

Seminar Hosted by
Chinese Entrepreneur Network (CEN)
At University of Michigan
<http://www.OurCEN.org>

How to Raise Capital in U S and China for Start-Up?

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Overview

- Bootstrap
- Dilutive Equity Financing
- Non-Dilutive Financing

Basic Questions

- *How* Much Investment Capital Do you Need?
- *Why* Do You Need The Capital?
- *When* Do You Need The Capital?
- *What* Is the Right Valuation and Investment Terms?

Bootstrap

- Personal Savings, kids college funds, Retirement fund
- Home Equity Loan, Credit cards
- Friends and Relatives: Either in loan or equity investment format
 - Make sure everyone understands the risk
 - Legal documentation
 - What happens if you cannot make the payment?

Angels

- Definition of Accredited Investor:
 - Net worth over \$1M,
 - or annual income of \$200K or above for individual, \$300K for couples
 - Understands different types of investments

Angel Groups

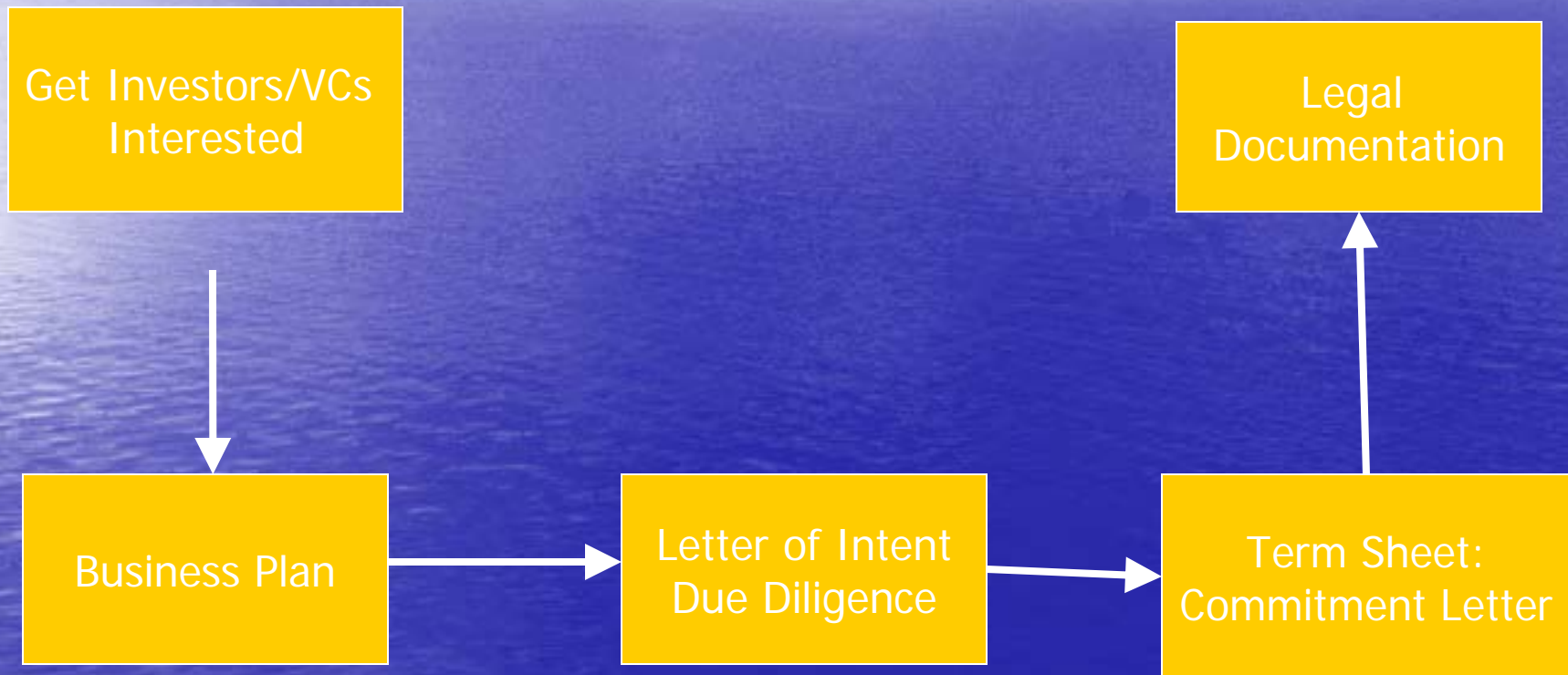
- Screen investments and pool money on a local or regional level
- Estimated 275 Angel groups in US and Canada
- National average of 27% return
- Ann Arbor Angels, Grand Angels, Great Lakes Angels

Private Equity

- Leveraged Buy Out
- Venture Capital
- Growth Capital



Process



How To Find The Right Investors/VCs ?

