CAPITAL PLANNING VALUATION STRATEGY™ PROCESS

CPVS™

MEDICAL FUNDING PROFESSIONALS

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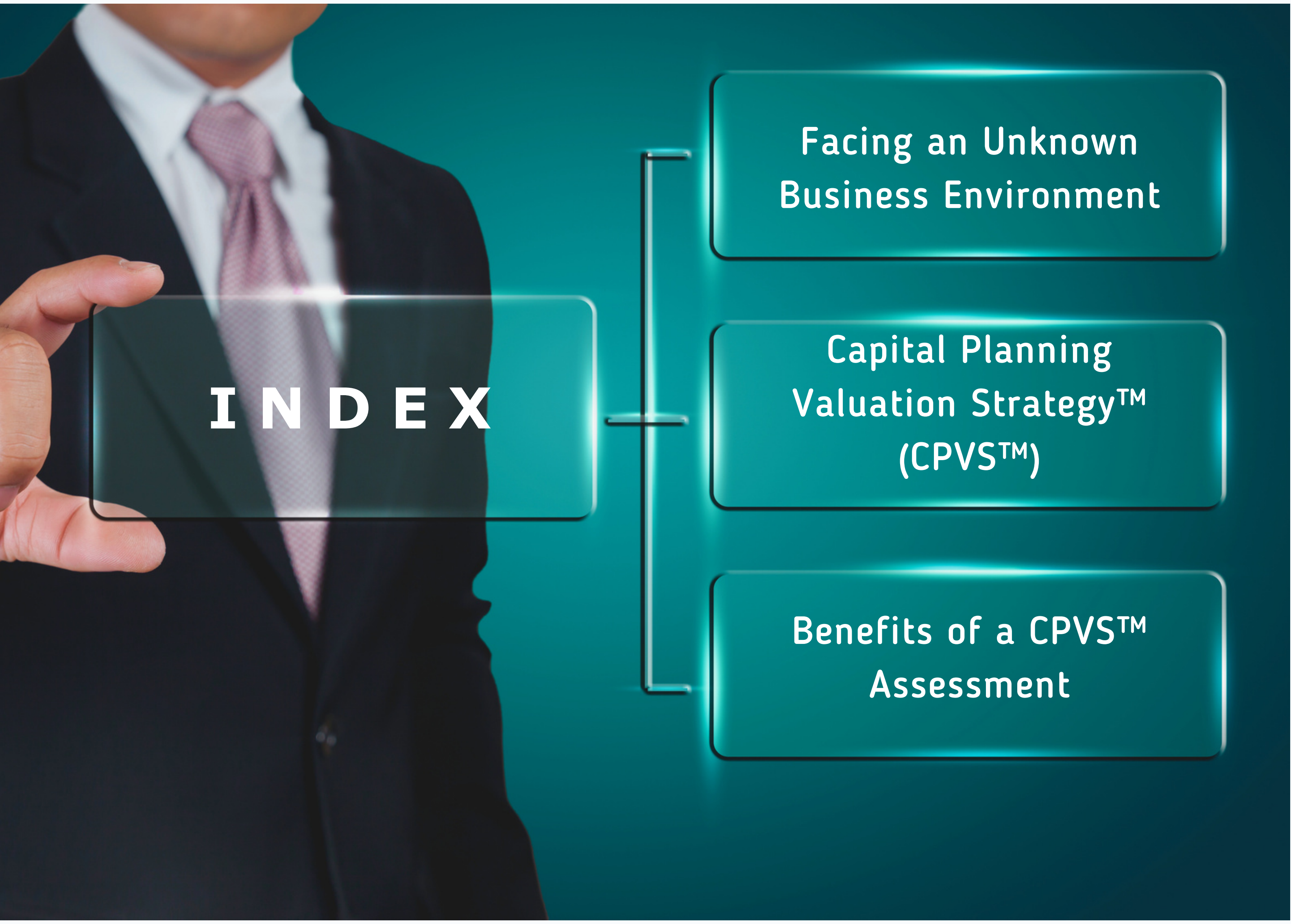
CAPITAL PLANNING VALUATION STRATEGY™ (CPVS™)

Alternative Go-to-Market Funding Strategy



FACING AN UNKNOWN BUSINESS ENVIRONMENT

What is the future for your company? Will the business environment return to its pre-Covid status or continue to experience uncertainty after uncertainty? How do you prepare for the new threats and opportunities on the horizon?

