

"An easy-to-use primer for first-time entrepreneurs."

Andrew Ziolkowski, Managing Director, Forest Street and SAE

Raising Capital

FOR

DUMMIES[®]



Joseph Bartlett

Author of Fundamentals of Venture Capital

Peter Economy

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**by Joseph W. Bartlett
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Dedication

To the intrepid entrepreneurs and businesspeople everywhere who take risks and drive our economy to new heights.

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Introduction

Capital — specifically capital in the form of cash — is the lifeblood of any business. New businesses need capital to pay the deposits required to rent office or manufacturing space and to pay newly hired employees, and established businesses need capital to grow, to develop new products and services, and to provide a return to shareholders. Not only that, but owners who've risked their own personal capital to create successful and thriving businesses understandably want to be rewarded, naturally, in the form of cash for their many years of hard work and perseverance.

And if you've been in business for any time at all, you'll know that money truly doesn't grow on trees. Raising capital is no easy task, and it's a task that once started, is never ending. While a million-dollar line of credit with your bank may be sufficient for your needs this year, next year you may need twice that amount. You can never have too much cash and, more often than not, you probably won't have as much as you'd like.

As you browse through this book, keep one thing in mind: An ultimate best way to raise capital for your business doesn't exist. Indeed, you'll soon discover many, many different ways to raise capital, and the ultimate success of each approach for your business depends on a variety of factors, including the nature of your business, total annual revenues, profitability, credit history, your

industry, the ability of founders and top executives to create a compelling opportunity for potential investors, and much more. Most successful businesses take a variety of different approaches to raising capital, and they fulfill their needs from more than one source.

This book provides you with the best ideas, concepts, and tools for raising capital — from the tried-and-true to the cutting edge. Apply them, and we're sure that you'll see a noticeable difference in your everyday business dealings — a difference that will make you and your business partners even more successful than you already are.

About This Book

Raising Capital For Dummies is full of useful information and tips that can be used by anyone hoping to raise the money that his or her business needs to grow and thrive. Your current level of financial experience (or lack thereof) doesn't matter. You won't have to have a master's degree in finance, or be a certified public accountant, or even have a rich aunt or uncle to help you out — although that wouldn't be such a bad thing. We'll provide you with an easy-to-understand road map to today's more effective techniques and strategies for raising capital for your business.

The good news is that the information you'll find within the covers of this book is firmly grounded in the *real*

world. This book is *not* an abstract collection of theoretical mumbo-jumbo that sounds good but doesn't work when you put it to the test. No, we have culled the *best* information, the *best* strategies, and the *best* techniques — the same ones used in today's more successful businesses. This book is a toolbox full of *solutions* to all your financial questions and problems — all you have to do is put it to work!

And although *Raising Capital For Dummies* is overflowing with useful advice and information, it is presented in a fun, easy-to-access format:

First, this book is a guide to everything that you can possibly need to know about raising capital for your business — whether you're just starting your business and looking for *seed* capital to launch your first product, or your business is well established and you need a shot in the arm to fund a major expansion into a foreign market. What? You've never had to figure out an internal rate of return or net present value before? No problem. We'll show you how. Whatever your question may be, chances are we've already answered it somewhere between these bright yellow covers.

Second, this book is easy to access. What good is all the information in the world if you can't get to it quickly and easily? Have no fear. This book is designed with you, the reader, in mind. Here's how to get to the precise information you seek:

✓ If you want to find out about a specific area, such as how to find angel investors, or how to get a Small Business Administration (SBA) loan, or what investment bankers can (or can't) do for your business, you can check out the table of contents or the index and quickly flip to the section that covers the answers you're looking for. Faster than you can say "The check's in the mail," you'll have your answer.

✓ If you want a crash course in raising capital, read this book cover-to-cover. Forget spending lots of money getting your MBA. Forget learning by trial and error. Forget spending countless nights poring over some fly-by-night correspondence course. Everything you need to know about raising capital is right *here*. We mean it.

Third, this book is *fun*, which reflects our strong belief and experience that raising capital doesn't have to be boring. In fact, it can be a great deal of fun. We'll even help you to maintain a sense of humor in the face of the challenges that all businesspeople face from time to time. That doesn't mean you won't face days when you'll be challenged, but it also doesn't mean you'll face many more days when the satisfaction of landing a big, new source of cash, or tracking down the ideal merger candidate brings you a sense of fulfillment that you never imagined possible.

When your business is a new one, raising capital can be a nerve-wracking proposition, at least until you develop steady streams of revenue and a track record of success. Remember that for even the most successful, well-

established businesses, raising capital occasionally can be a hairy experience. Don't worry. Relax. Help is at your fingertips.

And the book is chock-full of our own personal Internet bookmarks for accessing the best business finance resources the Web has to offer. You'll find no filler here — just practical solutions to everyday problems.

Foolish Assumptions

As we wrote this book, we made a few assumptions about you, our readers. For example, we assumed that you're truly motivated to discover some new approaches for raising capital for your business, and that you'll be willing to put these new approaches to work for you. We also assumed that you're willing to take the kinds of measured risks that result in greater rewards and financial returns for your business, and, finally, we assumed that you're ready, willing, and able to make a long-term commitment to raising capital for your business.

How This Book Is Organized

Raising Capital For Dummies is organized into four parts. The chapters within each part cover specific topics in detail. Because we have organized the book this way, it's simple, quick and easy to find the topic that you're looking for. Simply look up your general area of interest, and then find the chapter that concerns your particular needs. Whatever the topic, you can bet that it's covered someplace!

