

SELLING SHAREHOLDERS PLAN FOR **REGULATION A+**



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Reg A+ Overview

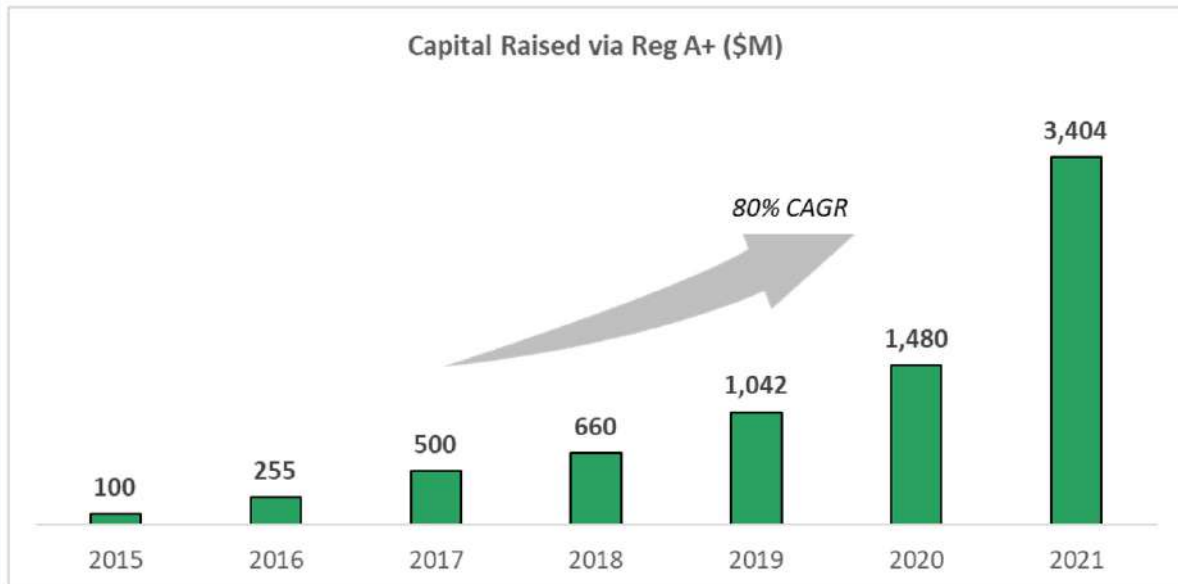
Growth in **Reg A+ funding** continues to accelerate as more and more companies realize they can raise capital faster, with less hassle, and at lower cost compared to traditional fundraising approaches.

Reg A+, which went into effect in 2015 as part of the JOBS Act, allows private companies to raise up to \$75 million per year from the general public, something that was previously restricted to only the largest and most established companies.

Since 2015 Reg A+ offerings have raised over **\$7.4 billion with \$3.4 billion** raised in 2021 alone – a 130% year-over-year increase. The number of new issuances increased 47% in 2021 (from 243 to 358), while the completion rate of offerings more than doubled, from 24% to 55%.

Companies targeting **\$50 million** or more were particularly successful, completing 80% of their raises, reflecting a significant increase in the number of issuers utilizing Reg A+ for the largest amounts possible.

All signs point to a continuation of recent trends. Over 400 companies representing \$8.5 billion in total aggregate equity offerings earned qualification status with the SEC last year, and 50 companies filed offerings for \$60 million or greater, an increase of approximately 25% compared to 2021.



You can read all about the advantages and [benefits of Reg A+ here](#).

