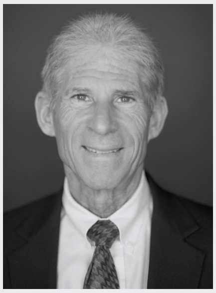

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Jim Freedman is a Founding Partner and Chairman of Intrepid Investment Bankers, a specialty investment bank that provides M&A, capital raising and strategic advisory services to middle-market companies across various industry sectors. He has more than 35 years of investment banking and corporate finance experience and is an expert on the financial aspects of corporate strategy.

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WHEN READY TO TAP THE CAPITAL MARKETS, FOCUS ON WHAT WILL BRING YOU THE GREATEST VALUE–RUNNING YOUR BUSINESS, NOT THE CAPITAL RAISING PROCESS

WHAT TO EXPECT WHEN YOU'RE EXPECTING (TO RAISE CAPITAL)

It's no surprise that our business owner clients often refer to their companies as their "baby." It makes perfect sense since the companies they built are an expression of them, their ideas, their hard work, and countless years of perseverance. And just like parents know, their baby can't stay small forever. So when the opportunity presents itself to accelerate growth – through new product development, geographic market expansion or an acquisition – they want to ensure expansion, but need additional financing. Raising capital can be much like bringing a baby into the world. But while it may not feel as instinctive to the entrepreneur as nursing does to a new mother, proper planning and education can go a long way in making the experience less stressful and the outcome more predictable.

The good news for entrepreneurs today is that the capital markets are as vibrant as ever. Last year, institutional investors poured capital into the U.S. economy at a robust rate: $69.1B in venture capital investment,[1] $400B in private equity capital,[2] and 167 private debt funds having deployed part of their $88.5B of capital on hand.[3] The flow of capital is expected to increase this year as the Trump Administration is keen to loosen regulatory restrictions on commercial banks. However, what the headlines do not reveal is the the exceedingly high level of selectivity and stringent diligence that lenders and equity investors perform. To make their companies institutionally backable, busi-

QUOTE:

THE RIGHT CAPITAL SOURCE CAN BRING VALUE IN MANY WAYS, INCLUDING ACCESS TO A VALUABLE NETWORK, BOARD LEVEL ADVICE, AND A DISCIPLINE THAT CAN SERVE THE COMPANY WELL IN SCALING THE BUSINESS WITHOUT DESTROYING ITS ENTREPRENEURIAL ENERGY AND SIGNIFICANTLY INCREASING ITS ENTERPRISE VALUE

ness owners must take important steps, such as instituting robust financial systems and controls, producing timely and accurate financial reporting, building a strong management bench, and executing sound business models.

Our team recently worked with the owner of a leading performance marketing company, who founded his firm just four short years ago with the goal of becoming the dominant end-to-end solutions provider for brands looking to scale through a direct-to-consumer model. The company needed financing to grow its proprietary eCommerce platform and the business owner didn't know what to expect. Knowing that a relatively young company in a rapidly-evolving industry would be heavily scrutinized by institutional capital sources, we encouraged the owner to have his financial statements audited and to strengthen the team with the addition of a seasoned CFO. Additionally, we produced marketing materials, financial models, and a management presentation that would bring the company the credibility required to close an institutional investment. Ultimately, the company secured very favorable growth financing from a partner who shares the owner's vision for creating a new paradigm for eCommerce.

Get Your Business in Shape to Draw Investor Interest

A challenge area we see, especially with lower middle-market companies, is in the CFO function. Our clients are consistently strong at developing and delivering products or services, but often neglect building a finance department beyond the controller level. When owners embark on a capital raise, the need for an experienced CFO becomes readily apparent. If a company is not ready to commit the time and resources to hire a top-notch CFO, it may use firms that provide temporary CFOs. Depending on its size, a company may be well served to have its outside CPA firm prepare either reviewed or audited financial statements. Companies often try to save money by not preparing audited financials only to find out that the enhanced scrutiny of financial audits raises the credibility of reported results, helping them in the diligence process with institutional debt and equity providers.

Once a company's financial house is in order, owners may feel ready to approach investors directly in search for capital; however, they can benefit by consulting an investment banker well before the need to transact in order to understand what attributes will attract the greatest investor interest. A banker can provide valuable insight into positioning the company, market valuations, the range of institutional capital that is available, and the expected cost of capital. A valuation generally takes the following into consideration: i) how much the company is worth today; ii) how much it could be worth in the future if certain growth initiatives are achieved; and iii) how long it might take to implement these initiatives and the risk in pursuing them.

Focus on Your Highest and Best Use

When you are ready to tap the capital markets, focus your time on what will bring you the greatest value: run your business, not the capital raising process. A banker will take the time to understand your company's vision and capital needs and communicate that to a deep network of capital providers that will compete to win your business. The access to long-standing relationships that a banker has with a variety of providers – ranging from private equity sponsors, growth equity investors, and family offices to institutional debt funds, commercial finance companies, banks, and non-traditional capital sources – are essential to finding the right capital solution for your strategic plan.

Our relationships with leading providers were vital when one of the largest providers of repair and maintenance services to major shipping companies needed advice on how to finance a management buyout. We helped position this unique company by conveying the essential role it serves in the ecosystem and were able to get lenders comfortable funding the transaction.

A banker can help you stay focused on running your daily business and add value through all phases of the capital raise. A banker will work with you to determine the desired capital structure and compile a list of the most relevant investors; draft an information memorandum and help you develop supporting data such as a financial forecast model; conduct a competitive, structured marketing process to secure initial proposals, organize management presentations, and manage the due diligence process for the final bidders; and, most importantly, negotiate final deal terms and the business aspects of the definitive documents with the ultimate suitor.

Avoid Post Funding Blues

Entrepreneurs must understand that there will be some changes after the closing. A company may face some new restrictions and requirements. There will likely be quarterly financial reporting requirements, the new investor may take a board seat, and owners will likely be unable to distribute profits without limitations as they may have done in the past.

If the entrepreneur picks the right investor, the benefits should greatly outweigh the risks and disruptions. The right capital source can bring value in many ways, including access to a valuable network, board level advice, and a discipline that can serve the company well in scaling the business without destroying its entrepreneurial energy and significantly increasing its enterprise value. **END**

[1] KPMG
[2] Pitchbook
[3] Preqin