The importance of capital to weather economic disaster, exploit cost-saving technologies, or fund clinical trials is clear.

Congress Deregulates the Innovation of Capital

Prior to passage of the 2012 Jumpstart Our Business Startups (JOBS) Act, smaller and medium-sized companies seeking to raise capital were ignored by the big Wall Street firms and limited to an onerous financing process - Regulation D of the Securities Act - that restricted the number of potential investors in an offering and the method by which they could be solicited:

Rule 506(b)

A 506(b) offering allows a startup to raise an **unlimited amount of money** from an **unlimited number of accredited investors** and up to thirty-five unaccredited investors. Accredited investors are individuals with earned income greater than $200,000 ($300,000 for a couple) for the previous two years and expectations for the same in the current year of investment or a net worth of $1 million exclusive of primary residence.

It is the offeror's responsibility to confirm that non-accredited investors are "sophisticated," i.e., having sufficient knowledge and experience in financial and business matters to make them capable of evaluating the merits and risks of the prospective investment. Companies and their officers who fail to restrict or accurately assess the investment acumen of their investors are subject to antifraud provisions, including a refund of any purchase.

Offering made under Regulation D allows general solicitation or advertising of the offerings to accredited investors if the offeror confirms the accredited status by physical review of supporting documentation such as tax returns, bank and brokerage statements, credit reports, and similar information.

Rule 506(c)

Shares purchased through a Regulation D offering are "restricted securities" under **Rule 144** of the securities law and share certificates are marked with a restricted legend. They cannot be publicly sold for at least six months or a year unless (1.) the seller provides a legal opinion to the company's transfer agent noting that the shares have been held for the required period allowing the agent can cancel the restriction or (2.) the seller participates in a traditional SEC registered offering. Both options incur extra expense and time.

A third option for the sale of shares acquired in a Reg D offering is participation in a subsequent Regulation A+ offering. The additional liquidity event is an incentive for new and current investors to acquire stock in a Reg D offering anticipating a sale in the later Reg A+ registration.

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The ability to solicit accredited investors freely under 506(c) coupled with subsequent A+ offerings is a significant advantage for high growth biotech and med services companies who are likely to require numerous rounds of financing to reach profitability. Biotech startups typically generate minimal revenue for several years and are incapable of selffunding new product development, clinical trials, and extended FDA reviews.

Regulation A+ Offerings

The legislation for Regulation A+, authorized by an amendment to the 2012 JOBS Act in 2015, expanded access to public capital markets for small and medium-sized companies. Private companies can raise up to $75 million from retail, institutional, accredited, and non-accredited investors more quickly, with less administrative burden, and lower costs than a traditional IPO or restrictive Reg D private offering.

Furthermore, the offeror can self-direct the promotion and sale of Reg A+ securities without the cost of an expensive underwriter. This advantage is the reason we recommend a 506(c) offering in anticipation of a later Reg A+ offering.

A Reg A+ offering combines the benefits of the familiar IPOs associated with the large Wall Street underwriters with considerable cost savings, less administrative hassles, and shorter time to market. Unlike Reg D, there are few restrictions on who can invest, solicitations occur by delivery of a qualified offering circular (an abbreviated version of a traditional IPO prospectus), are exempt from Blue Sky regulations (Tier 2) and purchased shares can be sold with few restrictions. Companies can use the Reg A+ offerings numerous times, subject to the maximum funds raised in a single 12-month period ($75 million).

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From 2015 to 2021 companies undertaking Reg A+ secured funding of nearly **$7.5 billion**, with the amount raised each year growing at an 80% rate. $3.4 billion was raised last year alone – a 130% year-over-year increase, reflecting significant growth in the number of new issuances as well as an increase in the average amount raised. The completion rate of offerings more than doubled in 2021, and companies targeting $50 million or more were particularly successful, completing 80% of their raises, indicating a substantial increase in the number of issuers utilizing Reg A+ for the largest amounts possible.

