WORKING WITH A BROKER-DEALER
What to Expect and How to Enhance Your Next Capital Raise

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Introduction

When raising capital, there are countless decisions that must be made before a single dollar gets invested. Experienced issuers often have some of those decisions already made. If you’ve decided how you are going to raise capital, having already determined the offering type and structure for example, you are well on your way. You may have even recognized the importance of working with a broker-dealer. But if this is your first time working with a broker, you’re probably wondering, what comes next?

This E-book is designed to help you prepare your marketing documents for review by a broker-dealer, as well as provide a guide for how to communicate with and expand your potential investor base, all while maintaining compliance with standards set by FINRA and the SEC.
Preparing a Private Placement Memorandum

While U.S. securities laws do not require its use for a private offering, a Private Placement Memorandum (PPM) serves as a single comprehensive document outlining the material details about an offering. Occasionally, issuers do not exercise appropriate care in the drafting of this fundamental document, leaving out vital information. If not corrected, this can lead to material misstatements and investor harm.

A thorough PPM should include the following sections:

**Offering Overview**
A summary of the material attributes of the offering should be included early in the PPM. This allows potential subscribers to review the basics of your offering without having to dig through the various sections. Generally, this section includes a description of the security being offered, a description of the involved entities, a maximum and minimum raise amount, a minimum individual investment, offering termination date, contact information, and disclosure of the use of a broker-dealer.

**Risk Factors**
You and your attorneys should pay special attention to the disclosure of both general private securities risks and the specific risks related to the issuer’s market, business, and business model. Failure to disclose the inherent risks of an investment or to provide balanced statements about the benefits leave all parties - you, your lawyers, and your broker-dealer - open to significant risk. Some risk factors that should be included are risks related to the industry, business, and business model, management risks; as well as general private securities risks like illiquidity, loss of investment, limited operating history, past performance not being indicative of future results, and a recommendation to seek tax advice.

**Use of Proceeds**
A PPM should contain a breakdown of how you intend to put the capital to work, including significant details of how you intend to allocate the invested capital. Two expenses you should address are management compensation and compensation to your broker-dealer. Failure to disclose or an attempt to hide compensation can lead to lawsuits, enforcement actions, and money paid to regulatory organizations or harmed investors.

**Business Plan**
Fundamentally, investors invest based on their confidence in the likelihood of success of a business plan. Any business plan presented to potential investors should include details on target investments, if any, management, legal and other operational considerations, and any planned exits for investors. One detail investors are especially interested in is the anticipated hold period for the investment. Not surprisingly, investors want to know when they can anticipate exiting the investment.

**Management**
Subscribers will pay close attention to the qualifications, experience, and track record of your senior executives and individuals with the power to determine how investor’s funds will be used. For each member of the management team, you should provide a brief biography highlighting expertise that each member has in relation to the offering’s business plan. In addition, you should also pay particular attention to disclosing any past criminal convictions or other negative events related to the management team. While this may feel intrusive, it is far safer to disclose these negative events than to risk investors suing for material misrepresentation.

**How to Subscribe**
Investors need to know how to subscribe to the offering. You should lay out the subscription process, including: method of subscription, acceptable ways to fund the subscriptions, use of an escrow account (if applicable), and where any questions concerning the PPM or offering should be directed. You should specifically highlight where funds are to be sent if they are being sent anywhere other than into your company’s account, for example to an escrow agent, and whether only certain types of funding will be accepted, such as a wire or ACH.

**Distributions**
Potential investors also care about when and how they will receive money back from an investment. This includes preferred returns, interest payments, and payments upon liquidation. Above all, you should never guarantee a return or make an untrue or unreasonable statement.
Components of an Effective Marketing Teaser

After you create your PPM, you may want to design a marketing teaser—a one or two-page handout that summarizes your offering and captures investor interest. Before starting, you should consider the audience you want to address (individual investors, private equity firms, etc.) and what action you want that audience to take after reading your teaser. It should be noted that FINRA’s compliant communication standards, outlined in Rule 2210 (see page 7 of this E-book for more on this), apply to your marketing teaser.

If you want to gauge investor interest and motivate them to contact you to learn more, you should include the following five things in your teaser:

1. **SUMMARY OF THE OPPORTUNITY**
   Briefly describe the project or the business you’re planning to raise capital for. In that description, include the purpose of your capital raise and your business plan.