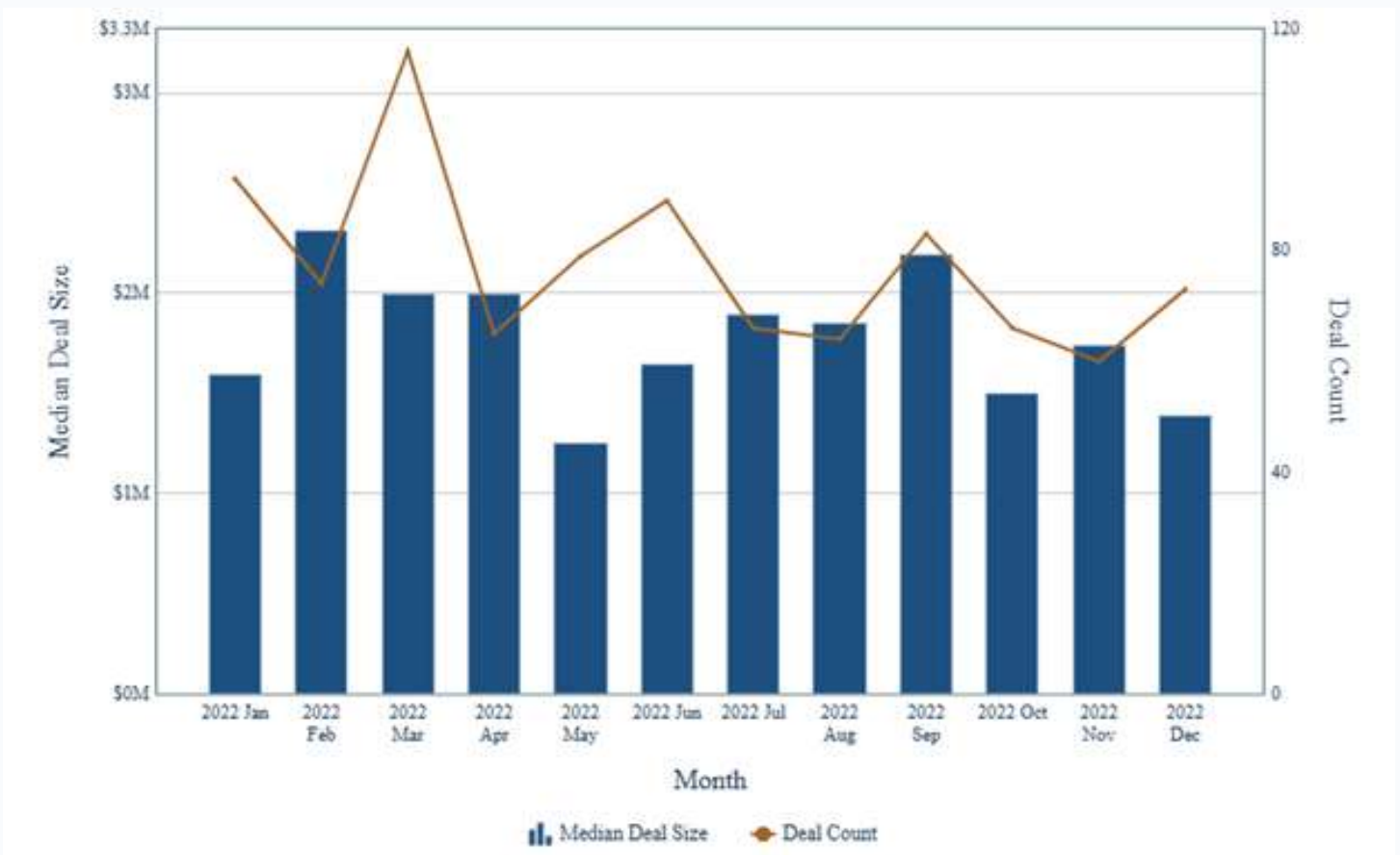
Seed Funding as a Stepping-Stone to Reg A+

Many early-stage companies who would pursue **Reg A+** lack the resources to market and promote their offering to a large investor base. For these companies, a scaled-down Seed or Founders round can bridge the gap by funding the projected costs of a **Reg A+** in the future.

Last year, pre-revenue MedTech companies raised an average of **\$1.78 million** in their Seed rounds.



**Median Deal Size and Deal Count of
Pre-Revenue MedTech Seed Rounds (2022)**



Source: Pitchbook

(928 deals were completed in FY 2022. Includes deals that reported a raise amount)

Companies with greater resources may also consider Reg D as a stepping-stone to Reg A+. Reg D issuers are exempt from SEC registration laws, making the capital markets far more accessible for small companies that could not otherwise bear the costs of a normal SEC registration.



Whereas in the past Reg D issuers could only solicit investors they knew personally, General Solicitation Rule 506c permits issuers to solicit any investor in Reg D provided he or she is accredited, significantly expanding the market of potential buyers in a liquidity event.

In the past seven years the number of accredited investors in America increased more than one-third to 14 million – approximately 1 in 10 households. Today these investors control over 75% of the country's private wealth.

Whether funding through a traditional Seed round or Reg D offering, the ability to sell stock in Reg A+ provides a strong buy incentive for early-stage investors who may worry about liquidity risk and restrictions on trading.

