Growth Financing:
Where the Money Is & How to Get It

OneCoach™ Expert Training Call
with Praveen Varshney

Hosted by John Assaraf

Praveen Varshney has been involved in the capital markets for over a decade. He is a director of Varshney Capital Corporation, a private family-owned merchant banking, venture capital, and corporate advisory firm, and also serves as a director for a number of public and private companies.

Praveen knows where to seek funding for entrepreneurial ventures and he knows how successfully obtain it. He will tell us when and how to get financing to grow our businesses, and what pitfalls to avoid.

In this interview, you will learn:

- The different types of financing available to entrepreneurs and the pros and cons of each.
- The kinds of financing that work for different types of businesses.
- What a potential investor looks for when considering financing an entrepreneurial venture.
- When you should seek financing for your business.
- What you should be doing now to make sure you are prepared when the time comes to seek funding.

Memorable Moments

Sometimes, just getting money for the sake of money is good, and sometimes we'll call it dumb money which doesn't ask too many questions, which is great because it leaves you alone. It lets you run your business.

The three big forms of financing are other bank and sub-debt, they call it, or venture capital.

If an entrepreneur owns 100% of his company or a majority of it by taking on the bank debt, he's getting capital without having to dilute his share ownership. So, there's a pro.

The disadvantages of pure bank debt are depending on the life cycle of the business and how profitable it is and what kind of security is available, it can be difficult to get. There might be a requirement to have personal guarantees from the bank. There's also often ratios and reporting requirements that can be a little onerous.

With bank and sub-debt, the thing with banks is they lend to people who don't need the money. The trick is to get the credit facilities in place when you really don't need them.

First the entrepreneur's skin in the game, and that's going to be two things primarily – hard dollars that they put in either as share capital or as a loan, or secondly, sweat equity that's time.

Investors like us will want to look at the size of the industry, the growth prospects and the scalability aspects of the business, the ability to leverage technology. These days you can build a pretty global business and a lot of wealth very fast because of the internet and technology.

In the investment space, there's three very important things. One is the idea. That's obviously important.More important is timing because sometimes your idea can be a little too early or a little too late. That's going to impact whether the opportunity is successful or not. Most importantly it's about execution.

The odds are the successful serial entrepreneur is going to do it again. That's a guy I'm more likely to back.

You can't underestimate the value of having a good accountant on your team or good advisors whether they're lawyers or accountants. You get what you pay for. So, you're much better off to pay that little bit extra money to get that top level guy than trying to scrimp and save in certain areas like that.

Basically, your business plan, executive summary, a PowerPoint, an elevator pitch is important. Those are all the main tools that generally you'd look for.

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Contents

Introduction

John. Hi everybody. This is John Assaraf, and welcome to another edition of our expert interviews where we bring you fresh ideas for making more money, and as always, some for charity and living an extraordinary life.

I've got a great guest with me right now, and we're going to be talking with Praveen Varshney on growth financing, where the money is and how to get it.

Now, I've got to let you know that I was introduced to Praveen through a very good friend of mine that we interviewed for the expert series, Bill Thrimbault who's also a world class entrepreneur. So, he and Praveen are friends, and Praveen knows the entrepreneurial world very, very well from a variety of different angles.

He's been involved in the capital markets for over ten years, and currently is director of the Varshney Capital Corporation, which is a private family-owned merchant banking, financial capital, and corporate advisory firm. He also serves as director for a number of public and private companies. I know he's been around business for a lot of years.

Now, he knows where to seek funding for entrepreneurial ventures, not only because he funds them, but he's been involved in them and building his own companies, family companies.

So, we're going to talk about how to get financing to grow your business. We're also going to talk about what pitfalls to avoid. We've got a really packed 45 minutes to an hour session here.

Praveen, welcome to OneCoach.

Praveen. Thank you, John. Thank you for having me.

John. Listen, you come highly recommended. So, we're going to have fun. Praveen, let's get right into it. Maybe you can give us a bit about your background and maybe some of the entrepreneurial activities you've been involved in to give our listeners the feel for you.

