The Post-IPO Growth Plan

What to do when one of your Pre-IPO companies go public

Disclaimer

This presentation should not be considered a solicitation for the purchase of securities. It is for informational purposes only.

As per FINRA communication guidelines, we cannot discuss the terms of any offerings for the purchase of securities currently being made by the Issuer being interviewed on this call. If you have any questions regarding the Issuer’s offering, please visit their offering page and use the investor Q&A forum at the bottom of the page.

Investing in private or early-stage offerings (such as Reg A, Reg S, Reg-D, or Reg CF) involves a high degree of risk. Securities sold through these offerings are not publicly traded and, therefore, are illiquid. Additionally, investors will receive restricted stock that is subject to holding period requirements.

Companies seeking capital through these offerings tend to be in earlier stages of development and have not yet been fully tested in the public marketplace.

Investing in private or early-stage offerings requires a tolerance for high risk, low liquidity, and a long-term commitment. Investors must be able to afford to lose their entire investment. Such investment products are not FDIC insured, may lose value, and have no bank guarantee.

On The Call

Jake Hoffberg
Publisher, Equifund

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The Big Idea In 174 Words

The US Stock Market is dying (and with it, the American Dream). The answer could be more "Small IPOs."

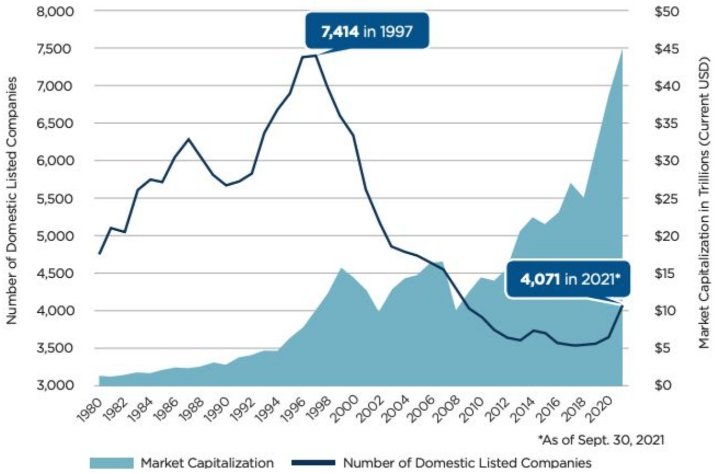
In 1997, there were 7,414 public companies listed on national exchanges. Today – even after a record 1,000 IPOs in 2021 – there's barely half that number.

Why? **In today's public markets, it's almost impossible to survive as a "small cap" stock**; The game is rigged in favor of the largest companies.

Without a healthy IPO market, research suggests[1] we miss out on the opportunity to produce new companies that generate the largest number of jobs… and wealth building opportunities for retail investors.

Thanks to the JOBS Act, everyday investors now have the opportunity to invest in Pre-IPO companies. But it's not enough to "get in early" before they go public. In order to unlock the biggest potential gains, we need those companies to thrive as public companies, long term.

Today's presentation is about the unique challenges small public companies face… and **how solving these problems have the potential to dramatically increase returns for early shareholders.**



(1) Kenney, Martin, Patton, Donald, and Ritter, Jay, "Post-IPO Employment and Revenue Growth for U.S. IPOs, June 1996-2010," Kauffman Foundation, 2012.

What's Driving This Change?

Regulatory Pressure

The decline in IPOs after 2000 coincided with a period of increasing regulatory restrictions for listed companies.

Regulatory efforts such as Regulation Fair Disclosure (2000), Sarbanes-Oxley (2003) and Dodd Frank (2010) represented changes in how and what information was disclosed to investors and materially increased the potential liability faced by company directors.

While regulation has clearly played a role in smaller companies avoiding IPOs, it's not the only reason.

