

Institutional Finance for Private Companies

In the following special report, we explain some of the challenges that private companies face and how Reedland Capital Partners can add great value in assisting private companies to structure and arrange equity financing.

It has been highly publicized during the past 12 months in both print and television media, and at investment banking conferences throughout the country that money flowing into venture capital and other private equity funds is at an all-time high. The predominant purpose of this huge infusion of capital has been to set up institutional equity funds to invest in private, rapid growth-oriented companies. Although more term sheets have been issued and deals completed recently than at any time since late 1999, it is still very difficult to get equity financings completed within a reasonable timeframe at fair pre-money valuations for several reasons.

The Challenges of Private Equity Financing

As a result of all of the available capital, there are now literally thousands of institutions around the world that characterize themselves as either venture capital or private equity investment firms. Additionally, within those institutions, there are often as many as six subfunds that invest in specific industries or subindustries or invest based on differing risk profiles. The reasons for all of these subfunds is:

- I. to invest in specific subindustries where the institution has definitive expertise to reduce the potential risk of loss (for example, a subfund that invests in medical devices may not invest in pharmaceuticals or other types of biotechnology);
- ii. to invest in either early or late-stage companies or a combination thereof to achieve a certain internal rate of return profile;
- iii. many institutions now are capping the total size of a particular fund at \$250-\$300 million because currently there is a general consensus belief that funds of that size achieve a better return on investment to its limited partners than larger funds.

Thus, private company management today is generally having a very difficult time in assessing which of these thousands of funds to approach especially when one has to have knowledge of, among other things:

- a. which industries or subindustries a particular fund is most likely to invest in
- b. which stage(s) of a company's development a particular fund is most likely to invest in,
- c. what geographical preferences a particular fund has,
- d. how active that particular fund is within the company's subindustry (i.e., do they finance two companies per year or 12 companies per year), and
- e. how much money the particular fund has left that year to devote to investments in the company's industry or subindustry.

Finding the Best Resource

As a result of the above-described problem, most private companies tend to seek out the more well known VCs in Silicon Valley or in the greater Boston area. Although those institutions tend to generate many term sheets, they are very often at very low pre-money valuations that can lead to crushing dilution to the company's shareholders.

Choosing the Right Advisor

Alternatively, many companies seek the advice of their attorneys or accountants who may know of, or have a relationship with, a handful of institutions. The biggest problem with this approach is that most of these advisors do not specialize in venture capital financing and generally are not aware of all of the specific investment criteria of a particular fund or sub-fund. Consequently, this approach often burns a lot of time of private company management in phone conferences, in-person meetings and due diligence requests and usually does not result in a successful financing.

Management often underestimates the amount of time it will take to complete its financing. Unless someone at the company or, more often, one of its advisors has a strong relationship with a particular institution, it can often be very difficult to get calls returned, executive summaries or business plans reviewed, or qualified meetings set up in a timely manner. Moreover, even after a series of meetings, the due diligence process can take an extraordinarily long period of time if the VC or private equity fund is not sufficiently motivated to finance your company, a problem that occurs very frequently.

Syndication Risk

Adding to this problem is the fact that very few institutions today will invest in a private company (regardless of the institution's financial wherewithal) without one or more partners. This club or syndication approach is utilized primarily to diversify risk to the fund and also enables the fund to have more expertise at its disposal should problems arise. Thus, even when a company receives a quality term sheet at a fair pre-money valuation, the institution usually will condition the financing on its ability to secure one or more institutional partners.

How Reedland Capital Partners Can Help

Reedland Capital created its institutional finance division for private companies specifically to solve or greatly mitigate these problems for company management. Reedland has extensive contacts and strong relationships with VCs and private equity firms all over the world. Our extensive database will allow us to screen through (with over a dozen different investment criteria) our extensive contacts to determine which institutional venture capital funds, private equity funds and/or corporate venture capital funds are the most likely to finance your company. We will also assess your business/strategic plan and executive summary thereof from an investment likelihood standpoint and assist you in revising and/or repackaging those materials or modifying your company's strategic direction to make it more attractive to an institutional investor. Throughout this process, we will advise you as to methods to increase your company's pre-money valuation and steer you towards institutional relationships that will help you in facilitating that goal.

Our Approach

Once we are comfortable that your company's business/strategic plan and collateral materials are sufficiently complete, compelling and polished, we will pre-screen all potential investors and qualify them in advance so that you do not waste time with institutions which are poor fits for your company's profile or get bogged down with non-decisionmaking personnel within that institution. We will ensure that you receive quick and forthright responses to conference calls, meetings, business plan materials, etc. Reedland will also spend as much time as necessary to assess and improve your company's investor presentation (a critical component of the process) in order to make it as polished and bulletproof as possible. We are very client-oriented and will work with you on a daily basis until your financing has been completed to your satisfaction.

Though we focus primarily on healthcare and technology-based companies, we are comfortable in working with companies in most industries. Our ability to accomplish this is due to the fact that we have a large network of independent experts in many industries who work with us on an ad hoc, as needed, basis to assist us in performing initial due diligence before we would agree to represent a particular company and, as necessary, during the financing process. All of our third party consultants are generally paid for by Reedland Capital Partners and not by our client companies. The minimum capital raise that we will undertake is \$5 million and there is generally no maximum amount; the maximum raise is dictated by the company's projected cash needs as rationalized by its business plan and the assumptions underlying its projections.

Most importantly, Reedland Capital Partners operates solely on a success fee basis - our interests are completely aligned with those of our client companies. Such an arrangement provides us with substantial motivation for success.