Koffman SOUTHERN TIER INCUBATOR

Young America Capital

RAISING CAPITAL FOR EARLY STAGE COMPANIES

JUNE 7, 2022

PETER FORMANEK, CEO

HQ: 914.777.0100, CELL: 914.672.3779, PETER@YACAPITAL.COM

SEC & MSRB REGISTERED BROKER DEALER, MEMBER **FINRA, SIPC**

WWW.YACAPITAL.COM

INVESTOR UNIVERSE

Sources of Capital	Pros	Cons
Friends and Family	Easiest sell	Least value add
High Net Worth & Ultra High Net Worth	Easiest sell	Fickle, Unreliable outcomes
Family Offices	Easier than VCs	Mixed value add, Unreliable
Venture Funds	Seal of approval	Expensive, Ego-centric
Corporate Venture Funds & Corporate Development Executives	High value add	May alter outcomes & sales
Junior Capital Funds: Growth Equity, Structured Equity or Debt	Less dilutive	May affect future outcomes
Venture Debt	Less dilutive	May affect future outcomes
Non-Bank Lenders	Less dilutive	Least value add

METHODOLOGY & PROCESS OVERVIEW

Young America Capital

Capital Raise Timeline

#	TASK	START	END	WEEK 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1.0	Finalize pitch deck and executive summary	Week 1	Week 1																		
1.1	Prepare standard Non-Disclosure Agreements	Week 1	Week 1																		
1.2	Post no name summary to portals	Week 1	Week 1																		
1.3	Commence email and telephone marketing	Week 2	Week 4																		
1.4	Follow up calls and emails	Week 3	Week 6																		
2.0	Hosting intro calls with the CEO and investors	Week 4	Week 7																		
2.1	Management meetings	Week 6	Week 11																		
2.2	Push for term sheets and Indication of Interests	Week 11	Week 12																		
3.0	Evaluate bids and terms	Week 11	Week 14																		
3.1	Negotiations and final due diligence	Week 14	Week 17																		
3.2	Target closing date	Week 17	Week 18																		

RESEARCH RESOURCES

Software	Link	Annual Subscription Cost
Capital IQ	www.capitaliq.com	~$13,000
CB Insights	www.cbinsights.com	~$12,500
Crunchbase Pro	www.crunchbase.com	~$350
Pitchbook	www.pitchbook.com	~$7,000
Tracxn	www.tracxn.com	~$6,000
Zoominfo	www.zoominfo.com	~$10,000

FUNDING STAGES AND ATTRIBUTES

Stage	Funding Purpose	Company Valuation	Approximate Fundraising	Sources of Capital	Estimated Timing
Pre-seed	"Bootstrapping": research and development	\$10K - \$100K	\$50K	• Founders • Family and friends • Angel Investors	12-18 months
Seed	Marketing and product launch	\$3M - \$6M	\$5M	• Friends and Family • Angel Investors • Micro Venture Capital Firms • Crowdfunding	6-18 months
A	Expansion plans for developed companies with actual business models	\$10M - \$30M	\$15M	• Accelerators • Super Angel Investors • Venture Capitalists	6-9 months

FUNDING STAGES AND ATTRIBUTES

Stage	Funding Purpose	Company Valuation	Approximate Fundraising	Sources of Capital	Estimated Timing
B	Need equity for expansion in marketplace, proven companies	$30M - $60M	$30M	• Previous Investors • Private Equity Firms • Hedge Funds • Venture Capitalists	6-9 months
C	Enter new markets, acquire other businesses, or develop new products	$100M - $120M	$50M	• Previous Investors • Private Equity Firms • Hedge Funds • Venture Capitalists	6-9 months
D+	When company missed capital raise goal from Series C	$100M +	Varies	• Previous Investors • Private Equity Firms • Hedge Funds • Venture Capitalists	6-9 months

EQUITY DILUTION THROUGH FUNDRAISING STAGES

Scenario: A company raises a $2.5 million Series Seed A at $10M post-money valuation (Notes have 20% discount, $8M cap.)

$250,000 in Notes	
Stage	% Founder Equity
Formation	100%
Seed Round	60.7%
Series A	40.8%
Series B	30.8%
Series C	22.7%
Series D	17.0%

$750,000 in Notes	
Stage	% Founder Equity
Formation	100%
Seed Round	56.3%
Series A	37.8%
Series B	28.6%
Series C	21.0%
Series D	15.8%

Reiswig, M., Wong, C., Kuhlor, V., Tweedie, S., Figueiredo, J., & Tassi, P. (2021, May 24). *Equity dilution for early stage startups*. Silicon Valley Bank. Retrieved December 25, 2021, from https://www.svb.com/startup-insights/startup-equity/startup-equity-dilution

RUNNING THE CAPITAL RAISE PROCESS

Process Decision Factors:

- Reasons for hiring a professional capital raiser (internal or external): broader process, exposure to more sources of capital, faster and more organized process, can't get it done on your own.
- Typical IB contract terms: 7% cash fee, plus 7% at-the-market warrants, and a small cash or equity work-fee.
- Crucial Contract Negotiating Points: exclusive or non-exclusive. Work fee or not. Reduced or zero fees for Company sourced investors. Clear agreement on the process to be run and timeline.
- Scope: Rifle shot outreach (lowest fees, lowest % of success) versus Comprehensive and coordinated process.

Caveats:

- Some early stage VCs will not talk with Investment Bankers.
- Lack of access to proper research tools and warm/receptive contacts diminishes probability of success.
- Use an SEC/FINRA registered Broker-Dealer. Non-registered finders/consultants will cause future legal problems.
- Run a well managed process and adhere to a tight timeline. "Hearding cats" is no fun and does not end well.

ADDITIONAL COMPLEXITY: NAVIGATING COVID-19

High Performing Industries

- Financial Services
- Alcohol
- Delivery Services
- Home Maintenance
- Waste Removal
- Pet Products
- Outdoor Recreation
- Senior Care

Impact on Small Businesses

- The April Bottom
  - Small businesses take a hit → 20% closed, 32% suspended operations
- Market Rebound May/June
- Cares Act Small Business Association (SBA) Loan Program
- Investors and Lenders are focusing on their current investments, being more selective with new investments

SEED & SERIES A INVESTORS – THE EVOLVING "NEW NORMAL"

- PLENTY of CAPITAL available for CLEAR WINNERs
- More MILESTONES
- Accomplish MORE with LESS $$ or
  Shed MORE EQUITY for LESS $$
- POSTPONE/WAIT until NEW NORMAL normalizes
- RUNWAY has to last longer – Minimum 24 months
- Still NOT COMPLETELY COMFORTABLE with "ZOOM PITCHING"
- Investor ROI over 5-6 years to over 7-10 years
- FLAT is the new UP
- Bridge to SERIES A is a real round
- STRONG SIGNALs of GROWTH TRAJECTORY