2. **FINANCIAL TERMS**
   Most investors want to know how their investment funds will be used, so it’s important to include a brief “Sources and Uses of Funds” section. Investors also want to know their return, so be sure to include various measures of return, such as the expected cash flows, preferred return, or interest rate. These assumptions need to outline the underlying calculation and any risks involved.

3. **COMPETITIVE ADVANTAGE**
   Most savvy investors don’t look for the average deal. Your teaser needs to include the things that set you apart from your competition. You might offer above average returns, have an excellent management team with an outstanding track record, or provide a unique solution to an existing problem in the marketplace. Be sure to emphasize these aspects in the teaser.

4. **PICTURES AND GRAPHICS**
   Use graphics and pictures as much as possible. Remember, your marketing teaser is not the place for heavy legal language—save that for your offering documents. Ideally, a teaser should be no more than 2 pages. Pictures and graphics can help investors visualize what your offering can do for them as well as maximize valuable space.

5. **TESTIMONIALS**
   Let other people tell your story for you. Think about the value people place on movie or product reviews. Testimonials work in a similar way. You don’t have to overload the teaser with quotes, but using one from a previous satisfied investor or customer can increase the attractiveness of your offering by demonstrating a proven track record.
A marketing teaser works great to generate initial interest, but to lock in investors, you’ll likely need to present information to them in a live setting—in person or over the phone—where you can detail your offering and investors can ask questions. To do this, you are going to need to develop a pitch and a presentation to go along with it. The following tips will help you build a compelling pitch deck.

Tell Your Story
Before you open PowerPoint and start making slides packed with graphs and figures, consider what story you want to tell to investors. While data are important, emotionally engaging storytelling has been proven to make presentations more memorable than standalone data points.

Here are a few questions to ask yourself in order to begin crafting your story:

» What problem are you solving?
» Who is your audience?
» What makes your offering different?
» What progress have you already made?
» What makes your team uniquely qualified?

Flaunt Your Data
Once you have the right story for your business, find ways to organically weave in the numbers. Back up your story with compelling statistics. When it comes down to it, investors probably won’t invest based on gut-feeling alone. Instead they will want hard, third-party verified evidence of your claims. And for every statistic you have on your slide, you should have two more in your head, because investors will always have follow-up questions.

Design with Purpose
Nobody wants to look at a blank white slide with black text. Put some thought and effort into how your presentation looks. Your slides should not only be aesthetically pleasing, but should also contain graphics that serve a function. Include illustrations that simplify complex ideas. Use color and photography to tie into your major points. Graphs and charts are easy ways to turn raw data into attractive and easy-to-understand visual aids. Most importantly, make sure any text you include is easily legible.

Get a Second Opinion
Whenever you are neck deep in a subject, it is easy to develop blind spots. Before you debut your pitch to real investors, get input from others that can help you identify weaknesses and missed opportunities in your presentation. Find people whose opinions you trust, but are not so familiar with your business that they may fall prey to the same blind spots as you. Their feedback will make sure that your pitch is clean, understandable, and compelling.

Start Pitching
Once your deck is ready, identify potential investors and pitch away. It is important to remember that your slides should always support what you are saying, but not serve as a teleprompter. Engage with your audience and encourage questions. Schedule a few low-risk meetings to start. This will allow you to practice and refine your pitch, while also becoming familiar with the types of questions that will be asked. Their feedback, along with your strong pitch deck and story, should help bolster your confidence when asking for investment dollars.

FREE TEMPLATE

Need help getting started?
Visit our website to download a complimentary marketing teaser template.

wealthforge.com/download-marketing-teaser
If you want an alternative to marketing directly to investors, marketing to registered investment advisors (RIAs) may provide a great supplemental distribution channel opportunity. However, marketing to RIAs should be approached differently than marketing to retail investors. If you choose to market to advisors, here are some things you should consider including in your marketing materials:

**Historical Track Record and Performance**

Investment advisors carry additional non-offering-related risks when using client assets, putting their own reputation on the line. The first job of the advisor is to protect and grow client assets, so if a security has a high degree of risk or is not asset backed, it might be tough to get advisor consideration unless the investment opportunity is a proven concept. Once an advisor commits client money to a security under Regulation D, 506(b) or 506(c) exemptions, for example, they are trusting that money in the hands of the issuer manager for a prolonged period of time with no guarantee of a return. While past performance is not an indicator of future success, RIAs may look for strong, risk-adjusted historical returns to boost their confidence in the abilities of a management team. Advisors may feel more comfortable placing client assets with the more experienced team.