Praveen's Background

Praveen. Awesome, I'll be glad to. Just as background then. I'm actually a chartered accountant by profession, or in the U.S., they call them CPAs, Certified Public Accountants. I work KPMG, one of the big firms, and it was an excellent training and background for what I do now, analyzing financial statements and working with entrepreneurial businesses.

My career actually started post-KPMG building and running a couple of start-ups. So, I've walked the walk in terms of entrepreneurship into now when I've been advising companies. I think I add a lot more value because I've been there. I know what it's like to try to make payroll the next week, and what the marketing and HR issues are and all that kind of stuff.

One of the first companies that I get well improved was a casino company, and basically it was hyper-growth. It went form a start-up to $35 million in sales in three years with six million bottom line. That has some of its own challenges with the growth that needed to be funded. It was actually a public company, so that did quite well. It went from basically below fifty cents to a high of six dollars.

I did two other start-ups. One was one of the first internet service providers here in Vancouver, British Columbia, and combined the experience of gaming with the internet to come up with one of the first internet gaming companies in the world. That was an interesting experience.

John. They're pretty hot now.

Praveen. Oh yeah, I know several people personally that are billionaires from that space. When I talked about my experience later, we'll talk about what kind of capital to get, but there's a concept that we use. **There's money, and there's value-add money. There's a spot for both.**

Sometimes, just getting money for the sake of money is good, and sometimes we'll call it dumb money which doesn't ask too many questions, which is great because it leaves you alone. It lets you run your business.

On the other hand, my view is the value-add money is what you want to try to get. The value comes in a number of different ways if you've got the right investors on your team. With us, what we do is we bring in our various professional designations to bear as well as our business entrepreneurial experiences, and our proverbial Rolodex of contacts for mergers and acquisitions and even hiring if you need a controller, that kind of thing.

John. Needless to say, you've got plenty of background from start-up to $35 million private companies, public companies. I know you've made a ton of money in investing in these companies and helping run them, so that's great.

Let's get right into the different forms of financing available to companies. You said basically dumb money or value-added money. Is there anything else we should be looking at?

Different Forms of Financing

Praveen. Well, yeah, before I talk about some specific types of financing available, **one of the simple things is – and this was phrased for me through a speaker I went to many years ago, and it's so simple that basically more has to come in than goes out.** So, that's a starting point.

Another sort of low hanging fruit, when you're working with younger companies, is to look at costs. Basically, when you look at costs, every dollar saved is pure dollar bottom line. It goes straight to the bottom line.

An example of that, one of our companies is in a short term lending industry, and we have a lot of investors that we were paying out interest at two percent at month, which is a very lucrative return for the investors, but just recently we refinanced all of our debt down to one and a half percent per month. The investors are still doing very well making 800%, but that savings of six percent has translated into tens of thousands of dollars straight to the bottom line every month.

Also, what we did once was we brought in an outside consultant to help us reorganize a company that was going through a downturn. His nickname was Dr. No. This person was someone outside the force, so to speak, with undetached analytical eye, so he could look at expenditures and decide whether it was worth it or not, or if there's a better way to incur a supplier, that kind of thing.

Cost cutting, and then there's also vendor financing. I think a lot of us have done that, and stretching payables, that kind of thing. Then, there's also factoring and leasing.

The three big ones, the ones I have lots of experience with are other bank and sub-debt, they call it, or venture capital.

Bank debt is sometimes referred to as senior debt, and sub-debt would be a level below that. So, instead of a charter bank, you'd have another institution that would pride you alone, but at much higher rates than a traditional bank would.

Then, there's also venture capital or private equity, and then most of my experience actually is in something called public venture capital, which is where we would use the stock markets, primarily the junior stock markets here in Canada which are very active and quite robust in fund-raising for young growth companies to raise capital from.

John. That is basically putting your company into a public shelf.

Praveen. Yes, and I'll talk a little bit about that more as well, but yeah, with public venture capital in Canada there's two primary stock exchanges. The senior exchange is called the TSX, which is formerly the Toronto Stock Exchange. Then, the other exchange is called the TSX Venture Exchange. So, that's the junior stock exchange here in Canada.

