




MEDICAL FUNDING *PROFESSIONALS*

How to Sell Lead Investors on Funding Your
Reg A+



Reg A+ has transformed the funding and growth prospects of countless companies that don't have access to venture capital funding or couldn't otherwise bear the costs of a normal SEC registration. Through 2021, Reg A+ offerings raised more than \$7.4 billion with over \$3.4 billion raised last year alone – a 130% year-over-year increase.

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, Founders, or Positioning round can bridge the gap by funding the projected costs of a Reg A+ in the future.

Reg A+'s selling shareholder allowance, which allows investors who purchase securities in prior rounds to sell a portion of their holdings in Reg A+, can be a powerful tool for attracting lead investors in a bridge round.

One of the biggest risks private investors face 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, pre-existing shareholders can sell up to 30% of their holdings, creating a unique profit opportunity in the short-term given Reg A+'s strong liquidity and the likely step-up in valuation between capital events.

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



Selling Shareholders Allowance - Case Study

Company X decides to raise funds through a Founders round, raising \$1M from a Lead Investor at \$2/share. Less than 12 months later, the company prices a \$30M Reg A+ offering at \$5.10 per share, valuing the investor's holdings at \$2.55M (500K shares * \$5.10) prior to share sales.

Company X allows investors to sell up to 20% of their holdings in Reg A+. Assuming the Lead Investor sells 20% of his 500K shares, this translates to \$510K in sales proceeds (\$5.10 x 100k shares sold) on the initial \$1M investment – **a realized ROI of 51%**.

The Lead Investor maintains 80% of his holdings (400K shares) in Company X, now worth \$193M at the elevated Reg A+ valuation. The value of the Lead Investor's remaining holdings post-sale is \$2.04M (400K * \$5.10).

Sales & Valuation Summary	Shareholding Before Reg A+	Pre-Money Valuation	Shares Sold by Sellers	Shares Acq. from Sellers	New Shares Issued	Shareholding After Reg A+	Percentage Ownership	Post-Money Valuation
Founders & Insiders	30,000,000	\$153,000,000				30,000,000	79.28%	\$153,000,000
Lead Investor	500,000	\$2,550,000	(100,000)			400,000	1.06%	\$2,040,000
CPVS Investors	1,950,000	\$9,945,000	(390,000)			1,560,000	4.12%	\$7,956,000
Reg A+ Investors				490,000	5,392,353	5,882,353	15.54%	\$30,000,000
Company Total	32,450,000	\$165,495,000	(490,000)	490,000	5,392,353	37,842,353	100.00%	\$192,996,000

ROI Summary	Total Invested	Shares Sold	Sales Proceeds	Realized Return	Value Unsold
Founders & Insiders	\$5,000				\$153,000,000
Lead Investor	\$1,000,000	100,000	\$510,000	51.00%	\$2,040,000
CPVS Investors	\$1,950	390,000	\$1,989,000	100%+	\$7,956,000
Reg A+ Investors	\$30,000,000				\$30,000,000
Post-Valuation					\$192,996,000

Disclaimer: None of the information contained here constitutes an offer (or solicitation of an offer) to buy or sell any product or financial instrument, to make any investment, or to participate in any particular investment, offering, or trading strategy. The information and materials provided here, whether or not provided on Medical Funding Professionals emails, website/webpages, on third party websites, in marketing materials, newsletters or any form of publication are provided for general information and educational purposes, and do not constitute legal advice or investment advice. We are not an attorney or broker-dealer. Investment involves risk. Past performance is not indicative of future performance. If you have any questions, you should seek independent professional advice.

Copyright 2022 | Medical Funding Professionals | All Rights Reserved

February 23, 2022