If your management team has a successful track record or other relevant experience, be sure to highlight this information in your marketing materials.

**Clearly Defined Return Structure with Near-Term and Long-Term Objectives**

Advisors’ investor clients may have different investment strategies and goals, and some investors may not be suitable for illiquid investments with long hold periods. However, investments that already provide regular monthly returns may be more accessible when compared to investments that force investors to rely on a cumulative future distribution that may or may not ever materialize. Offerings that are structured to pay frequent near-term distributions may be more attractive to advisors who have income oriented clients. Structured returns serve as clear definitions for advisors when talking to their clients about investment program expectations. Not only are performance projections often prohibited by FINRA, they are also quite difficult to model. In many cases, a pro-forma is only as valuable as the experience and historical track record of the creator.

**Custodian Eligibility**

When considering marketing to registered investment advisors, it should be noted that their compensation is generally taken on the values of assets under management. Many advisors hold assets at third-party custodians such as TD Ameritrade, Fidelity and Schwab, and grow their income by increasing their clients’ net worth through investment performance as reported by their custodian. A quick way to inhibit RIA consideration, however, is to limit the extent to which RIAs can count the securities you offer as part of their AUM. Whenever possible, you should ensure the compatibility of your offering with various popular custodians. Otherwise, there is more work involved on reporting your private securities offering performance and this added work may not be worth the hassle for the advisor. If you do not know the requirements of being on a custodial platform, researching those can help you determine if the advisor channel is a good distribution outlet for you.

**Tax Advantages and IRA Eligibility**

There are multiple ways in which RIAs can increase assets managed for individual clients. The first, and most obvious, is through allocations to investment opportunities that increase the value of client’s portfolio through favorable returns. Another method by which an advisor may successfully increase their AUM is by committing client funds to tax-advantaged investment opportunities that save clients cash, and thus increase their net investable assets. Because of this, offerings and funds with effective, immediate tax savings can capture advisor interest.
Similarly, many advisors may manage IRA accounts for their clients. Making your offering eligible for IRA investments and planning ahead with respect to ERISA (The Employee Retirement Income Security Act) regulations certainly may help. Having offering documents that clearly reference adherence to regulations surrounding IRAs and ERISA could help incentivize advisors to pay attention to your offering.

**Low Investment Minimums**

For some advisors, unregistered securities represent unique opportunities to diversify their clients’ portfolios. RIAs that target unregistered investments are willing to put their clients at an increased risk as compared to more liquid equities, but encouraging them to over-concentrate in alternatives may go against their diversification goals. Widening your potential investor pool with low investment minimums can create more work when it comes to investor verification and processing, but may prove worthwhile should investor interest scale.

Whether an investment minimum is $50,000 or $250,000, most RIAs only have a small percentage of client assets to allocate across several alternative opportunities, thus higher minimum investments may be restrictive. Additionally, an advisor considering an investment program is likely to want the work to benefit a significant amount of his clients to make up for time spent on research and diligence. An offering that fits with more clients’ investment strategies is going to be more attractive to an advisor who considers time a valuable resource.

**Low Fees**

All PPMs should be read in entirety before making investment decisions, but RIAs in particular may simply comb them for information on fees. One key point to consider is the use of proceeds section. For example, advisors may assess the compliance of the offering by ensuring only registered persons are receiving success-based compensation. Committing client funds to a fraudulent offering is hazardous, so RIAs look for clearly communicated fees. Additionally, not only should fees be clearly expressed, they should also be fair and reasonable. Cutting into the net investment of RIA funds represents increased risk to the invested principal of clients, as fees represent additional percentage points that must then be gained on the investment to break even. Inexperienced fund managers should consider this especially, as trust and risk may be inversely correlated in the mind of an RIA.

