on research and development; are you revenue generating but not profitable; have you reached cash flow break even; or are you looking to grow and established business with trailing EBITDA? Many of these factors will play a roll in how your business may be valued along with the type of investor targeted. In many cases this translates into some multiple of sales or a multiple of EBITDA. In the end, each transaction is a separate negotiation with these factors being guide posts to the process. Take the time to understand these moving factors as you go down the path to raise capital.

Chapter - XIII

Positive cash flow changes the rules in your favor

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XIII. Positive cash flow changes the rules in your favor:

Reaching positive cash flow in any business is a key milestone for success. When raising capital, many companies are still fighting to get to this milestone, hence the need for capital. In other instances, companies are generating real revenue but they need to bridge their accounts receivable and find more efficient ways to manage their operating expenses. It costs money to raise capital. The key question is how much is it going to cost you. In every situation it's a negotiation. If you must have cash immediately for your business to survive, your leverage is weaker and the cost of money is higher. Seeking advice on potential ways that you could change how you manage your cash flow in advance of raising capital can pay big dividends. Reaching positive cash flow changes the rules of the game in your favor. Depending on your business circumstances, situations may exist for changes to be made resulting in improved cash flow. Doing the work to create this value before raising capital can only help you. In certain cases you may create

XIII. Positive cash flow changes the rules in your favor:

your own self funding solution which is the best result possible. Short of that, you still are improving your financial strength and reducing the amount, and dependence on outside capital.

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Chapter - XIV

How much money do you really need?

XIV. How much money do you really need?:

After you've done everything you can to optimize your current cash flow situation, then the key question is how much money do you actually need for your business. Getting this right is very important. Not securing enough capital may leave your business short of its objectives and no cash in the bank. This makes it much more difficult and costly to get the capital you need going forward. Over shooting what you need by a significant margin causes unneeded dilution and lower ROI's for shareholders. This is why understanding your business strategy is so important and having an effective financial model to match it will guide you to your real cash needs to achieve your objectives. Depending on the business you're in and market conditions, an effective target capital amount can be identified with conservative principles. It is very important to seek advice in the development of your financial model for your business. Particularly if this is not your area of expertise or you've been operating for a period of time without one. It will answer critical questions and help guide your decisions with greater certainty.

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Chapter - XV

What is a financial model and do I need one?

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XV. What is a financial model and do I need one?:

All well managed businesses have comprehensive financial models that help them understand the capital needs of the company along with all the moving financial components of the business. These are very valuable tools to help you better understand your business and develop strategies for the future.
Your company's financial model also helps identify risks and vulnerabilities in the business before they happen. Therefore yes, it is a good idea for all businesses to have a working financial model to help guide them forward. If you intend to raise capital, then your financial model becomes even more important. Within it rests all your assumptions for growth, sourcing to determine cost of goods, investment levels into sales and marketing and resource allocations to define overhead. Everything you plan to do within your company has a home in a well done financial model. And most importantly, this gives you and your potential investors a look into the future value creation of your business. If you are not strong with numbers, then your financial model

XV. What is a financial model and do I need one?:

should be your best friend. Here's why. A well done financial model can give you the ability to easily change the assumptions of things you want to do with your business and it immediately shows you the results. A good model is predictive and makes you smarter about how to manage your business. If you don't have a CFO providing insight similar to this each day, then your financial model clearly should be a very important tool you use to help make decisions. So here is the challenge. How do you build one that matches your business? If you have average skills in Excel, then with a little guidance, this becomes easy. Seek counsel to get your model structured as an effective tool. Here are some structural points that will help you frame your model:

- Your model should extend for at least three years providing detail by month
- Your revenue forecast should be grounded in historical performance, competitive assumptions, planned investments & market penetration along with assumed customer attrition as applicable.

XV. What is a financial model and do I need one?:

This may sound complicated, but it really isn't. Here are some additional elements that set up the model once the top line revenue forecast is complete:

- Any pricing discounts or allowances are built in. If returns apply, then those are projected as well
- Your cost of goods sold are next with any planned improvements or changes you foresee in the future.
- Then we reflect sales expense, marketing investment, product development, professional services and all other operating expenses including existing and planned, full and part-time employees.

