Raising Capital

Cannabis Focus

What we will discuss:

- Financial Projections
- Financial Statements
- Pitch Deck Development
- Methods of Raising Capital
- Cannabis Investing

What is a financial projection?

Financial projections **use existing or estimated financial data to forecast your business's future income and expenses**. They often include different scenarios so you can see how changes to one aspect of your finances (such as higher sales or lower operating expenses) might affect your profitability.

Budgeting VS Financial Projection

- **Budgeting** is the financial direction of where management wants to take the company.
- It helps quantify the expectation of revenues that a business wants to achieve for a future period.
- Budgeting creates a baseline to compare actual results to determine how the results vary from the expected performance.

- **Financial projection** tells whether the company is headed in the right direction, estimating the amount of revenue and income that will be achieved in the future.
- Financial projection is used to determine how companies should allocate their budgets for a future period.

What are Financial projections used for?

Here are a few situations that would call for financial projections:

- You're creating a business plan
- You're hoping to attract investors
- You're applying for a loan or line of credit
- You want to get a better handle on your business
    - Debts
    - Profitability

How to Create Financial Projections?

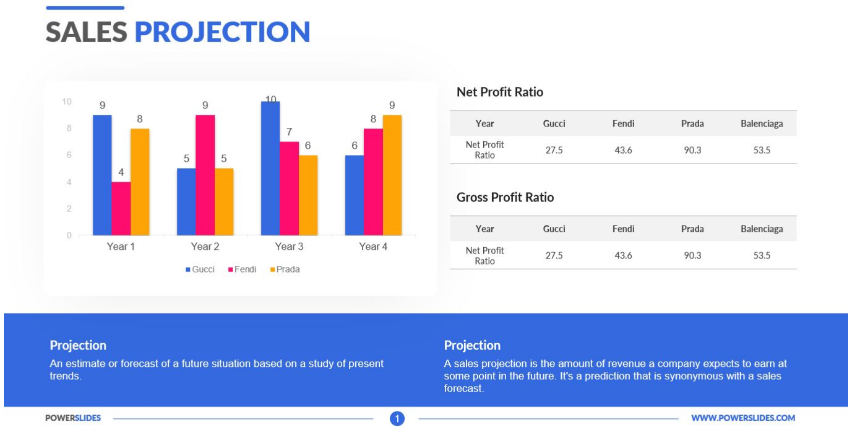
Standard Financial Statements

- Balance Sheet
  - The balance sheet contains information about the company's liabilities, assets, and shareholders' equity.
- Income Statement
  - The income statement shows the company's revenue, business expenses, and profitability for a particular reporting period, either annually or quarterly. An income statement is also known as a profit and loss statement.
- Cash Flow Statement
  - The cash flow statement shows how a company's liquid assets are increasing or decreasing over time. Positive cash flow indicates that more money is flowing in than out, and can be an indicator of improving financial strength and flexibility.
- Statement of Retained Earnings
  - The statement of retained earnings begins with the prior period balance, adds in any net income as well as any dividends paid out to shareholders in order to arrive at the ending retained earnings balance.

Step 1: Create a Sales Projection

Sales projections are an important component of your financial projections.

For existing businesses, you can base your projections on past performance obtained from **your financial statements**. For instance, if your sales tend to be higher in the summer and fall, you'll want to include that in your projections.



Step 2: Create an expense projection

For those working from history, you can predict with some certainty what your fixed expenses are, such as your rent or mortgage, along with recurring expenses such as utilities and payroll.

However, it's much harder to predict those one-time expenses that have the potential to destroy your business.

	A	B	I	J	K	L	M	N
1	Non-wage Department Expense Model							
2	TheSaaSCFO.com							
3								
4								
8			Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
9		SUMMARY BY P&L CAPTION						
10	Cost of Revenue	P&L Category 1	200	200	200	200	200	200
11	Cost of Revenue	P&L Category 2	23	23	23	23	23	23
12	Operating Expenses	P&L Category 3	45	45	45	45	45	45
13	Operating Expenses	P&L Category 4	5	5	5	5	5	5
14	Operating Expenses	P&L Category 5	550	550	550	550	550	550
15	Operating Expenses	P&L Category 6	550	550	550	550	550	550
16	Operating Expenses	P&L Category 7	550	550	550	550	550	550
17	Operating Expenses	P&L Category 8	550	550	550	550	550	550
18	Operating Expenses	P&L Category 9	-	-	150	-	-	150
19	Operating Expenses	P&L Category 10	198	212	226	219	226	219
20	Operating Expenses	P&L Category 11	-	-	-	-	-	-
21	Operating Expenses	P&L Category 12	-	-	50,000	-	-	50,000
22	Operating Expenses	P&L Category 13	300	300	300	300	300	300

Step 3: Create a balance sheet projection

A balance sheet shows the financial position of your business, listing assets, liabilities, and equity balances for a particular time frame.