**Shared Risk**

When considering a risky investment, advisors may look for signs that the issuer has confidence in their own offering. Having a sponsor, general partner, or manager commitment serves as an indicator that you believe in the success potential and are willing to accept the risks associated with your offering. By tying compensation to performance success of the asset or fund, inexperienced managers of investment opportunities may have more ability to secure funding than those in new ventures that get paid whether the strategy is successful or not.

**A Differentiator**

What makes your offering stand out from the crowd? Advisors have seen thousands of investment opportunities, so your ability to catch their attention is paramount. A unique offering structure, novel business plan, or even an environmentally or socially conscious approach can serve to elevate your offering in the eyes of an advisor used to seeing the same types of offerings over and over.

While these recommendations cannot increase the chances that your offering will provide attractive risk-adjusted returns, they may help attract the attention of registered advisors. A sound offering with compelling marketing materials may garner enough interest to broaden your investor base, and potentially help to make your next capital raise a successful one.
Understanding FINRA Rule 2210

In order to find investors and manage your offering, you will need to communicate with potential investors, intermediaries, and, depending on which exemption you chose, the general public. FINRA Rule 2210 governs any communications to the public delivered by broker-dealers, whether produced by the broker-dealer or you, the issuer, including both communication with large groups of investors (retail communications) and communications with institutional investors. This rule provides comprehensive standards for the content, approval, recordkeeping, and filing of communication with FINRA.

Importantly, the rule delineates communications into three broad categories, defining communications based on the type and number of investors to which the communication is made available.

- **Retail Communications** - Any communication delivered to more than 25 retail investors within 30 days receives the most regulatory scrutiny.
- **Correspondence** - Communication to 25 or fewer investors within 30 days.
- **Institutional Communications** - Any communication made available only to institutional investors receives the least scrutiny due to the sophistication of the investor.

Though the member firm’s internal communications are not covered under Rule 2210, it still must be supervised by the broker-dealer.

**Permissible Content of Communications**

Rule 2210 includes both general and specific content standards and are designed to ensure investors are not misled and have a full and balanced understanding of the context of any communication. The standards explicitly prohibit the exaggeration, falsification, or omission of any material facts or statements. Additionally, specific content requirements apply based on the type of communication and type of issuance to which the content relates.

**Communication Approval and Review**

Rule 2210 requires that a principal of your broker-dealer review and approve nearly all retail communications prior to their use. The principal will review each piece to ensure that FINRA’s content standards are met. If the principal cannot approve the piece, he or she will make comments and/or suggestions and return it to either you or the responsible person at the broker-dealer. The advertising principal will continue to provide suggested changes until the piece is approved.

**THE GENERAL CONTENT STANDARDS APPLICABLE TO ALL COMMUNICATIONS INCLUDE:**

1. Member communications must be based on principles of fair dealing and good faith, be fair and balanced, and provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service.

2. No member may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.

3. No member may make any false, exaggerated, unwarranted, promissory or misleading statement or claim in any communication.

4. No member may publish, circulate or distribute any communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false.

5. Information may be placed in a legend or footnote only if that placement would not inhibit an investor’s understanding of the communication or prove misleading.

6. Members must ensure that statements are clear and not misleading within the context in which they are made, and that they provide balanced treatment of risks and potential benefits.

7. Communications may not project outcomes, returns, imply that past performance will reoccur, or make any other exaggerated claim.

8. Members must consider the nature of the audience to which the communication will be directed and must provide details and explanations appropriate to the audience.
Implications for Social Media

Perhaps the largest area for concern today remains within the relatively problematic world of social media. Rule 2210 provides for explicit exemption from pre-approval requirements for retail communications posted in online interactive forums, such as chat rooms or online seminars, that do not make any financial or investment recommendation, or otherwise promote a product or service of the member firm. However, your broker-dealer still must supervise and maintain records of the communications on social media. As a result, broker-dealers are not exempt from establishing protective procedures even for social media posts falling outside the requirements of the Rule; these posts remain subject to review and retention requirements.

Use of Social Media by Associated Persons

If an individual becomes a registered representative associated with your broker-dealer, then the broker-dealer has obligations to review his or her social media, provided it is used for business purposes.

For example, Susan, a new representative is being onboarded by ABC Capital. As part of this onboarding, Charles, a compliance officer for ABC, learns that Susan will be using her LinkedIn account to discuss securities business and solicit investments.