- Target the right Investors/VC
- Look at those investors/firms in your background
- Proximity of distance
- The success of the investor/VC rates
- Good database for VC
- Collect bios from press release for VC partner/director info
- Lead investor
- VC rating: <http://www.thedeal.com/>

How to Get Investors/VC interested Initially?

- What are you selling? Pain Killer or Vitamin?
- What is your target market? – Don't say everyone
- Do you have any customer yet?
- Intellectual Property
- Management Team
- Can you articulate your product/service in 3 minutes or less?

Business Plan

- Summary
- Business Background and its Future
- The Management Team
- Description of the Financing
- Risk Factors
- Return on Investment and Exit
- Analysis of Operations and Projections
- Financial Statement
- Financial Projections
- Product Literature/Brochures, etc.

Due Diligence: what does the investor want when he/she visits?

Investors/VCs are paranoid

- What is the marketing opportunity?
- Barriers to entry
- What is the business model?
- Uniqueness of the product
- Appraiser of the property and equipment
- Intangibles:
 - Character/experience of the entrepreneur
 - Business Reference
 - Management/Team Experience

Term Sheet: Commitment Letter

- Valuation
- Liquidation Preference
- Anti-Dilution
- Dividend Redemption
- Board Composition
- Participation Rights
- Redemption Rights
- Condition of the loan
- Representation
- Condition of the Commitment

Legal Documents (for Stock Purchase)

- Purchase and Sale
- Affirmative Covenants
- Equity Rights
- Representations and Warranties
- Fees and Expenses
- Restrictions
- Voting Trust
- Employment Agreement
- Condition to Closing

What Are the Drawbacks of the Equity Financing?

- Very Expensive
- Control of Company
- Dilution of Ownership

Non-Dilutive Financing

- Federal/State Program
- Sales/Customers
- Prize
- Bank Loan
- Equipment Leasing
- Special Program: Microsoft/Sun Micro

State Program

- **Michigan Small Business and Technology Development Centers** help any business with under 500 employees;
- the **Capital Access Program** has made more than 10,000 loans, about \$22 million in state funds, to Michigan small businesses over the past 20 years;
- **Procurement Technical Assistance Centers** have 11 offices across the state, funded in part by the MEDC, that help companies bid for government contracts

Pre-Seed Capital Fund

- Created thru 21st Century Jobs Fund
- Up to early 2008, has awarded \$5.4M with \$8.6M matching fund
- Currently 150 people working for these businesses, expected to create 1,000 jobs in five years
- www.annarbor.spark.org/start-ups

Michigan Emerging Technologies Fund

- Part of 21st Century Jobs Fund
- \$1.4M Fund
- State match to federal SBIR/STTR Awards
- Commercialization purpose ONLY
- MI-SBTDC partnership with MEDC

Great Lakes Entrepreneur's Quest (GLEQ)

- Business Plan Competition - \$25K for Top Winner.
- Training and Education Opportunities
- Mentorship
- www.gleq.org

Sales/Customers

- Use customer deposit
- Offer customer discount & revenue sharing
- Best testimony for your product

Lemelson-MIT Prize

- \$500,000 Lemelson-MIT Prize: honors outstanding mid-career inventors
- \$100,000 Lemelson-MIT Award for Sustainability

<http://mit.edu/invent/>

Bank Loans

- Conventional Commercial Loans
- Equipment term
- Lines of Credit
- Commercial Real Estate

Personal Guarantee

SBA 7A Program

- 75% guaranty to the approved commercial bank
- Maximum amount guaranty \$2,000,000

SBA 7A Uses of Approved Funds

- COMMERCIAL REAL ESTATE
- EQUIPMENT
- WORKING CAPITAL
- INVENTORY
- START UPS
- EXPORT/IMPORT
- CONSTRUCTION
- FRANSHISE
- AQUISITIONS

SBA/504 Programs

- Funds up to 40%
- Up to 20 years fixed rate
- Commercial bank up to 50%, up to 25 years
- However, average 5 year balloon, minimum cash injection 10%

Equipment Lease

- Cash flow
- Balance sheet vs. expense line
- No down payment
- Financing term value only

Account Receivable Financing

- You are selling your receivables at a discount and it is not a typical loan programs

There are financing available for your business

- Be Prepared: It is a time consuming process
- Don't wait until you need money: It Always take longer than you expected
- Don't cut corners: Experienced Professional will save you lots money in the future



Networking!

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