When creating your financial projections, you can use your current balance sheet totals to better predict where your business will be one to three years down the road.

Assets	
Current Assets	
Cash	$1,000
Accounts Receivable	$2,000
Inventory	$1,500
Other	$700
Subtotal	**$5,200**
Long-term Assets	
Office furniture	$1,000
Vehicles	$3,000
Subtotal	**$4,000**
Less Accumulated Depreciation	$1,000
Subtotal	**$3,000**
Total Assets	**$8,200**

Liabilities and Capital	
Current Liabilities	
Accounts Payable	$500
Notes Payable	$1,000
Other	$500
Subtotal	$2,000
Long-term Liabilities	$1,000
Total Liabilities	**$3,000**
Capital	
Earnings	$300
Retained earnings	$900
Paid-in Capital	$4,000
Total Capital	**$5,200**
Total Liabilities & Capital	**$8,200**

leanplan.com

Step 4: Create a inc statement projectio

An income statement provides a view of the **net income** of your business after things such as cost of goods sold, taxes, and other expenses have been subtracted.

COMPANY B
INCOME STATEMENT

For Year Ended September 28, 2019 (In thousands)

NET SALES	$	4,358,100
COST OF SALES		2,738,714
GROSS PROFIT		**1,619,386**
SELLING AND OPERATING EXPENSES		560,430
GENERAL AND ADMINISTRATIVE EXPENSES		293,729
TOTAL OPERATING EXPENSES		**854,159**
OPERATING INCOME		**765,227**
OTHER INCOME		960
GAIN (LOSS) ON FINANCIAL INSTRUMENTS		5,513
(LOSS) GAIN ON FOREIGN CURRENCY		(12,649)
INTEREST EXPENSE		(18,177)
INCOME BEFORE TAXES		**740,874**
INCOME TAX EXPENSE		257,642
NET INCOME	$	**483,232**

Step 5: Create a cash flow projection

The last step in completing your financial projection is **the cash flow statement**. The cash flow statement ties into both the income statement and the balance sheet, displaying any cash or cash-related activities that affect your business. The cash flow statement shows how money is being spent, a must for those looking to attract an investor or obtain financing.

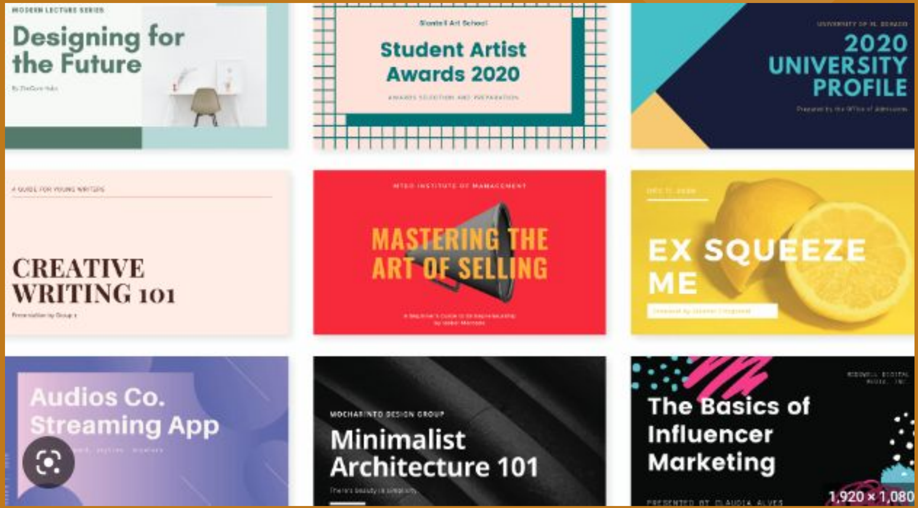
Figure 1. Sample 6-Week Cash Flow Projection

	Week 0 (Actual)	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6
Beginning Cash Balance	135,035	105,325	152,449	120,906	137,002	114,352	128,499
Cash Inflows							
Accounts Receivable	82,655	119,299	157,424	137,977	98,394	93,144	117,579
Total Cash Inflows	82,655	119,299	157,424	137,977	98,394	93,144	117,579
Cash Outflows							
Accounts Payable	35,245	41,115	106,717	76,881	41,269	47,938	37,048
Payroll	77,120		82,250		79,775		79,775
Loan Payments (Interest)		905				905	
Loan Payments (Principal)		30,155				30,155	
Dividends Paid (Owner Draw)				45,000			10,000
Total Cash Outflows	112,365	72,175	188,967	121,881	121,044	78,998	126,823
Net Cash Flows	(29,710)	47,124	(31,543)	16,096	(22,650)	14,146	(9,244)
Ending Cash Balance	105,325	152,449	120,906	137,002	114,352	128,499	119,255

PITCH DECK DEVELOPMENT

What is pitch deck development?