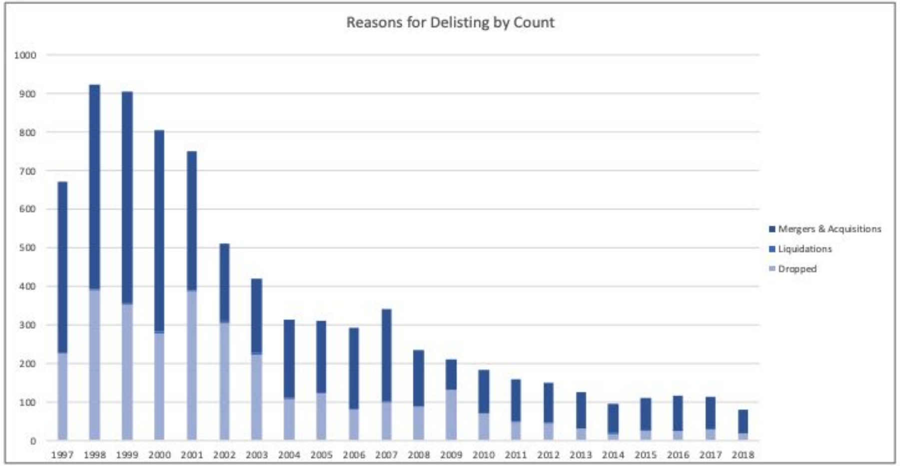
What's Driving This Change?

Increased M&A

The voracious appetite of large firms to buy smaller ones has created a race to establish ecosystems rather than single-line business models. Google, Facebook, Apple and Amazon have collectively bought **over 500 companies** in the last two decades.

This appetite for acquisition also means that fewer companies are reaching public markets; it's the #1 reason why public companies are delisted from the stock market; and it's encouraged founders to ***"build and flip"*** instead of going the distance in the public markets.

Figure 5



Source: CRSP data

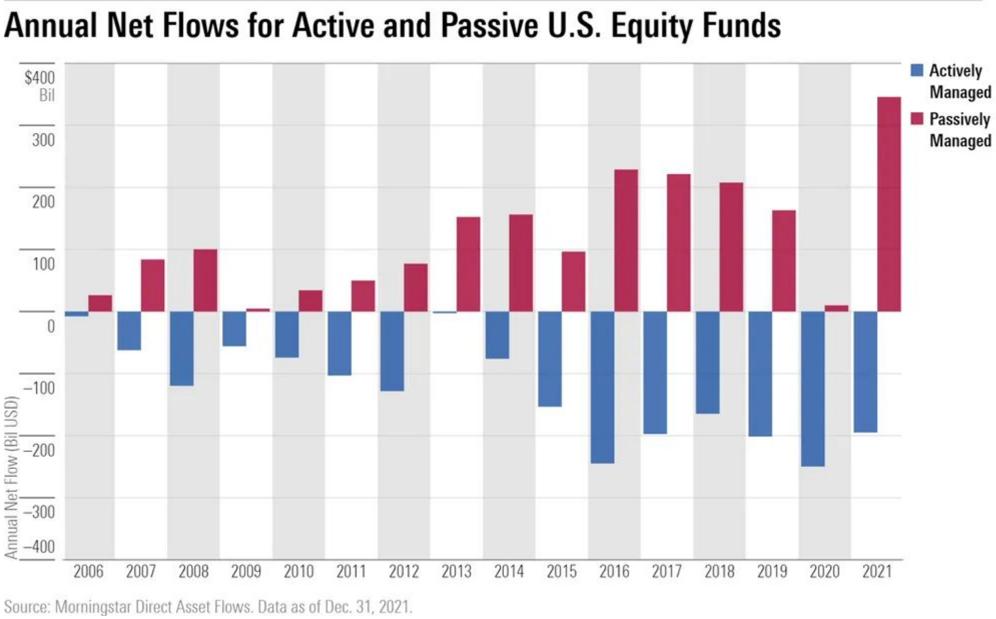
M&A activity has represented the majority of delisting events since 1997 and has accounted for over 60% of delisting activity every year from 2010 on. [source]

What's Driving This Change?