Then the magic happens… The more comfortable you are with your inputs, the better you are able to convey your story to investors. Your model will paint a detailed picture by month and year of your projected financial performance. It will show you all your cash flow needs throughout the three years and guide you each step of the way. For some, this still may sound complicated, but the truth is your

XV. What is a financial model and do I need one?:

financial model helps make running your business much easier. At BTUFF Capital Ventures, this is a tool we provide to all our clients if they don't already have a comprehensive model. Many questions can be answered from doing this exercise. New solutions for your business often emerge which almost always influence capital needs. These are very important insights to have when seeking growth capital for your business. Knowing what you really need and when you need it is critical to your success.

Chapter - XVI

Know what you need and why

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XVI. Know what you need and why:

Knowing what you need and why is critical before you set out to raise capital. In most cases you only get one shot with a given investor to convey the merits of your business and the investment opportunity. Your story either builds confidence or simply raises questions. Doing the up front work is critical to your success. Again, seek guidance in the process to improve your odds of success. In the previous chapter, we spoke about the value of a detailed financial model. Leveraging a strong financial model and taking a hard look at your business strategy will answer many questions. More specifically, it will define what your true needs are. Remember, all new equity capital from investors is dilutive. That isn't always a bad thing as we discussed in earlier principles however, in very few instances does it make sense to take in more capital than you really need to execute your plan. You're just giving away a larger piece of your company which is not necessary. We like to work with clients to determine if there are self-funding mechanisms that can be facilitated before taking in capital. This has always proven to be

XVI. Know what you need and why:

a good strategy. From there you can identify precisely what you need to reach your business objectives and the financing round takes on a very defined purpose with a specific use of proceeds that is supported in detail. Being able to convey this type of message during your capital raising process builds investor confidence not only in your business, but also more importantly in you as a leader in your company. Take the time to get this right before you embark on your capital journey. It greatly improves your success rate and length of time needed to complete your raise.

Chapter - XVII

Take steps to put your house in order

XVII. Take steps to put your house in order:

Throughout these principles we have discussed several things that represent questions that need to be answered before you begin your capital raise. Now, it's time to take action. Every business is different, but all businesses have a structure that either creates value or does not. The success of your capital raise depends in large part on your ability to persuasively illustrate this value. If you are trying to raise capital for an existing business, then let's make sure the historical data tells the true story of your company. Clean accounting is important; knowing what you really need; and having a structured plan to get there all make a difference and contribute to your rate of success. The same applies for new business start-ups. A tangible, realistic and motivating plan forward must be conveyed. There are countless investment bankers that help companies of all sizes do exactly this. Get your house in order. BTUFF Capital Ventures & Consulting LLC specializes in this without big Wall Street fees. We focus on building partnerships. Take the steps to

XVII. Take steps to put your house in order:

do this right from the beginning.

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Chapter - XVIII

Be singular - focused and succinct

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XVIII. Be singular - focused and succinct:

Most good ideas have a singular focus at its core that propels the support and demand for the business. The strength of the demand for this core business is what allows the company as it matures to capture additional revenue streams and greater success. This is a logical progression of any business. However, when you are raising capital to advance a young business or to expand an existing one, you are in sales mode for your business. The more complexity in your strategy, the more things that can go wrong, potentially reducing confidence in the investment. I wrote about this earlier. Complexity kills support for ideas. Therefore the most proven strategies for raising capital for your business all have a core component that is the primary message and source of value creation. When you have buy-in to that, you have buy-in to your company. Remain singular - focused in strategy and succinct in message. This improves your probability of success in attracting the capital you need. Also, it reinforces the most important work that must be done to ensure your company's success. All else is gravy.

Chapter - XIX

How do I bring this all together to tell the story of my business?

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XIX. How do I bring this all together to tell the story of my business?:

This is where everything comes together. You've taken the time to get your house in order. Your strategy is right and you know exactly what you need to move your business forward. Now it's time to deliver it all in a compelling summary that tells your story. In most cases this is broken down into two steps. A teaser deck, which paints an overview of the business opportunity with key metrics to gauge the interest level of a given investor. This is short, to the point, and has enough meaningful insight to secure further interest in the deal opportunity. The second is the comprehensive summary of the business that frames all the relevant facts and provides a complete picture of the investment opportunity. These are often confidential documents that are protected under non-disclosure agreements, and reviewed by qualified investors after expressing interest in the investment opportunity. This is where seeking counsel is most important. Telling your story correctly makes a big difference. Take the time to do this right and you will receive better results.