Read on to learn more about the selling shareholder allowance and how it can be used as an incentive to attract capital from early-stage investors.



One of the biggest risks of investing in private companies is the lack of a liquid market for selling shares. Investments in private companies typically carry extended lock-up periods and the challenge of finding buyers can force investors to sell at a discount when they're finally allowed to trade.

In Reg A+, however, investors who purchase securities in prior rounds are entitled to sell a portion of their holdings, creating a unique profit opportunity for investors in the short-term given Reg A+'s strong liquidity and the likely step-up in valuation between capital events.

The law allows issuers to allocate up to 30% of their Reg A+ offering to selling shareholders. The actual amount investors can sell will depend on the issuing company, which sets its own policies as to how much of the offering will be allocated to share sales, as well as both the minimum and maximum amount of individual holdings authorized for sale.

In general, the larger the raise relative to the issuer's target, the greater the percentage allocated to selling shareholders.

Investors are under no obligation to sell stock in Reg A+, only if they choose. For those who participate, sales will be allocated on a pro-rata basis according to ownership, meaning each investor is granted the same sales allocation as a percentage of holdings.

Let's look at a case study demonstrating the shareholder allowance in action.



Company X decides to raise funds through a Seed offering, raising \$1 million from friends, family members, and Angel investors at \$2 per share. Less than 12 months later, the company prices a \$30 million Reg A+ offering at \$5.10 per share, valuing the combined holdings of Seed investors at \$2.55 million (500,000 shares * \$5.10 per share).

Company X allows shareholders to sell up to 30% of their holdings in Reg A+. Assuming Seed investors each sell 30% of their shares, they would collectively accumulate \$765,000 in sales proceeds (150,000 shares sold * \$5.10) and each earn a return of 76.5% from share sales based on their initial Seed investment.

Seed investors maintain 70% of their holdings in Company X, which is now worth \$192 million at the elevated Reg A+ valuation. The combined value of Seed investors' remaining holdings post-sale is \$1.78 million (350,000 shares remaining * \$5.10).

Valuation summary: Company X's post-money valuation increases by the aggregate Reg A+ investment amount (\$30 million) less the value of total sales proceeds to selling shareholders.

Sales & Valuation Summary	Total Shares Prior to Reg A+	Pre-Money Valuation	Shares Acquired in Reg A+	Shares Sold by Selling Investors	Shares Acquired from Sellers	New Shares Issued to Reg A+	Total Shares After Reg A+	Post-Money Valuation
Founders and Executives	30,000,000	\$153,000,000					30,000,000	\$153,000,000
Seed Investors - Friends, Family, Angels, etc.	500,000	\$2,550,000		(150,000)			350,000	\$1,785,000
CPVS Investors	1,950,000	\$9,945,000		(585,000)			1,365,000	\$6,961,500
Reg A+ Investors			5,882,353		735,000	5,147,353	5,882,353	\$30,000,000
Company Total	32,450,000	\$165,495,000	5,882,353	(735,000)	735,000	5,147,353	37,597,353	\$191,746,500

ROI summary: The realized return to selling shareholders is computed as the value of sales proceeds divided by initial equity investment.



Total Seed Investor ROI =

\$765,000 Sales Proceeds / \$1,000,000 Initial Investment = 76.5%

ROI Summary	Total Invested	Shares Sold	Sales Proceeds	Realized Return	Value Unsold
Founders and Executives	\$5,000				\$153,000,000
Seed Investors - Friends, Family, Angels, etc.	\$1,000,000	150,000	\$765,000	76.5%	\$1,785,000
CPVS Investors	\$1,950	585,000	\$2,983,500	100%+	\$6,961,500
Reg A+ Investors	\$30,000,000				\$30,000,000
Post Valuation					\$191,746,500

The table below illustrates how cash return from sales proceeds increases with share price in Reg A+, assuming the same 30% sales allocation and \$1 million Seed investment:

Reg A+ Price per Share	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00
Proceeds to Seed Investors	\$600,000	\$675,000	\$750,000	\$825,000	\$900,000	\$975,000	\$1,050,000
Realized Return	60.0%	67.5%	75.0%	82.5%	90.0%	97.5%	105.0%

To learn more about shareholders plan for Regulation A+,
[Schedule a call](#), and let's talk!

[Schedule A Call](#)



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