Rise of Passive Investing / Index Funds

Another more recent phenomenon contributing to the reduction in buy-side demand for small caps is the growth of passive investing strategies at the expense of active or value investing.

The shifting investment preferences of mutual funds and the trend toward passive investments drive a reduction in the level of demand for small caps in both primary and secondary markets.



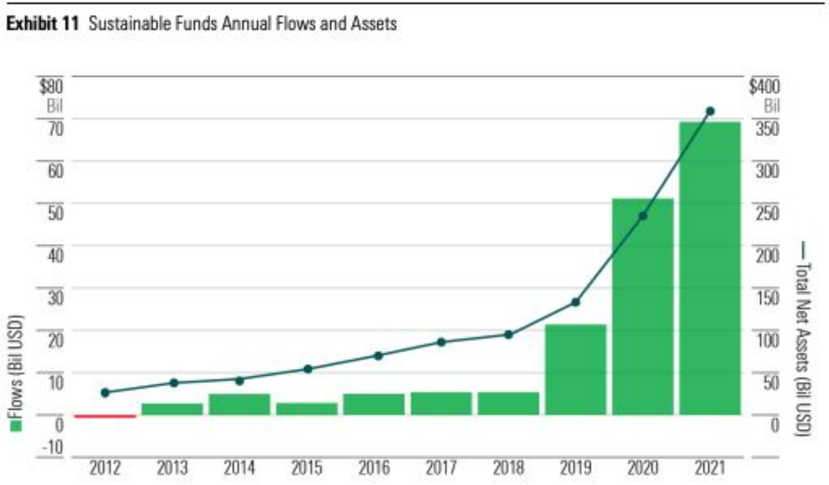
U.S. long-term mutual funds and exchange-traded funds gathered $88 billion in December, capping off a record year. Investors poured $1.2 trillion into these vehicles in 2021, nearly double the previous annual record of $689 billion set in 2017. Source: Morningstar

What's Driving This Change?

The Demand for Transparency and Accountability

Corporations are under increasing pressure to report ***ESG (Environmental, Social & Governance***) metrics and be held accountable for the harms their businesses create.

According to Bloomberg, this asset class is on track to exceed $53 trillion by 2025, representing ***more than a third of all assets under management.***[1]



For the sixth consecutive calendar year, sustainable funds set an annual record for net flows in 2021. Sustainable funds enjoyed nearly $70 billion in net flows, a 35% increase over 2020's record. Source: Morningstar

(1) Bloomberg, published Feb 23, 2021, ESG assets may hit $53 trillion by 2025, a third of global AUM

A New Opportunity?

What if we could flip these negatives into positives?

With a shrinking number of new stocks, institutional investors are limited in what they can buy.

However, there appears to be a clear structural change in demand – from customers, shareholders and stakeholders – for ***ESG Reporting Companies!***

- 81% of global consumers want companies to improve the environment...[2]
- 88% try to buy products from sustainable companies...[3]
- 66% are willing to pay a premium for sustainable goods...[4]
- 92% of workers seek an environmentally friendly employer, and…[5]
- Millennials – a generation who believe employers should play a role in addressing issues such as income inequality, hunger, and climate change – will make up an increasing percentage of the global workforce in coming years: ***A projected 75% by 2025.***[6]

