

## Step ahead

Contacts, preparation ease road to securing capital

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WHEN PAUL ANDERSON and three colleagues thought they had an idea for a product that would help close large wounds better, they invested \$206,000 of their own money to create a prototype before they ever went looking for assistance on the open market.

One of the partners, Dr. Robert Wilke, is a plastic surgeon and another, George Hoedeman, is a University of St. Thomas graduate.

So right off the bat, Wound Care Technologies had a leg up on other companies seeking financing for their early stage businesses. Sources say two of the best things owners can do to help their search for capital are including their own financial skin in the game and having people on staff or a board with experience in varied aspects of running that business.

"That was the thought here," says Anderson, president and CEO of Eden Prairie-based Wound Care Technologies, adding that the company's risk dropped dramatically by ensuring the product worked before it found investors. "It's important to try to get at least a working prototype to show investors if possible without spending a lot of money if you can. That's very helpful."

Also helpful was the company's attorney, Doug Ramler, principal and co-chair of the entrepreneurial services group at Minneapolis-based Gray Plant Mooty. Ramler has ties to a group of angel investors with an allegiance to the University of Notre Dame called the Irish Angels - a contact that didn't hurt.

Anderson, himself a Notre Dame graduate, says, "It's nice that there's a lot of allegiances to the school. That was a real positive."

After building a prototype of the product, which automates the stretching of skin over open wounds to improve their healing, and getting positive feedback from doctors about the product's potential, Wound Care Technologies successfully raised \$1 million from two sources. The Irish Angels invested \$400,000 in an offering that closed in March 2006 and the William C. Norris Institute at the University of St. Thomas chipped in \$600,000 more at the end of the year.

Wound Care Technologies started generating revenue in May. The \$1 million has been used on testing, working through U.S. Food & Drug Administration requirements, and bringing sales representatives on board, says Anderson, who believes his company's chances for success are enhanced by its willingness to run on a bootstrap budget.

"Compared with many medical device companies we're running quite lean," he says. "We've made the money go a long way."

### Nuts and bolts

Whether a company is seeking equity or debt financing, money is out there for small businesses - but it's not easy to secure, says Gray Plant Mooty's Ramler. Typically an early-stage company seeking up to about \$1 million would do so from an angel investor while venture capitalists these days rarely look at anything for less than \$2 million, he says.

Local investment banks, such as Feltl & Co. or Northland Securities Inc., will look at deals between \$2 million and \$7 million, he says, adding that debt financing is rarely possible unless a company has significant revenue, profits and collateral. But early-stage capital isn't easy to get and it's not in as long a supply in Minnesota as it is on the coasts.

"I think there is some concern in the entrepreneurial community here that we don't have some of the early stage sources of capital," Ramler says. "Other states are making an effort to provide more of that ... I think we need to wake up. We have some things that need to be looked at and fixed. Some companies that have sound business plans that aren't finding money - that's unfortunate."

So what can companies do to improve their odds? Whether it's angel investors, venture capital or simply securing a bank loan, entrepreneurs must be prepared. Have the business plan, the two-page executive summary, the historical financials and three to five years of projections ready.

"Those are the core documents," he says. "And you can't just slap it together. You have to have friends and mentors take

a look at it. If it has spelling errors and it's formatted improperly it's a hurdle you sometimes unfortunately can't overcome."

Being fair with potential investors also is important. Anyone looking to raise \$1 million that is only willing to give up 1 percent of equity isn't going to get what they want.

"You need reasonable expectations," Ramler says. "If you come in and you are way out of whack on your deal terms they just won't have any interest."

#### Common mistakes

The most important thing an entrepreneur can provide lenders is a coherent plan, "and something where it makes sense and I can see where I'm going to make money," says John Thwing, a banker with Wells Fargo who specializes in providing businesses with loans from the U.S. Small Business Administration (SBA).

When it comes to financial projections, he says it's important to know how many customers a business needs to serve to become profitable and how much it plans to spend to get there. Thwing also suggests being open to suggestions from bankers and other advisers who have gone through similar battles in the past, and being willing to tweak business plans to give them more focus.

"They need to decide which is most important," he says. "We're usually not willing to help you with three or four things at one time."

Sima Griffith, managing partner with Aethlon Capital LLC in Minneapolis, agrees that "the inability to present a compelling case for how the business will make money and how management will execute on the market opportunity" ranks among the biggest mistakes made by business owners.

Additionally, she says, many business plans do not adequately detail the size and growth characteristics of the target market and they underestimate the cost of marketing to new customers.