Each part addresses a major area of the hows, whats, and whys of raising capital. Here are summaries of what you'll find in each part:

Part I: First-Stage Financing: Seed Capital and Start-up

The capital needs of start-up businesses are unique, and so are their potential sources of capital. Because start-ups have little or no track record of success, the chance of their being able to attract investments of capital from banks or venture capitalists is far less than businesses with more mileage under their belts. In this part, we look at what it takes to make money, including tapping into personal sources of financing and family and friends. We also consider angel investors and how to approach customers and vendors for financing. Finally, we take a look at the topic of matching services.

Part II: Second-Stage Financing: Expansion

For established businesses that are well past the start-up stage, have established a track record of success, and are looking for capital to finance further growth and expansion, second-stage financing provides many more sources of capital from which to draw. Not only that, but such businesses can command much larger amounts of capital than start-ups looking for first-stage financing. In this part, we explore commercial lenders and placement agents, and the Small Business Administration — a major source of loans and loan guarantees to small businesses. We also consider the oft-overlooked topic of private equity offerings along with the ever-popular topics of venture capital and valuation.

Part III: Third-Stage Financing: Acquisition

When a company's owners have something more in mind than starting or growing their businesses, they want to cash out and to have the opportunity to enjoy the fruits of their labors. That means they must find someone to buy the business, either in part or as a whole. In this part, we explore investment banking, initial public offerings, and mergers — finding out how they can provide the kind of cash that every owner dreams about.

Part IV: The Part of Tens

Here, in a concise and lively set of condensed chapters, you'll find tips that help you quickly raise the capital that your business needs. We'll show you how to avoid those common mistakes that managers make, the best ways to market your products and services, how to improve your cash flow, and much more.

Icons Used in This Book



This icon highlights pointers and processes that will improve your ability to raise capital.



Remembering these nuances of raising capital are intended to help you find, cultivate, and secure sources of funding for your business.



If you don't pay close attention to the advice next to these icons, you wind up paying through the nose.



Although you don't necessarily need to read what's marked with this kind of icon, doing so is a way to gain a better understanding of some of the technical background behind a particular aspect of raising capital.

Where to Go from Here

If you're new to the business of raising capital — perhaps a new entrepreneur, owner, or manager — then you may

want to start at the beginning of this book and work your way through to the end. A wealth of information and practical advice awaits you. Simply turn the page and you're on your way!

If you already have plenty of financial experience under your belt, and you're short of time (and what businessperson *isn't* short of time?), then you may want to turn to a particular topic to address a specific need or question. If that's the case, then look in the Table of Contents for a chapter-by-chapter description of all the topics in this book.

Regardless of what course you take through Raising Capital For Dummies, we're sure that you'll enjoy getting there. Please keep one thing in mind: Some material appearing throughout the text about the law and regulations typically are summaries of technical, intricate, and complex concepts and rules that should not be construed as legal advice. Therefore, consulting experienced legal counsel for help may be vital when dealing with these issues.

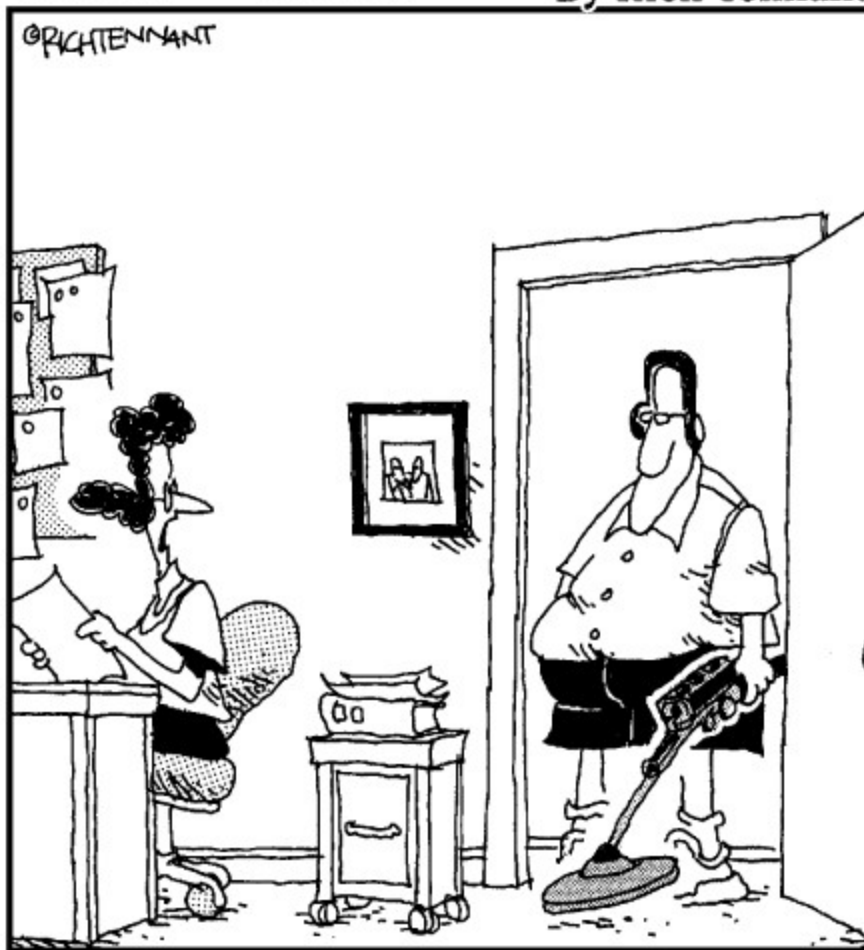
If you have any specific questions or comments, we'd love to hear from you. Please visit Joe Bartlett at his Web site: www.vcexperts.com or Peter Economy at his Web site: www.petereconomy.com.

Part I

First-Stage Financing: Seed Capital and Start- up

The 5th Wave

By Rich Tennant



“So ... how did our first-stage financing go today?”