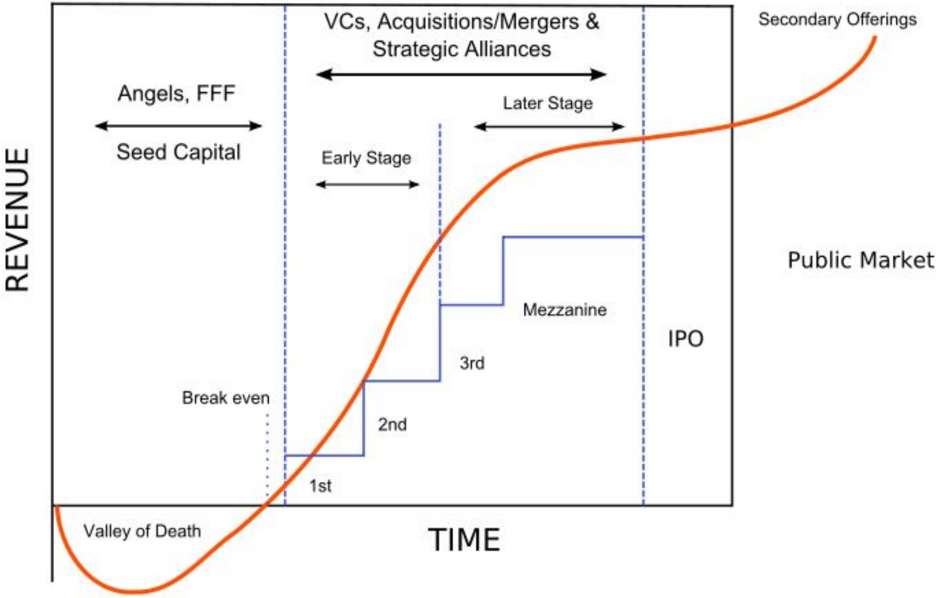
(2) Nielsen, published Sept 11,2018, Global Consumers Seek Companies That Care About Environmental Issues
(3) BCG Digital Ventures, published Apr 8, 2020, Even in These Tough Times, ESG Remains Vital
(4) CNBC, published Nov 4, 2016, Millennials willing to pay more for sustainable, better quality goods: Nestlé Chairman
(5) GreenBiz, published Oct 16, 2007, Working for the Earth: Green Companies and Green Jobs Attract Employees
(6) Global Future, published Aug 2019, LOBBYING FOR GOOD, How Business Action Groups Can Help Save Capitalism

The Problems Today That Must Be Solved...

Thriving "Pre-IPO" Ecosystem

Quite a lot of research suggests that venture funding offers significant advantages to companies over other forms of financing:

- Their sales[1] and employees [2] grow faster
- Their professionalism is greater [3]
- Time to market is shorter [4]
- The likelihood of an IPO is greater [5]
- Post-IPO survival is longer.[6]



(1) Tyebjee, Tyzoon T., and Albert V. Bruno. "A Model of Venture Capitalist Investment Activity," Management Science 30, No. 9 (Sep. 1, 1984): 1051–66. https://doi.org/10.1287/mnsc.30.9.1051.
(2) Davila, Antonio, George Foster and Mahendra Gupta, "Venture-Capital Financing and the Growth of Startup Firms." Stanford Graduate School of Business, 2000, https://www.gsb.stanford.edu/faculty-research/workingpapers/venture-capital-financing-growth-startup-firms.
(3) Hellmann, Thomas, and Manju Puri. "Venture Capital and the Professionalization of Startup Firms: Empirical Evidence." The Journal of Finance 57, No. 1 (Feb. 1, 2002): 169–97. https://doi.org/10.1111/1540-6261.00419.
(4) Ibid.
(5) Shane, Scott, and Toby Stuart. "Organizational Endowments and the Performance of University Startups."
(6) 64 Baker, Malcolm, and Paul Gompers. "The Determinants of Board Structure at the Initial Public Offering," SSRN Scholarly Paper. Rochester, N.Y.: SSRN, Aug. 1, 2002. https://papers.ssrn.com/abstract=236035.

The Problems Today That Must Be Solved...

Effective IPO Strategies

The IPO process is too costly (particularly for smaller issuers) because of the relatively fixed underwriting fee of 7 percent plus the universal practice of underpricing IPOs. (The first day pop)

- *“There is no good reason to pay bankers and disclose financials when the money is waiting [in the private markets] at the same valuation.”* [1]

(1) Blecher, Robert, Private Inequity: Private Markets and the Death of the Micro-Cap Stock (July 13, 2020). Available at SSRN: https://ssrn.com/abstract=3649753 or http://dx.doi.org/10.2139/ssrn.3649753

The Problems Today That Must Be Solved...