As an initial step, Charles reviews Susan’s LinkedIn account to ensure that it is current and contains all required disclosures. But Charles is not only required to do an initial check, he must also monitor the account going forward. To accomplish this, Charles may use a social media monitoring and archiving system, such as SMARSH.

These systems capture any updates posted to the social media account and allows the compliance officer to review these changes. If Charles sees a post or update that is inappropriate, he can immediately contact Susan and have her update the profile or remove the post. Additionally, Susan should submit any separate advertising pieces she intends to post on social media prior to posting. It is important to note that while unsolicited comments or third-party opinions are not subject to any requirements, if a registered rep shares or likes such an opinion, the broker becomes responsible for the shared content.

If a broker-dealer fails to review social media used for business, or if a representative fails to inform his or her broker-dealer of a social media account they use for business, then one or both of them violate 2210, which can lead to sanctions. As a result, broker-dealers must properly monitor the social media accounts of registered individuals to ensure that any communication complies with FINRA Rule 2210.

Charles, Compliance Officer
Charles is responsible for initial and ongoing review of Susan’s social media accounts. He may use a third-party monitoring and archiving system for ongoing review.

Susan, Registered Rep
Susan must ensure that all social media accounts she uses for business-related activities contain the required disclosures and all posts comply with Rule 2210.

Sample Social Media Accounts
If Charles sees a post or update that is inappropriate, he can immediately contact Susan and have her update the profile or remove the post. Susan should also submit any separate advertising pieces prior to posting.
EFFECTS OF THIRD-PARTY PARTNER SOCIAL MEDIA INFRACTIONS

Similar to your broker-dealer’s responsibility to review associated persons’ social media, the broker-dealer may be responsible for third-party posts on its sites or content on third-party sites if the firm endorses or participates in the development or preparation of such third-party content. “Endorsement” of content is interpreted broadly, such as the CEO of ABC Capital posting a link to an article on XYZ.com containing projections of a return on an offering that ABC Capital is selling. Further, if a firm co-brands a third-party site by, for example, placing its logo prominently on the site, it will effectively adopt the content of the entire site. Similarly, use of co-branding necessitates approval of all content by both parties. Ensure that a process remains in place for such approval and for ensuring the rights of involved partners.

Broker-dealers may not establish a hyperlink to any third-party site that the firm knows or has reason to know contains false or misleading content. Member firms should set up barriers and prominent disclaimers regarding third-party content where possible. Such barriers and disclaimers may compose the facts and circumstances that FINRA considers in analyzing whether a firm adopted or became entangled with third-party postings. Broker-dealers linking to third-party sites or posts must include a disclaimer that third-party posts do not reflect the views of the firm and have not been reviewed by the firm in order to prevent the firm from being viewed as endorsing such posts.

This applies not just the broker-dealer as an entity but to its registered representatives. So, if Susan posts a link to XYZ.com’s article on an offering she is selling and that article contains either prohibited information (such as expected returns or projections) or misleading information, then she has adopted that information in violation of FINRA rules. Additionally, if Susan’s outside business activity is the issuer of that security, she may have adopted those claims on behalf of the issuer, which could put the entire offering in jeopardy if the claims are misleading.

Investment platforms and issuers working with a broker-dealer or other associated entity must ensure that each party maintains compliant communication protocols. In order to ensure compliance, no statements should be made on behalf of an associated entity or on a site which utilizes co-branding without the express approval of all interested parties.
Ways to Expand Your Reach

Navigating regulatory hurdles and preparing offering documents are difficult parts of raising capital, but neither of those things matter if, at the end of the day, you don’t have the investors necessary to complete your raise. Even experienced issuers that have a stable of reliable investors may find themselves needing to expand their investor pool. If you find yourself in this situation, here are a few steps you can take to expand your reach:

**Partner with a Wholesaler**

One way to expand your reach when selling securities is to work with a distribution firm or broker-dealer. A brokerage firm builds relationships around successful transactions and investments with their clients. Their primary interest is going to be to retain that level of trust. To establish credibility with a firm, you will likely need to do at least one of the following three things:

» Establish investor interest within your own network

» Demonstrate a history of attractive returns

» Show you can pass the due diligence that a broker-dealer requires.