It's very active. It works really well. I actually do a fair amount of public speaking just on the topic of going public using that mechanism because there's pros and cons to going public as well as pitfalls and things to look out for, and that kind of thing.

Deciding on the Right Form

John. We've got people from all over the world, small business owners. Most of them are under a million in revenue, and if they want to go out and get some money to execute on a really great business plan because they've proven out their model already. Why don't you take me through some of the thinking they should be going through to look at different vehicles for them to raise some money?

Praveen. Sure, and that kind of gets me to some of the pros and cons of the various mechanisms I outlined before. Maybe I'll start with the bank and sub-debt. One of the big advantages of something like that is this concept of non-dilution.

If an entrepreneur owns 100% of his company or a majority of it by taking on the bank debt, he's getting capital without having to dilute his share ownership. So, there's a pro.

The disadvantages of pure bank debt are depending on the life cycle of the business and how profitable it is and what kind of security is available, it can be difficult to get. There might be a requirement to have personal guarantees from the bank. There's also often ratios and reporting requirements that can be a little onerous.

For example, there may be ratios that they have to meet in terms of inventory levels, that kind of thing. If the business starts slipping a bit, then worse case is the bank could be your business into foreclosure.

At some point, there definitely is room for bank financing and it's just a question of the timing of when you qualify to get it.

Bank Financing

John. Is that a good option for somebody to look at?

Praveen. It definitely is. **It's a nice starting point even if you can get like a small line of credit.**

With bank and sub-debt, the thing with banks is they lend to people who don't need the money. The trick is to get the credit facilities in place when you really don't need them.

You have to be thinking ahead. Even on a personal level, I worked a lot with some of the university undergrad students here in Vancouver and some of the MBA students. One thing I advise them when you graduate usually you start with a job somewhere, and the same thing happened with me.

I had a job with KPMG. It was enough for me to qualify to get a line of credit, and actually what I did was I knew I was actually going to be laid off from the firm. So, I figured, "Well, geez, if I'm going to get a line of credit, I better get it now because once I'm unemployed, good luck." There's probably no hope in hell actually.

I got my first $25,000 unsecured line of credit. What the bank does is they phone your employer. “Is he employed?” “Yes” “Does he make X amount in salary?” “Yes.” Boom, you qualify.

It was great to have the set-up in place because I knew I wasn’t going to be able to get it after. **The same thing with businesses – you want to develop a bit of history, and sometimes you can do that by – it sounds kind of silly, but you end up putting dollar for dollar security in place with a bank.** Let’s say you put up a $25,000 GIC, and you take out a line of credit against that. Then, it just gives the bank an opportunity to build a relationship with you and to see the loan cycle and get paid off, so you can build up a bit of credit history for your corporation and eventually hopefully get that credit facility increased.

Definitely, bank debt is an opportunity for companies, and if they know they can get it, the better. The more you can get later, even if you don’t need it, it’s just good to have it.

With sub-debt, that’s a little bit of a twist. There, you would generally pay much more interest, like usually in the low teens, and so these guys are also generally more cash flow lenders. With the increased risk, security may not be as solid. They’re willing to take a bit more return.

There’s also room for sub-debt as well, and that would be for businesses that are starting to grow and ramp up and have a bit of history behind them. Usually, you’ll get sub-debt before you can probably get bank debt.

When to Look for Investors

John. Let’s say they’ve gone through banks or they don’t want to go through banks. They want to go out and get some investors. At what point, from your vantage point, does a company go and look for investors? Let's start with that. At what point do they do that?

Again, I think I'm going to come back to there's obviously investors that are friends and family that may not be putting people through the scrutiny that a sharp investor will put them through. At what point should a company start deciding, "I do need some money. I don't have any of my own. I'm going to raise some money. I'm going to get it in the form of either borrowing it or selling a piece of my company." Maybe we can talk about that a little bit.