More Analyst Coverage

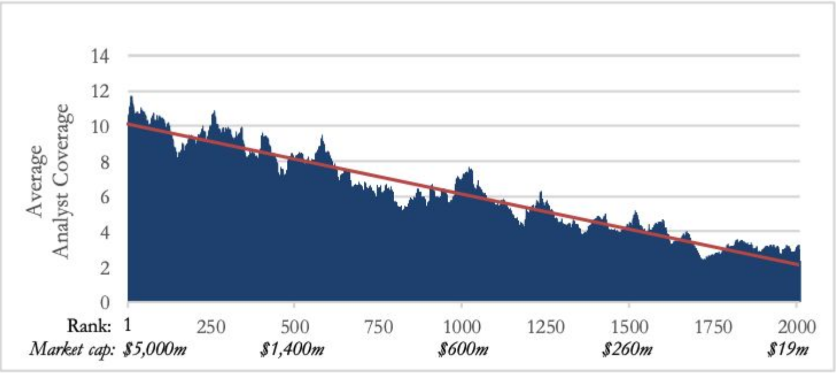
One important consideration management and boards make before deciding to go public is how much analyst coverage the company will receive.

In fact, the necessity to attract “coverage” by analysts has traditionally been one of the key hurdles for private companies considering going public.

Less coverage means a smaller pool of investors will assess the stock, both in the lead-up to the IPO and in the secondary market.

(1)Marshall Lux and Jack Pead, published Apr 2018, Harvard, Hunting High and Low: The Decline of the Small IPO and What to Do About It
(2) Solomon, Jack, “Capital Formation, Smaller Companies and the Declining Number of Initial Public Offerings,” SEC Advisory Committee, June 22, 2017, p. 5

Figure 4: Russell 2000—Analyst coverage declines in line with a company’s market value.



Source: Russell, Bloomberg

The average level of coverage decreases from around 10 analysts for the largest companies in the index to just two analysts for the smallest companies.[1]

60% of the 1,171 companies with market capitalization below $100 million listed on major U.S. exchanges receive ***no analyst coverage!***[2]

The Problems Today That Must Be Solved...

Increased Liquidity

Companies who would otherwise be small caps are loath to go public until they are a mid-cap or large-cap company. They fear being stuck in an illiquid trading environment, making it very difficult to raise additional capital in the public markets or to use their stock currency for acquisitions, both often critical to growing their businesses.

Thinly traded stocks also tend to have wider bid-ask spreads, meaning the transaction costs associated with taking positions (and later exiting them) are larger.

Researchers have found that this illiquidity of small stocks has driven large investment funds from them since the late 1990s.[1]

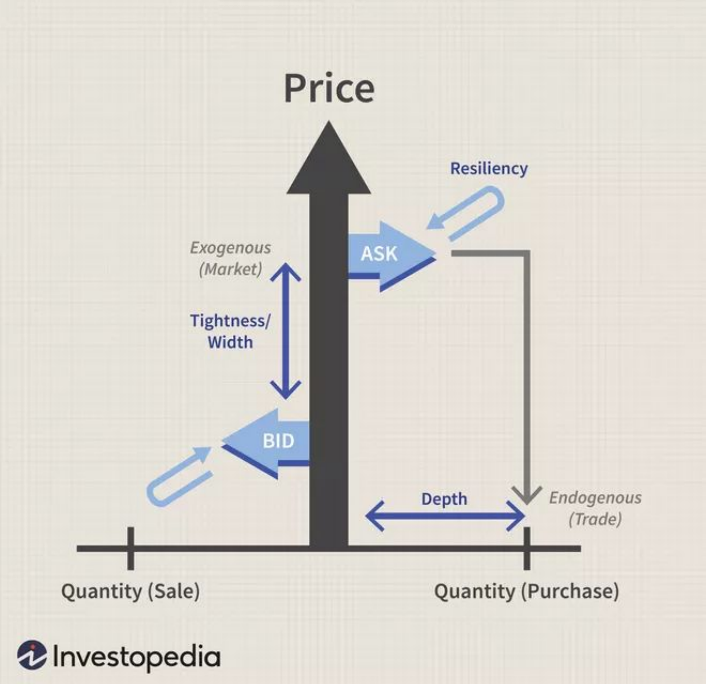


Image by Julie Bang © Investopedia 2020

(1)Marshall Lux and Jack Pead, published Apr 2018, Harvard, [Hunting High and Low: The Decline of the Small IPO and What to Do About It]

The Problems Today That Must Be Solved...

