



MEDICAL FUNDING ***PROFESSIONALS***

Selling Shareholders Plan for
Regulation A+

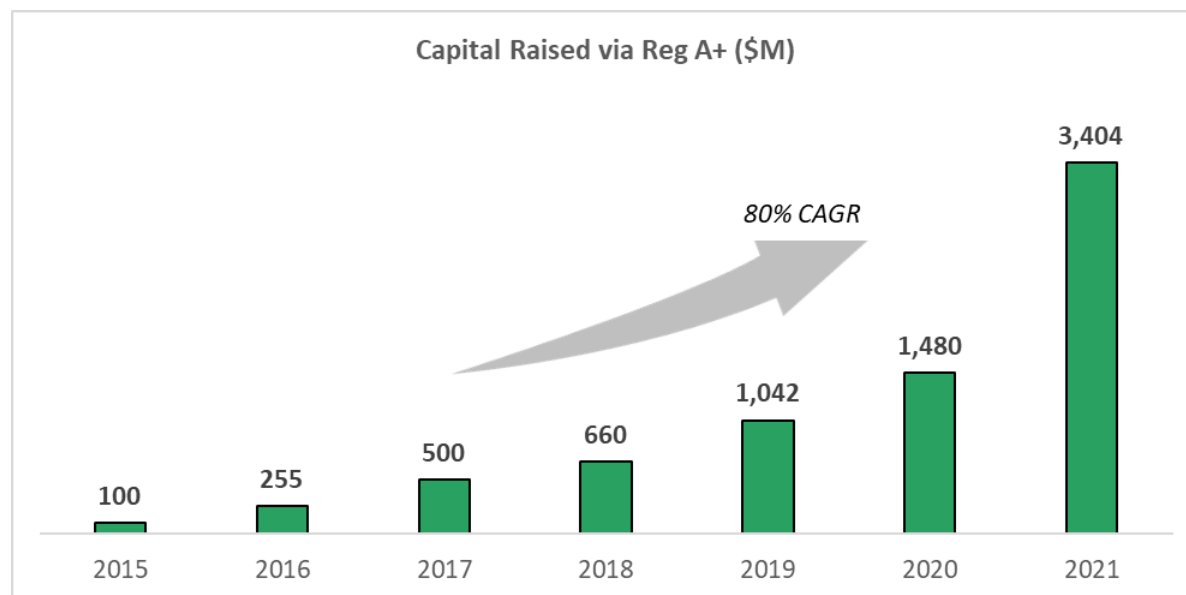


Reg A+ Overview

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.