Praveen. They call it the three Fs – friends, family and fools sometimes, or F&F round is what we would call it in our lingo – friends and family generally. **This love money, personally we find it to be very important. If someone is approaching us for funding as private investors or even for taking it public, we like to see, "Skin in the game."**

First the entrepreneur's skin in the game, and that's going to be two things primarily – hard dollars that they put in either as share capital or as a loan, or secondly, sweat equity that's time.

The way we phrase is most people have more time than they have money. So, having hard dollars as skin in the game counts more than just sweat equity.

Then, with friends and family, the reason we like to see that level of investment in as well is as I phrase it, if you can't turn to people that are close to you to believe in you and back you, why are you turning to a total stranger like me. That is another level of having skin in the game because you have people that are close to you that you want to make money for and make sure they don't lose any money.

We'll get people who say, "Well, you know, if something goes wrong, and I still have to have dinner with these people." I go, "That's the point. That's why I want you to have that money."

What Investors Look For

John. Let's go to from an investor perspective. What do investors look for?

Praveen. In terms of what investors would look for, I'm just going to rattle off a bunch of things, and then I'll go into detail on a couple of them, but **basically the management team is first and foremost, probably the most important one. The history of the company, margins, profitability, the revenue model – we tend to focus on businesses that recurring revenue or repeat business.**

We call it the razor blade model. I'll give you the razor, and as long as you keep buying razor blades from me, so things that are consumable or subscription based worked really well there.

Investors like us will want to look at the size of the industry, the growth prospects and the scalability aspects of the business, the ability to leverage technology. These days you can build a pretty global business and a lot of wealth very fast because of the internet and technology.

Things like barriers to entry – not necessarily patents or IP, but first mover marketing advantage can be a significant barrier to entry. **Competition** – the competitive landscape is very important. **Regulatory issues** potentially could be something that needs to be looked at. Then, another thing is **how capital intensive is the business.**

Those are basically the main thing we would look at, and most investors I know would look at. On the management team - this expression you betting on the jockey not the horse - so with a young start-up company, you really don't have a lot of history to analyze, so the due diligence usually isn't that much. **It's really more forward looking, and you're really looking at the management team, who are these guys, what have they done in the past, references on them.**

In the investment space, there's three very important things. One is the idea. That's obviously important.More important is timing because sometimes your idea can be a little too early or a little too late. That's going to impact whether the opportunity is successful or not. Most importantly it's about execution.

If you've got a great idea and the timing going for you, and execution, you're probably going to do very well and make a lot of money for you and your investors.

With the people check, when you meet the persons face to face, having them show you they have a very sound knowledge of their marketplace is impressive, knowledge of the competition especially the financial dynamics of the company.

We have daily metrics that we track on somebody's business. Some are weekly, and looking for trends and the things that are trending, you try to spot them in advance so you can react. Business is very fluid.

With people, how hard are they willing to work? What kind of sacrifices are they going to make? What kind of fire do they have in their belly?

Ray Kroc, the founder of McDonalds, as you know, says, "Luck is in a dividend of sweat. The more you sweat, the luckier you get."

So, those are all things that we look at for the people test. **If you don't have the experience – we tend to back more experienced entrepreneurs because our business, we're not gamblers, and most successful entrepreneurs I know aren't gamblers either. They're calculated risk takers.**

Even with us, when we look at these various variables that I rattled off that we look for in a business, on the people one, you can take the unproven entrepreneur, and it happens occasionally like Michael Dell created the Dell Computers in the dormitory.

The odds are the successful serial entrepreneur is going to do it again. That's a guy I'm more likely to back.

If you don't have the experience, then the next best thing is you've got to start surrounding yourself and putting together a team that's going to want to help you with your execution, and to make you more presentable when you're raising funds from the bank or private equity guy or whoever.

You can't underestimate the value of having a good accountant on your team or good advisors whether they're lawyers or accountants. You get what you pay for. So, you're much better off to pay that little bit extra money to get that top level guy than trying to scrimp and save in certain areas like that.