She warns that there are few venture funds available in the Twin Cities compared to the coasts. "The truth is VCs fund one out of every 100 deals they review and the 1 percent they fund are usually headed by a CEO they know or who has been referred to them by a trusted source," Griffith says.

That's one of the reasons why Rick Brimacombe, former president of the Minnesota Venture Capital Association, general partner at Sherpa Partners and founder of Brimacombe and Associates, suggests two things: It's important to start early (60 to 90 days or more before the business needs the money), and that it's a mistake for an entrepreneur to "just go down one path or even two paths. The reality is it's a CEO's job to raise the capital and you've got to do whatever you can do to raise the capital."

In addition to banks, venture capitalists, and angel investors, he suggests raising prices or asking customers to prepay or sign long-term deals that will raise the capital for growth.

When companies do seek equity investors, he says a lot of times entrepreneurs value their companies too high "and in essence price themselves out of the market by being overly ambitious as to what their company is worth or, frankly, just greedy."

#### Seeking feedback

It's important to know where one can look for the sources of capital that are out there. For example, Brimacombe says, the National Venture Capital Association Web site ([www.nvca.org](http://www.nvca.org)) has a directory with portfolios for investors and the areas they invest in. Rick Berglund, an independent angel investor, suggests checking the James J. Hill Library or the Web site [www.GetGoMN.org](http://www.GetGoMN.org) for information on angel investors.

Berglund also says business owners need to realize they are not going to get a yes from everyone they approach and they can't take that personally. In fact, Berglund says, they should embrace the declinations as opportunities to ask questions about what they did wrong and how they can improve their future presentations.

The practice serves a dual purpose. It can help them improve going forward and it might earn a reprieve. It might end up making the potential investor "a bit of a collaborator," Berglund says. "They might take another look."

Berglund tends to find small businesses that are early in their life cycle to invest in. And he takes an active approach, not only providing money, but also lending assistance with business plans, models and other aspects of the business that neophytes might not have considered.

One such entrepreneur was Ann DeLaVergne, founder and CEO of Stillwater-based ecoenvelopes. Before starting her company, she'd worked in commercial photography, graphic design, organic farming and other fields, but she was

inspired to do something to better the environment while working at the Rivermarket Co-op.

She came up with an idea for reusable envelopes that would reduce the need for companies that send a lot of bills to enclose a return envelope in their mailings. She started the business with a \$15,000 grant from the Minnesota Office of Environmental Assistance, but when she met Berglund, she not only got a \$50,000 buy-in, but she also got his assistance going forward.

"Rick was kind enough and generous enough to sit down with me and work through the details of what the business actually looked like," DeLaVergne says. "It's been so wonderful. You can't discredit that people put in time with you ... There's a lot of different kinds of capital out there and one of them, in my book, is time."

Now she's approved by the U.S. Postal Service and is in discussions on potential new product lines. Though she won't yet identify them, she says she's also had talks with several large companies interested in using her product to save money on their mailings. She's working on another round of angel financing that would assist with the expansion plans. "The cost savings is what's getting us in the door," she says. "Everybody in the food chain wins."

#### Cities and states

The SBA is often a good source for more patient capital where the lender isn't looking for an immediate return, but instead seeks payback over time, and the organization's Web site is a good source for additional options locally and nationally, says Dorothy Bridges, CEO and president of Franklin Bank in Minneapolis.

Plus "it provides guarantees for financial institutions to mitigate some of the risk generally associated with small-business folks," she says.

There also are a number of non-bank lenders that will provide loans to small businesses whose owners are reluctant to give up equity, especially in targeted neighborhoods. The cities of Minneapolis and St. Paul both have social justice programs, and organizations such as the Minneapolis Consortium of Community Developers and Metropolitan Economic Development Association can be good sources of information and loan programs, she says.

One misperception is that the state of Minnesota has several funding programs available for small businesses. While it was active in individual lending two decades ago, the Legislature got out of that business over concerns of showing favoritism, says Charles Schaffer, director of small-business assistance for the Minnesota Department of Employment and Economic Development.

But the state is a leader in lending through the SBA. It also does have some sources of assistance available, such as Minnesota Technology Inc., which helps small-business owners with several aspects of starting a business, from learning about and adopting technology to advising on business plans and procuring capital.

The state also has the Minnesota Investment Fund, which the Legislature set at \$7 million for the year, to help existing businesses expand. Otherwise, Schaffer says, the state's assistance under the Pawlenty administration has generally come through tax credits.

"I think the current administration sees the use of tax incentives as a way to spur the private market for attraction of capital to small businesses rather than having the state become sort of a banker," he says.