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

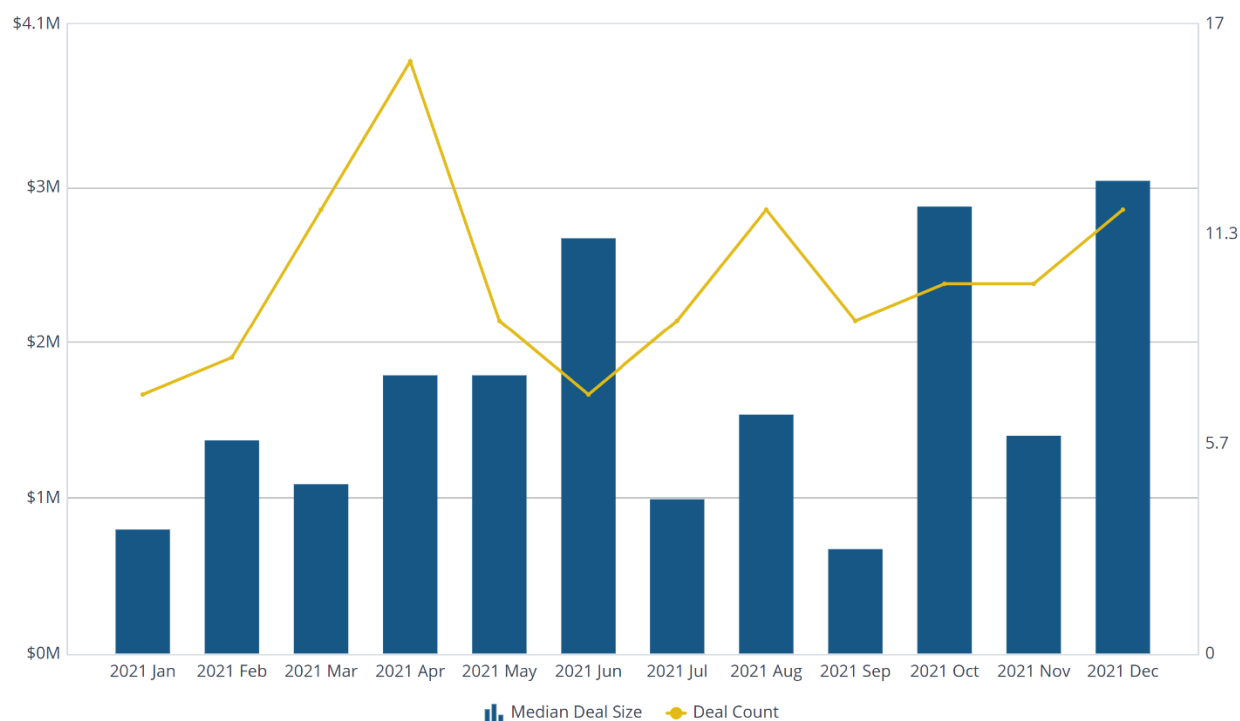


Seed Funding as a Stepping-Stone to Reg A+

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, Founders, or Positioning round can bridge the gap.

Last year, pre-revenue MedTech companies raised an average of \$1.52 million from Seed rounds – double the amount needed to launch and promote a Reg A+ offering.

Median Deal Size and Deal Count of Pre-Revenue MedTech Seed Rounds (2021)



Source: Pitchbook (121 deals were completed in FY 2021. 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.



Selling Shareholder Incentive

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.

While returns from stock sales in Reg A+ will depend on a variety of factors, our analysis of similar companies undergoing a Seed or Series A prior to Reg A+ suggests that returns of up to 40% are realistic for early-stage investors who sell securities in Reg A+.

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



Selling Shareholder Allowance in Action - Case Study

Company X decides to raise funds through a Seed offering, raising \$800k from a Lead Investor at \$2/share. Less than 12 months later, the company prices a \$30 million Reg A+ offering at \$5.10 per share, valuing the investor's holdings at \$2.04M (400k * \$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 400k shares, this translates to \$408,000 in sales proceeds (\$5.10 x 80k shares sold) on the initial \$800k investment – a realized ROI of 51%.

The Lead Investor maintains 80% of his holdings (0.85% of total shares outstanding) in Company X, now worth \$192.6 million at the elevated Reg A+ valuation. The value of the Lead Investor's remaining holdings post-sale is \$1.63 million (\$192.6M * 0.85%).

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	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	79.44%	\$153,000,000
Lead Investor	400,000	\$2,040,000	(80,000)			320,000	0.85%	\$1,632,000
CPVS Investors	1,950,000	\$9,945,000	(390,000)			1,560,000	4.13%	\$7,956,000
Reg A+ Investors				470,000	5,412,353	5,882,353	15.58%	\$30,000,000
Company Total	32,350,000	\$164,985,000	(470,000)	470,000	5,412,353	37,762,353	100.00%	\$192,588,000

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

Lead Investor ROI = \$408,000 Sales Proceeds / \$800,000 Initial Investment = 51%

ROI Summary	Total Invested	Shares Sold	Sales Proceeds	Realized Return	Value Unsold
Founders & Insiders	\$5,000				\$153,000,000
Lead Investor	\$800,000	80,000	\$408,000	51.00%	\$1,632,000
CPVS Investors	\$1,950	390,000	\$1,989,000	100%+	\$7,956,000
Reg A+ Investors	\$30,000,000				\$30,000,000
Post-Valuation					\$192,588,000



The table below illustrates how cash return from sales proceeds increases with share price in Reg A+:

Reg A+ Price/Share	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50
Proceeds to Lead Investor	\$400,000	\$440,000	\$480,000	\$520,000	\$560,000	\$600,000
Realized Return	50.00%	55.00%	60.00%	65.00%	70.00%	75.00%

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