You can save in other areas, but I don't think you want to save on your professional advisors.

John. Your professional advisors and the people that are responsible – if it's you, great, but if it's not you responsible for generating revenue. That's always for me when I recommend anything to somebody. I say, "Who is responsible for everyday waking up and discovering and finding out, 'How am I going to generate money for the company?'"

Praveen. Exactly, and then even if it's some of the tools that you need to fundraise for. **If you're not an accountant because you focus on the creativity side or the sales market side, and then you've just got to make sure you've got people on the team that can you get all the tools,** which I'll be happy to talk about in a second, that you need to help fund raise.

Be Prepared

John. Do you see a lot of people coming to you and maybe to some of your friends who do lend money who just don't now what they're doing, unprepared?

Praveen. Oh, yeah, and those meetings don't last very long.

John. So, preparation like listening to this call, reviewing it on the notes and making sure that they've got their I's dotted and their T's crossed. When somebody comes prepared about the market and about their product or service, about their financial needs, about their sales needs and marketing needs, that can answer the questions, that can show a path from where they are to where they want to be, I would imagine you get much more interested at that point than somebody who's just flailing in the wind.

Praveen. Sure because they "get it". **They understand what a funder or lender needs, and they've been prepared like the boy scouts. They've done their homework, and they basically have got everything together in a nice package for you.** It makes the process of reviewing everything more efficient, but more importantly, you're much more impressed because these guys know what they hell they're doing.

We've had a situation where one of our companies that we took public, very successful here in Canada. It's the largest solar company. It's called Karmana Technologies, and they were doing $2.5 million in sales when we got involved five, six years ago, and this year, they'll do about $70 million in sales.

The founder, Dr. Green, he – I called it an RTO in a box. He basically shipped over a box. Everything was tabbed – business plan, financial statement, copies of his patents. So, we already knew that, "Hey, this guy is someone that we would most likely want to do business with. Now, it's just a question of just looking at the business itself a bit."

John. Right, doing due diligence. So, a potential company can do a lot of leg work for you, and what I'm hearing is the more leg work they do in a professional manner that makes it easy for you to go to the next level, is great on your behalf.

Praveen. For sure, and anyone else I know in this space including banks, so being prepared. If you don't know, there's a couple things you can do. **You can phone in advance and find out what a person would look for, and then get to the business of preparing it all. As I said earlier, finding some advisors, even mentors, someone you don't pay, but someone that you trust or respect.**

I do a lot of mentorship for some young businesses as well as for students, and you'd be surprised how many people have had some business success. **So, just phone them, even cold call and say, "Look, do you have 15 minutes for a juice or a coffee. I'm a young entrepreneur looking for some advice and help." That kind of thing that they're very pleased to try and help out if they can.**

John. I agree. I get lots of calls. The one thing I want everyone to write down is this, how you do anything is how you do everything. What I mean by that is when I take a look at packages that people send me, clients of ours that we're working with, and I ask them to send me their marketing plans, their business plans, their sales plans, revenue plans – I can tell how they run their business based on what they send me.

As a person who does invest in companies as well, I turn down more companies just because of the presentation without anything said than anything else. I don't know whether you are in agreement with that, Praveen, or not.

Praveen. That's very well said. **One thing I would add to it is we're big believers in a phrase called setting and managing expectations.**

Related to that, there's an acronym that we use called UPOD, which stands for Under Promise and Over Deliver. Human nature generally is to do the opposite OPUD – which is Over Promise and Under Deliver.

If you use setting and managing expectations with the premise of trying to UPOD every time whether it's your personal life or your professional life, that's going to go a long way to impress someone like me, a bank, if you're a public company, the investment community.

That could be, in practical terms, something as simple as saying, "Look, I'm going to have my package that you need to review for my funding that I'm looking for this Friday," and you get it to them like two days early.

There's many, many other examples that you could come up with. It's much better to temper the expectations and come out smelling like a rose.

Key Tools for Entrepreneurs

John. Let's talk about some of the tools that an entrepreneur should have. You mentioned some tools before that they can use.