One study of biotech startups using Reg A+ to raise funds through the sale of freely tradable securities found that:

1. **Companies raised investor** funds 1.34 years earlier while in the FDA approval process, which is almost 20 percent earlier in their product lifecycles.

2. **Companies who participated** in a Reg A+ offering raised an average of 29
percent more money in their subsequent traditional Wall Street-sponsored IPOs than did companies that went public before the passage of Reg A+ legislation.

3. **Employment at the companies** grew an average of 150 percent in the first three years after a Reg A+ offering, a rate significantly greater that the rate of job growth at biotech companies raising public funds before the Act.

CAPITAL PLANNING VALUATION STRATEGY™ (CPVS™)

Is a Reg A+ offering right for your company? What is your business worth as an investment? How much money do you need? How much might be raised? Will you be required to give up control? We specifically designed our proprietary Capital Planning Valuation Strategy™ to help business owners decide **whether a Reg A+ offering is right for them.**

CPVS™ is a proprietary process of Medical Funding Professionals that uses company-provided information to develop a custom, proposed pro forma presentation for your Reg A+ offering. The presentation establishes a powerful, forward-looking foundation to effectively implement a company's capital funding strategies.

Our 1-2-week process begins with review of your Due Diligence materials provided after receipt of a mutual non-disclosure agreement through our secure online portal. I assess the amount of capital needed to launch and scale successfully with the most desirable schedule, propose a strategy to fit your funding needs, and suggest a governance structure that will maintain maximum control and ownership through the funding process.

At the end of the analysis, we will deliver online copies of:

- **Pro-forma capitalization table** reflecting the current capitalization structure of the company and the projected capitalization table following potential investments,
- **Pre- and post-money valuations** of the company,
- **Selling shareholders analysis,** showing how current shareholders can have a limited liquidity event in the Reg A+ offering,
- **Custom marketing plan** for promotion of both your company and your offering,
- **Description of the sequential steps in the process** ending with a financial offering in spreadsheet form, and
- **Synopsis with the steps of the funding process**, i.e., the capital cash flow projection beginning post-registration and ending with receipt of offering proceeds.

A CPVS™ assessment provides a solid foundation of information for decisions about future capital funding efforts.

BENEFITS OF A CPVS™ ASSESSMENT

Business owners who have completed the assessment tell us that they can make funding decisions with greater confidence due to:

- Knowing how **potential investors** will view their company.
- Understanding how much capital they need to implement their business strategy and the funding realistically possible. The knowledge reduces the likelihood of **leaving money on the table** or **losing control of your company** at the economic and governance levels. Yes, you can bypass outsiders gaining control of your company by tapping into resources few businesses leaders know exist.
- Anticipating **regulatory, and compliance requirements** associated with a funding.
- Recognizing the **normal ebbs and flows of a funding process** whether issuing equity, warrants, debt, or convertible securities. This knowledge enables owners to **maintain and increase valuable momentum** during scale up.
- Promoting A+ offerings as **an incentive for a 506(c)-funding round** (Seed, Series A, B, or more.

The CPVS™ perspective is invaluable if you are considering a funding event – whether you pursue Reg A+ or a different route such as grants, convertible debentures, SAFE notes, or others. The assessment is the **easiest and most efficient way** to quickly determine how much money you need and identify the fastest, least expensive method to raise needed capital.

BENEFITS OF A CPVS™ ASSESSMENT

Many company managements, familiar with the traditional ways of raising capital, do not realize that the combination of 506(c) and A+ regulations make fund raising easier. **Reliance on Venture Capital firms, Angels, or other sources of private equity is longer necessary**. An A+ offering ensures that **control remains with founders and major shareholders.** Our CPVS™ assessment illustrates a process to maintain that control through multiple cycles of fundraising.

To learn more about our Capital Planning Valuation Strategy for your company, **Schedule a call,** and let's talk!

Schedule A Call

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