In business, a pitch deck is **a pitch presentation for entrepreneurs or businesses to provide a streamlined but informative overview of their company or startup to potential investors**, such as venture capitalists or angel investors.



4 Tips in Making a Pitch Deck

1. Be straightforward
2. Prioritize story over stats
3. Make it a standalone deck
4. Keep it updated

10 Elements to Include in a Pitch Deck

1. **Introduction.** The first slide should introduce the pitch deck and explain the business in simple and clearly understood terms.
2. **Problem.** The pitch deck needs to explain a problem the business's target market faces. This information will demonstrate the necessity of your product or service in the marketplace.
3. **Target market.** A target market is a group of people that share common characteristics. Every service or product is aimed at a specific group, and yours should be featured in your pitch deck.

4. **Solution.** The solution slide should state the way(s) in which the business solves the problems that your target market is facing.

5. **Traction.** This slide validates the company's business model by showing any month-over-month growth through early sales and support.

6. **Marketing and Sales strategy.** It's important to detail how the product will be advertised and sold to its market.

7. **Competition.** Include information on the qualities that set your product or service apart from other entities or alternatives in its market—you can pull this information from your competitive analysis.

8. **Team.** The team slide will underscore a company's management team's expertise and capabilities to market and sell a product. Listing the key team members (and co-founders if applicable) and detail how their expertise and previous experience can help establish the company's competitive advantage.

9. **Financials.** Investors will typically want to see a company's financial health for a period of three to five years, including income statements, projected growth, and information on the business model itself.

10. **Investments and funding. The Ask.** Sometimes, entrepreneurs will craft a pitch deck that forgets a key piece of information: the amount of money needed to fund the project. It's important to include that detail and note how the funding will be spent to help the company reach its goals. This explanation will build much-needed trust with investors.

Raising Capital

Types of Investments

Self-Funding: You can put your liquid cash into the business, borrow out of your 401k, borrow against your home value, or sell high-value assets.

Friends and Family: Taking cash or investments from your close friends or family.

Angel Investors: These are usually $100-500k rounds that come from wealthy professionals such as doctors, lawyers, or even generational wealth families.

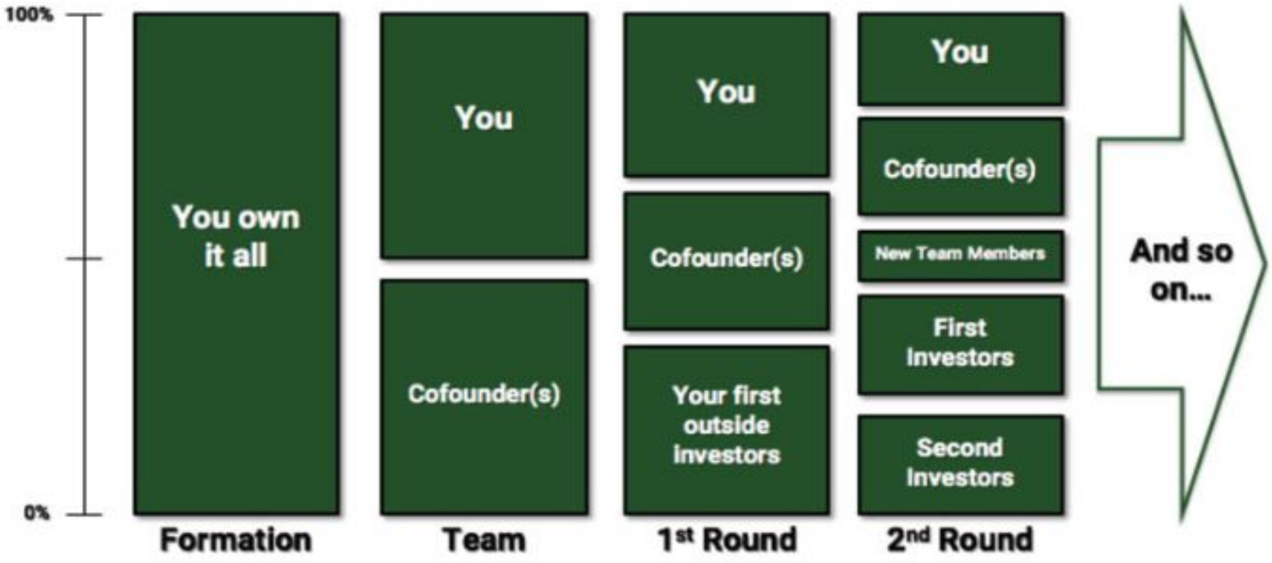
Crowdfunding: Not very popular in cannabis, but a potential option using sites such as Mainvest, Republic.