It is also important to find a firm that has experience in working on transactions like yours. As an issuer, if you were to sell your business, you would likely seek an advisor who has sold firms like yours in the past. They understand your business and know the buyers in the industry, increasing the likelihood of getting you the best price. Similarly, a wholesaling firm familiar with your type of raise can help you structure and market your securities offering. They may even have a rolodex of investors in mind that are looking for those types of transactions.

**Provide Incentive-based Compensation**

It’s important to be cognizant of investor wants and needs when you are trying to grow your investor base. Aligned incentives are important. Having lower fees and higher preferred or waterfall returns can help incentivize investors to join you. This is especially true when positioning your offering to fee-only RIAs, who work as a fiduciary for their investor clients.

Representatives who help sell your offering will need to be properly incentivized as well. Often, transactions in real estate and other asset-backed offerings include sales commission to compensate those that have a roster of clients or potential investors already built out. This agency model has worked well for those compensated on transactions, not necessarily in an ongoing advisory role. It is important to note that any representative receiving transaction-based compensation will need to be registered with a broker-dealer. Otherwise, you risk serious sanctions from the SEC.

You may want to affiliate with a broker-dealer or RIA to engage registered representatives and compensate those raising capital via sharing in the management fees or through commissions. For instance, WealthForge has registered representatives that raise capital for their respective issuer sponsors and earn commissions on those securities sales. Striking the right balance of fees, expenses, and incentives is an important consideration. If you are including selling commissions in your offering, you may want to consider having a second share class with no commissions. Alternatively, you could use the commissions to purchase additional shares for the investor clients of fee only RIAs, who cannot accept commissions as compensation but would like the absence of this commission to be credited to the investor.

**Attend Industry Insider Events**

Even with the ease of online connections, there is still value in roadshows and face-to-face interactions. Investing in a private offering is very dependent upon trust and relationships. One of the most effective ways to foster those relationships is meeting in person. But, travel and one-on-one meetings can be expensive. Consider scheduling activities in a few key cities or attending industry events targeted to your potential investor audience. For example, if you’re raising money for a hotel, go to a hospitality conference.
TAKE ADVANTAGE OF GENERAL SOLICITATION

Depending on what exemption you chose for your raise (i.e. Reg D 506(c) or Reg A), you may be able to take advantage of general solicitation. General solicitation allows you to market and advertise your offering online, in print, or through any other public-facing marketing channel.

Prior to the JOBS Act, issuers of most private offerings were prohibited from marketing to the public online. However, in 2013, the SEC amended Regulation D to allow general solicitation through the 506(c) exemption. This opened up the capital raising process to those who were previously limited by small networks or located far from major capital raising centers such as New York or San Francisco. The JOBS Act also updated Regulation A, making it easier for companies to conduct non-IPO public offerings.

There are some drawbacks that come with general solicitation. 506(c) offerings require more stringent accreditation verification processes when compared with 506(b) offerings, which are ineligible for general solicitation. With a Reg A raise, accreditation is not a problem, but due to low investment minimums, you may find yourself inundated with the administrative burden of manually processing a high volume of investors. Finding a technology solution for verification and processing can help keep the process efficient.

If you do choose to pursue retail investors, having a budget for marketing can help increase awareness of your offering and generate extra subscriptions.

Here are some general solicitation strategies to consider:

» Emails to targeted lists of potential investors
» Webinars educating viewers about the offering
» Soliciting existing customers (especially for consumer products)
» Listing on sector-specific crowdfunding portals
» Promoting via social media and digital advertisements
» Traditional radio and print advertisements

If you need a little extra to reach your raise goal, general solicitation may enable you to expand your investor base. While some broker-dealers won’t work on 506(c) offerings, more and more are open to this newer exemption.
Enhance Your Raise with Technology

Once you have established interest from investors, you will need to verify their suitability, manage the subscription process, process their investment, and safeguard their information.