Praveen. **One of the main things is having a business plan, and as we know, though, a business plan is fluid.** It's a living document. So, it's kind of changed, but it's a good starting point.

It's a good road map internally for yourself to use as you're running your business and for new staff who come on especially senior people to get up to speed on the business. So, the business plan is one.

Related to that is the executive summary portion of that, and some of the next tools going forward from there is a nice PowerPoint presentation can be very critical. So, keeping it nice, short and tight like maximum 15 slides type of thing.

John. Let me just stop for one second. Let me just ask you how long should – I know you're probably going to say as long as it needs to be, but business plans could be twenty pages. They could be 150 pages. What is your feeling about business plans? What are you really, really looking for in the business plan?

Praveen. **The business plan, a lot of what I talked about earlier in terms of things that we're looking for – things on the competition, your business's background, the revenue model.** Again, if you don't have a lot of history – I mean, **ideally I'd be look for financial statements, and I do ask for financial statements. Generally, the higher level of assurance that you have on them, the better.**

An audit is obviously the highest level of assurance. The next would be something call a review engagement, and then there's something called a notice to reader or compilation engagement, and then lastly would be internally prepared.

One of the very first things that I usually ask for is the most recent year-end financial statements as well as the most recent interim financial statements. If you don't have a lot of history, then the business plan is outlining a little bit more about where you expect to go, which is what I'm probably funding.

It doesn't need to be very long, but as long it addresses all those things that I talked about earlier.

The PowerPoint, too, you'll find actually a lot of investors are a bit lazy, and as you said too, you see so many things, you don't have time to read every business plans that comes to your desk.

`For me, I start with, send me your executive summary. Send me your PowerPoint. Send me your website because just poking around your website can tell me a lot about the space you're in, the company.

Then, if we like what we see, then we'll ask for a meeting one on one to talk about the business in detail, and then we might ask for the business plan and then go from there.

Basically, your business plan, executive summary, a PowerPoint, an elevator pitch is important. Basically, what that is is basically a short thirty second, maybe maximum one minute pitch on what it is your company does, and what you're trying to do, a good website as well as financial statements. Those are all the main tools that generally you'd look for.

Then, if an investor shifts to what I call "Show me, don't tell me" mode, so you can tell me dadadada, but now when I shift to show me mode, I need to see evidence of it. **That's full due diligence where I might ask for copies of patents or copies of contracts, that kind of thing.** Those are tools, obviously, as well as just general things you'd have lying around. You need to be organized to be able to find them and get copies made, put them in nice binders.

John. These are all tools that you're looking for that displayed to you, that this person knows what they're talking about, and they understand their business.

Praveen. It gives me a good feel for the business, correct.

John. Here's what I want you all to take away from this. Don't waste your time or a professional investor's time unless you have those things. If you don't know how to get them, then you need to do your due diligence. As we always say, you'll either do it yourself, have help doing it, or get it done for you, so you increase your chances of getting somebody serious like Praveen and other people to really look at your business.

I'm going to go back to don't waste your time or theirs. Wait until you're prepared. Take a little bit of extra time before you send the information to them, and do it right the first time.

Praveen. As you said John, for professional investors, you definitely want to be prepared, and have a lot of things, but that does not mean you can't get money from other sources like especially friends and family, people that know you closely.

Once they know you and what you've done, you can raise money. We do it all the time because we've got a track record, but just a phone call to investors, and they just say, "How much money do you need, by the way?" So, they're not looking for any of this stuff.

John. The operative word that Praveen is using is track record. They've done this over and over again, and people know how they do business. I've seen more friendships fall down the drain because the proper due diligence wasn't done, and experienced business owners got money from inexperienced investors, and so, do your self a favor. Go through what you need to go through, number one, to build the business properly. That's part of what you're in OneCoach for. It's really to understand the foundation of the fundamentals you need to build a business properly.

Praveen. **Exactly, and most entrepreneurs I know, it's hard for them to go back to being employed. You're generally going to become a serial entrepreneur. So, that track record is enough to help you pave that road smoothly for future businesses, especially if you have an investor that invests with you in the first deal and they've made money.** It becomes much easier and quicker to go to those same people to get money.