Chapter - XX

What types of investors are out there?

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XX. What types of investors are out there?:

First it is important to understand what it means to be an accredited investor. An accredited investor has qualified for special status under all applicable governing laws related to investing. The criteria varies by country but its purpose is to protect investors from risk. Laws make it much more difficult and discourage companies from taking investment capital from individuals or entities that are not accredited. For example, in the US to qualify as an accredited investor you must have at least $1,000,000 net worth excluding your primary home or have individual income of $200,000 per year for the last 2 years or have a household income of over $300,000 over the same period. Angel investors, VC firms, Private Equity and Hedge funds all qualify and make up the majority of the investment universe. This is your audience. Now lets dig a little deeper so you understand these investment groups a bit further. Each focus on various stages of a company's development and take on varying levels of risk as a result. The more risk, the higher the cost of money.

XIX. What types of investors are out there?:

Angel investors provide seed capital for new ideas and young businesses. They range from wealthy family members or friends to professional investors that enjoy the magic of entrepreneurial success. They are called angel investors because they in some cases provide friendly terms but more importantly are the first to believe in what you are doing so they make dreams come true.

Then there are the traditional venture capital (VC) firms who also do early stage investing but take a very fundamental and structured approach to doing so. These types of VC firms have defined areas of interest and expertise that they focus on. When they find the right opportunities, they almost always take complete control of the company to manage downside risk. If they buy into your management style, work ethic and leadership, you will often retain the CEO role but voting rights will almost always tip in their favor. Again, the cost of money is high but when managed well can be a successful partnership.

XX. What types of investors are out there?:

Next are the private (PE) equity firms who range from small, mid to large-cap funds. They also work across every business sector and take a very disciplined and structured approach to their investment activity. The criteria for deals they do will vary but as an example, it is not uncommon for the funds to be broken down based on EBITDA of their target companies:

Small - $1M - $10M in EBITDA
Medium - $10M - $50M in EBITDA
Large - Greater than $50M in EBITDA

These funds are dealing with more secure companies that carry less risk than start ups. As such, you will find PE firms require lower returns on their investments than VC firms and some PE firms may not take total voting control depending on the size of the company, its risk profile and amount of capital needed. They will always focus on who's running the ship and do they have the right person at

XX. What types of investors are out there?:

the helm. Strong management is always a motivating factor.

Finally, there are the Hedge funds. This is a group of accredited investors or institutions that invest in a myriad of assets an opportunities often using very complex techniques to manage risk and maximize returns. They invest in the public and private securities and will deal in a wide range of risk profiles that fit their investment strategy.

Depending on where you are in your company's development and your area of focus will shape the landscape of investors that are interested in hearing your story. Who you target, and understanding the details of their investment strategy is very important. Seek advice in this area. It will help you make the best decisions for your business.

Chapter - XXI

Seek advice before you take capital - A second set of eyes can often give you a stronger path forward

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XXI. Seek advice before you take capital - A second set of eyes can often give you a stronger path forward:

I developed this set of principles to help people get a better understanding of how the capital markets work and behave. Many of these things are not openly taught outside of the private deal chambers of Wall Street. These are the things that truly are learned through trial and error when you don't work in the space. And its more often error than success. Deal activity moves very quickly and professional investors take advantage of situations to their benefit. Smart business people do the same thing to ensure the success of their company or to get their idea off the ground. With the right counsel, there almost always is a path forward for good ideas. Entrepreneurs, small business owners and emerging companies are the growth engine of our economy. I encourage you to seek advice before taking in capital. A second set of eyes can often give you a stronger path forward. At BTUFF Capital Ventures & Consulting, we believe in finding solutions that preserve your ownership and control while advancing

XXI. Seek advice before you take capital - A second set of eyes can often give you a stronger path forward:

your business toward its goals. The investment professionals on Wall Street, Silicon Valley, and Silicon Alley are extremely well armed and prepared. It is critical that you level the playing field before you arrive on the high - stakes battlefield of raising capital. This will only improve your probability of success.

If you are interested in having a brief confidential conversation about your business, an idea, or your capital raising plan, we are here to listen. If we can help you, we will.

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