By utilizing the right web-based applications, issuers and intermediaries of a private capital raise can save both time and money, improve investor relations, and have confidence that confidential information is protected. However, a new set of considerations around data integrity, secure communication, and cybersecurity have brought with them a fresh set of challenges. Here are four tools that could be useful for your next capital raise:

Electronic Signatures

Signing paper subscription documents is rapidly becoming a thing of the past—not just because it takes more time, but because it’s a much less investor-friendly process. Combing through a twenty-page subscription document that could include many sections that may be irrelevant to a particular investor can be time consuming and cause confusion. There are countless opportunities to make an error whether it be spelling or mathematical mistakes, or simply checking off the wrong box that doesn’t apply. Web-based investor workflows capture relevant investor information and auto-populate the correct fields on an electronic subscription document. Because investors are only presented with relevant sections, there are fewer opportunities for errors and it becomes easier to navigate to the appropriate signature boxes. There are a number of e-signature software providers that map subscription documents for electronic execution and routing. These solutions may also integrate into the technology stack of workflow applications and provide a relatively low-cost way to streamline order entry and execution.

Website Visitor / User Playback

Issuers that have offering material published on a website and/or have the ability for a prospective investor to transact online, should consider subscribing to website playback services. For any e-commerce business, having a website that is not user-friendly can translate into lost business. Similarly, issuers that publish material about their offering on a website to attract potential investors can lose out on valuable subscriptions because of a poor website experience. Online tools that record every visitor’s experience allow you to replay what they click on and how much time is spent (or is not spent) on certain features. For example, if an investor is having trouble with the subscription process, you can pull up a video recording of their investment and see where the process went off the rails. With that information, you can help the investor past the hurdle and, if appropriate, make changes to the workflow to help avoid such challenges in the future. This information can be invaluable for an issuer looking to expand their online presence.

Transfer Agent & Capitalization Table Management Software

If you are an issuer managing multiple investment vehicles with dozens (if not hundreds or even thousands) of investors, managing capitalization tables via a spreadsheet can take a lot of time. Fortunately, a subscription to cap table management software can help streamline the process through intuitive dashboards and transparent reporting capabilities. Having the software provider by your transfer agent is an added bonus since securities can be issued and maintained compliantly through the same application. One interesting feature of a service like this is the exit waterfall analysis that models the allocation of value to security holders at varying liquidation values. Knowing that your cap tables and securities are secure, accurate, accessible, and organized, can help your capital raising process go smoothly.

Secure File Sharing and Document Storage

All too often we have witnessed files containing sensitive information or even personally identifiable information, like social security numbers, sent via email. Most of the issuers we work with have investor-specific communications and documents that need to be shared periodically. This could be a K-1 tax form, a capital call notice, or investor update. For obvious reasons, sending these documents through email is not recommended. For relatively little expense, issuers can license a cloud-based file sharing software that allows for unlimited external users. Investors and potential investors can be invited to access files through a secure folder with restricted access. Secure file-sharing and data encryption are must-have services for an issuer utilizing online means of communication with its investor base.

By utilizing all or a combination of the aforementioned services, issuers can introduce time and money-saving efficiencies to their capital raise management process. At the same time, investors may be impressed by a more investor-friendly experience.
Whether you are relatively new to raising capital or a seasoned pro looking to modernize your practices, it is important to understand what is expected by regulatory authorities, as well as how you will need to work with your broker-dealer to ensure that your communications with potential investors remain compliant. Keeping these expectations in mind and taking advantage of opportunities to expand your investor base will help improve your chances of reaching your capital raising goals.

If you’d like to learn more about our technology and broker-dealer services for alternative investments, please contact us:

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References

1. SEA Rule 10b-9, SEA Rule 13c2-4, FINRA Regulatory Notice 16-08.

2. FINRA Rule 2121 requires disclosure of commissions, as well as the use of fair commissions in transactions with customers.


6. FINRA Rule 2210(a)(5).

7. FINRA Rule 2210(a)(2).

8. FINRA Rule 2210(a)(3).


11. FINRA Rule 2210(d)(1).

12. FINRA Rule 2210 treats interactive electronic forum posts, such as social media status updates, as retail communications rather than public appearances, however, the rule specifically excludes these posts from both the principal pre-use approval requirements and the filing requirements. See FINRA Rules 2210(b)(1)(D)(ii) & 2210(c) (7)(M) and see generally Financial Industry Regulatory Authority FINRA Rule 2210 Questions and Answers (2103), available at https://www.finra.org/industry/fina-rule-2210-questions-and-answers.


15. Id. at 242.

16. FINRA Regulatory Notice 10-06 at 7, 8.


18. Id. at 3.