It's just like when you're in business when you're looking for referrals for sales. The same thing happens when you're investing because if someone's had a good experience, they introduce you to someone else, and it just kind of snowballs from there.

When to Look for Financing

John. I've got two more questions *Praveen.* At what point do you recommend that somebody should be looking for financing?

Praveen. Well, as I was saying earlier John, **ideally you're looking for it before you need it. So, part of that is also what you haven't touched on, planting seeds and developing relationships with potential funders and investors.**

You can also use that process to set and manage expectations and do that UPOD thing that I talked about. So, basically, you've just met me and you're not looking for funding now, but you're saying, "Hey, maybe down the road, I might be needing some money because the business might be growing. This is what I'm hoping to do between now and then", and then when you actually come back and see me, whenever down the road. You tell me, "This has actually happened," I'm much more likely now when you ask for the check to give you the check.

I think that's one thing that a lot of entrepreneurs don't do is plant enough seeds in advanced, whether it's with banks or people that have been proven to fund businesses in your particular space. Even with friends and family, so that's definitely one thing.

If you're not in that situation where you have the luxury of planting seeds in advance and trying to raise money when you really don't need it, it's tough, but it can be done. It's just a question of the cost.

If you want to take somebody like heavy points, like heavy interest, it's expensive, and you can probably get the money. If you want to sell some equity and dilute yourself down, the right price, and there's probably a taker.

One thing you can do is you can burn a lot of cycles fundraising. It can be frustrating too because you're trying to run a business and grow it at the same time as well as raising money. Hopefully, you don't have to do both for very long.

John. Is what I'm hearing raise as much money as you can in the first round, and get enough money for what you anticipate and then some for your growth?

Praveen. I'm a big believer in doing it that way. Some people would think, "Gee that's fund raising enough so to keep the dilution down." Which is fine, but that's a bit more a greedier model because you don't leave yourself room for error, and if something happens.

If you're really building something that's going to be significant down the road, if you gave up a little bit of equity earlier, a little more than you anticipated, it won't make a difference down the road because the thing is going to be so big.

Valuation Topics

John. That makes sense. Let me take this for a second to valuations and is there a rule of thumb that investors should be expecting of what to expect as far as dilution. If I have a company and I want to raise half a million or a million or two million dollars when the timing's right, is there a rule of thumb that you use as a VC for people to know what the parameters are?

Praveen. Yes, and no. Each situation, obviously, is different, and with the dilution –

John. By the way, folks, dilution just means that you're giving up equity in your company. You're diluting yourself of the ownership position that you have. So, if you have 100% ownership, and you raise $250,000 or $500,00, you're going to get X percent of your company for that money. That's diluting yourself.

Praveen. Correct. At the end of the day, something's only worth whatever somebody is willing to pay for it.

A lot of time these valuation discussions, it's just more of a negotiation process. So, each side has an idea of what they may feel represents a fair or reasonable equity stake.

When we look at these transactions, it's like marriage. You're buying shares of this business, and you want to be working with this management team for a period of time and create a big success and make a lot of money together.

Like a marriage, it's got to feel right at the beginning. It's got to feel right at the middle. It's got to feel right all the way through. So, if you start where one side's not very happy, that baggage is going to be there, and could impact the relationship.

Something that's fair and reasonable, and there's lots of metrics out there that you can read from industry trade journals, other transactions in your industry as well as to what kind of multiples of business was either sold or raised money at. There's lots of guidelines.

There's also just general business guidelines that are out there as well in terms of what's a reasonable and fair multiple. That's impacted by lots of factors. How stable is the company? How long is its history? What kind of growth prospects does it have? What's happening in the regulatory side of things, perhaps in the space?

All those things can take these sort of normalized multiples for valuation and move them up or down a bit. Specialized buyer would be willing to pay a premium as well because they know, "Hey, if I take this company and put it into my fold with all the synergy that I can create and the resources that I can bring to bear, the thing's going to be worth a lot more for me."