Private Equity or Venture Capital: More common as time goes on, and this is where very high growth businesses need to look for capital. They may be able to assist with a direct listing as well.

Financing: Most popular in Cannabis is equipment, construction and operating. Successful financing usually happens if you own the real estate. You will have to provide 25-35% down payment.

Cap Table

Evolution of the Cap Table



Smart Money vs. Dumb Money

Smart money is someone who brings you more than just cash. You need to ask yourself, if I take money from this person, WHAT ELSE can they offer or provide to me and my business?

Some examples include:

Access to joint venture deals with their other portfolio companies

Professional services

Mentoring/coaching/wisdom

Access to people, markets, and other important business components

Dumb money is simply someone who can write you a check, but provide little to nothing else…other than a headache when they keep asking you when they will be getting their return back on their investment.

But, dumb money can be smart money if you know exactly what to do to execute at a high level and they give you the space you need to grow your business.

Where to Find Cannabis Investors

- Crunchbase is a great place to find many of the institutional deal details as well as contact information for the investors.
- Go to meetups.
- Get involved in the local cannabis community.
- There are angel networks out there and you can even look at AngelList.com to find potential cannabis investors.
- LeafWire
- LinkedIn
- Joint Ventures. This is where an existing dispensary owner, grower or manufacturer would invest into your new businesses because they see some synergies between the two operations.

Signs of predatory lending

- *Big fees for negotiating of closing deals.* There are some people out there that want to take on huge fees for no logical reason, so make sure to quantify and put a cap to fees if you start to see them.
- *Penalties for paying off debt early* or selling your company before a certain time. If you take on debt-financing, you should make sure that you have the freedom to pay it off early with no penalties. Also, make sure you are not subject to an egregious lockup period.
- *Inflated Interest Rates.*
- *Steering/targeting.* If someone is trying to steer you into a deal or targeting you with options that don't make financial sense for you or the business, then don't work with that person. .
- *Adjustable interest rates that explode.*
- *Personal Guarantees.* If someone is making you personally guarantee a loan with an asset like your house,
- *Mandatory arbitration clauses.* Don't let someone take away your power to use the full extent of the legal system against them.
- *Hush side deals or side deals in general.* In the social equity space, you sometimes see investors paper a good deal for 'looks' but then insist you sign some other paperwork to manipulate the numbers. This is different than an amendment and could really hurt you financially if you don't know what they're making you sign. Always consult your lawyer before making or signing any deals.

Common Lending Requirements

Be incorporated;

Have a business banking account (in the business name);

Be a marijuana dispensary or grow operation that has been in business for at least six months;

Have monthly gross sales of at least $10,000; and

Have a credit score of at least 500.

The borrower’s credit score

Liquidity and cash on hand

Capital Contribution or “Skin in the game”

Your Canna Experience Level

Currently opened lines of credit

Assets or Collateral the Business has

Your Team and Sponsors

Private loans

Private loans are available for non-bank lenders and with a typical interest rate of 8-25%. The lending term is usually 1-5 years. The funds from this kind of loan are usually available as soon as seven to fourteen days. Lenders of private loans usually prefer those growing and manufacturing the cannabis product instead of funding the dispensary themselves. Private cannabis loans can be secured or unsecured.

Upwise Capital

Cannabis Construction Financing

A small business owner with a physical location and you need to build a new dispensary or remodel an existing one, then a construction loan can be used to finance your construction project. Or if you need a business loan for construction equipment, see our financing and leasing options. Cannabis construction loans are typically used to build out your cultivation, processing, distribution, or retail facility. Ask about how Upwise can lend based on cannabis value.