He may not necessarily tell you that he's willing to pay a premium, but he knows in his back pocket, it's worth more to him.

John. There really isn't an X times net or X times the potential revenues that you go after.

Praveen. No, **we look at every situation independently and find out what's fair and reasonable. We just want to make sure that we've got a really good stake for the money we're putting in and all the extra value that we're going to be bringing to the table.**

The Biggest Mistakes

John. Let's go to my last question, and then I'm going to let you take it from there in case we missed some stuff. There's been a lot of information. What are two or three of the biggest mistakes that business owners make when they're actively seeking funding?

Praveen: **I think one of the biggest mistakes that they do is targeting the wrong audience for the fundraising, so they're spending a lot of cycles of their own precious valuable time and maybe money.** Basically, it's just not the best us of their time.

By targeting the right people – people I say that "get it", people that have already invested in your space or understand your industry, and have invested in deals in that industry, or people that know you well. You want to increase your odds of success, so that would definitely be one of them.

A second thing that we've touched on is just not being prepared, really not having an understanding of what a funder would look for. Therefore, they can't be prepared because they just didn't know.

By understanding what they look for in the process you will be going through, being prepared, that would be another one. Again, it comes back to you you're going to be spinning some wheels and wasting your time, and you said it earlier, wasting someone else's time.

When you want to fundraise, you want to be as efficient as possible so you can get on with closing that money and then back to the main task at hand which is building the business.

Those are the two primary ones that I'd throw out there right now.

John. I can tell you, we've got 45 minutes of – I've got two pages of notes here. I know the transcription will have tons. Is there anything else that you'd like to add to our young entrepreneurs and some seasoned entrepreneurs that we can close off with?

Praveen. Yes, I have a lot of respect and admiration for fellow entrepreneurs. They're a big part of the global economy. I think finding the right investors instead of doing a loan is the way to go especially when it's value-add money.

They're thinking which is what you're thinking is that they want to make money. So, the smart guys are going to do whatever they can to help you deliver on your goals.

Anybody out there who has some really good business ideas, I'd be happy to look at them.

Value-Add Money

John. Great. We'll give them your website to go to. You just reminded me of something that I wanted to talk about. That's value-add money. Give me and the listeners maybe a couple of examples of value-add money. Then, we'll give them your website, and when you guys are ready, you can give Praveen a call or an email. That would be great.

Praveen. **Value add comes in many forms. One is you generally go to an investor for some money, and then down the road, if you need further money or monies, the value-add can come from these guys either putting in more money because they're deep-pocketed, or introducing to other investors.**

If you're looking for mergers and acquisition candidates or a joint venture candidate or a distributor in another market, the value-add comes from having this rolodex that this investor has that they can open up for you.

Then, if the investor has a lot of entrepreneurial experience or professional experience in a certain area as a lawyer, an accountant – those are all some freebies that you're going to be able to tap into which are invaluable. There's definitely lots of forms of value-add.

It's partly up to the entrepreneur to come up with what he really needs help with, and you come up with that wish list and try and target and hopefully get it.

Closing Comments

John. That makes total sense. Praveen, how does somebody get a hold of your website, so they can at least take a look at your company?

Praveen. It's www.VarshneyCapital.com.

John. This will be in the transcript as well, so if you missed it for any reason, just look at the transcript. It will be on the members' area site with the PDF file. Praveen, it's been an absolute joy. You obviously know your material inside and out, and I appreciate you taking the time out of your busy schedule to help entrepreneurs all over the world, which is who our client base is.

Praveen. My pleasure, and I'm just going to throw one other thing, too. If anyone is interested in that public venture capital model, there's a lot of resources that I can share that you can research on your own. It can work really well for certain types of companies.

John. Great, if there's any resources that you have and you can email them to me, if you have them handy or available in any format, we'll just make them part of the PDF file, and make sure you get the credit for it.

Praveen. Perfect, I'll do that later today.

John. That'll be great. Everybody have an absolutely great week.