Interest Rates: 11-16%

Terms: 18 Months – 3 Years

Max Loan Amount: $500 Million

Speed: As Fast As 30 Days

Cannabis Real Estate Loan

If you’re looking to purchase land on which to grow cannabis or commercial real estate in which to house your business, a real estate loan may make the most sense for you. Bridge loans, hard money loans, and shorter-term mortgages are all available to cannabis companies and medical marijuana dispensaries. Interest rates typically range from 8 to 20 percent and terms are 1 to 5 years in length. Funding takes approximately 30 to 60 days to obtain from the time of application.

HEF Finance.

Interest Rate: 8-16%

Terms: 1-25 Years Amortization (Typically 2-5 Years)

Loan Amount: $150K – $500 Million

Speed: As Fast As 2 weeks

Cannabis Sale-Leaseback

A cannabis sale & leaseback is when a company sells its real estate to lenders or investors for cash to use for operational costs. The property is then leased back, like a typical lease agreement to the Cannabis company, as a tenant (rent escalators can be included in the lease as well). The money you get immediately from the sale of your equipment or facility can be used to grow your business, as opposed to being tied up in your real estate equity. In other words, the lender or sale-leaseback REIT is now your landlord. A cannabis business can leverage or sell cannabis equipment on a sale-leaseback typically at 70-80% LTV.

Initial Base Rent: 8% – 16% on total investment

Terms: 10 to 30 Years

Target Amount: Up to $150 Million

Speed: Typically 30-60 days

Cannabis Equipment Financing

Equipment financing is available for those who grow cannabis but need to buy some farming equipment. Cannabis equipment financing is the best option for those who need the farm equipment but don’t have the purchasing power. These loans usually hold terms of 1- 7 years and interest of 8 to 20 percent.

Fundcanna

Interest Rates: As Low as 9.59% (Typically 15%-18%)

Terms: 1 – 10 Years (Typically 3-5 Years)

Max Loan Amount: Up to 100% of Equipment Value

Speed: As Fast As 2 weeks

Invoice Financing

Cannabis businesses have a long lead time on open invoices, often waiting between 30 and 90 days to receive payment on an open invoice. This cash flow lag can be problematic because businesses are left hanging in the balance. Invoice financing is a type of loan that offers partial repayment on outstanding invoices. Invoice financing is a popular option for cultivators, distributors, manufacturers, cannabis brands, and ancillary companies because it is flexible and provides consistent cash flow. Using this type of financing, you'll only accrue interest when you use the funds, and you can borrow for up to 90 days. Fees are approximately 2.5 to 3.5 percent of the invoice amount and are assessed every 30 days.

Fundcanna

Interest Rate: 8% – 30%

Terms: When Customer Pays Invoice

Max Loan Amount: Up to 100% of Invoice Amount

Speed: As Fast As Two Weeks

Line of Credit

A line of credit (LOC) for your business gives you access to a pool of funds to draw from when a business owner needs capital. Unlike a traditional business loan, you have the flexibility to borrow up to a set amount (typically anywhere from $50,000 to $500,000), repaying only the amount you withdraw, with interest. You can draw on your small business lines of credit to handle cash gaps, get more working capital, meet payroll, purchase supplies or materials, or address almost any other emergency or opportunity.

Hasanov Capital + Leaflink

Interest Rate: 7% – 25%

Terms: 6 months-2 years

Max Loan Amount: $5-$500k

Speed: As Fast As Same Day

Inventory Financing

Invoice financing, often called accounts receivable financing, is a type of asset-based financing solution that allows business owners to free up unpaid invoices. Invoice financing companies advance your cash collateralized by your accounts receivable, giving you an excellent way to put money back into your business. With invoice financing, you can get a fast advance of about 85% of the value of your invoices, with most of the other 15% paid to you later.

FundCanna

Interest Rate: 1% – 3% Per Month

Terms: Up to 120 Day Terms

Target Amount: $200K – $10 Million

Advance Rate: 100% to the Clients Vendor

Speed: As Fast As Two Weeks

Convertible Debt

Convertible debt is a form of short-term debt that converts into equity, traditionally in conjunction with future rounds of financing; in turn, the investor would be loaning money to a small business, and instead of a return in the form of principal plus interest, the investor would receive equity in the business.

Most common in Cannabis is a SAFE note.

SAFE

SAFE note, also known as a Simple Agreement for Future Equity, is a type of investment contract commonly used by startups to raise capital from early-stage investors. With a SAFE agreement, you can secure funding for your startup while offering investors the right to convert their investment into equity in the future.

https://www.cakeequity.com/guides/safe-notes#:~:text=SAFE%20note%2C%20also%20known%20as,into%20equity%20in%20the%20future.

QUESTIONS?