Short-termism

Even if you are a large cap company that enjoys a liquid trading environment, **it is difficult to balance long-term growth goals with the increasingly short-term investor orientation in public markets.**

Not only has the average investor hold period for stocks fallen from 8 years in 1960 to 8 months in 2016, but activist funds that were largely non-existent until the mid-1990's now well exceed $100 billion in AUM.

Couple this with the ~50% decline in the number of publicly-listed US stocks and the pressure that short-term pressures can exert on a company has grown.[1]

Image source: Market Business News

(1)Scott Kupor, Andreessen Horowitz, accessed Mar 15, 2022, "On Capital Formation, Smaller Companies, and IPOs"

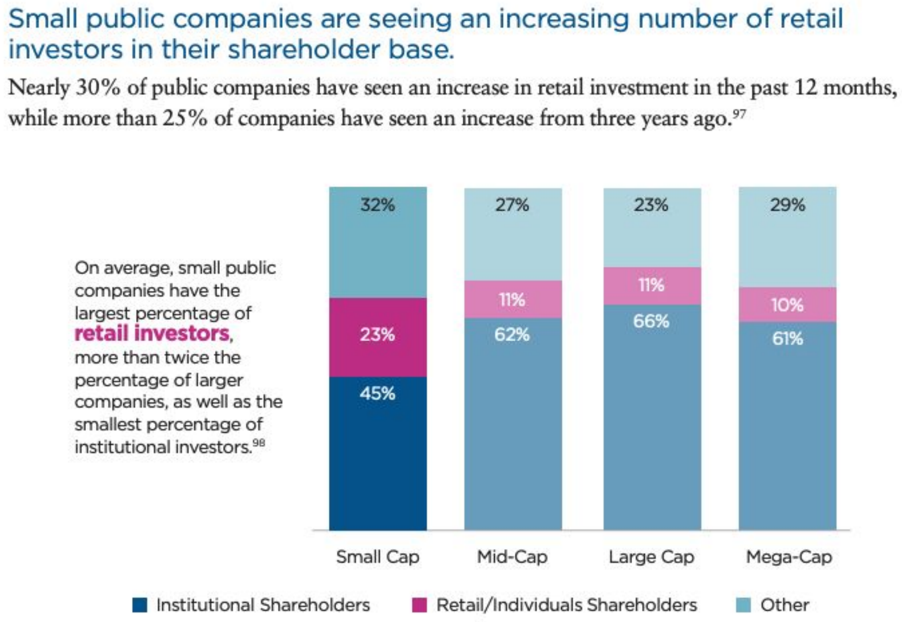
The ***REAL*** Problem That Must Be Solved?

The Loss of Investor Confidence

American investors have lost confidence in the market (and financial regulators as well) as the result of a variety of shocks: e.g., the IPO Bubble of 2000, Enron and WorldCom in 2002, market timing at mutual funds in 2003-2004, and the financial industry’s collapse in 2008.

This sense that the game is rigged can produce a negative reaction independent of the overall success or failure of IPOs, as it leads at least a portion of the market to withdraw.

To revitalize the “Small IPO” market, **we must bring companies to public markets that retail investors have confidence investing in <u>for the long term.</u>**



Source: The Securities and Exchange Commission Office of the Advocate for Small Business Capital Formation, Annual Report for Fiscal Year 2021

We're Not The Only Ones Trying To Solve This Problem

SEC's Roundtable on Market Structure for Thinly-Traded Securities

Smaller companies, the securities of which are often thinly traded, play an essential role in our economy.

Currently, there is a single equity market structure for all National Market System (NMS) securities, large and small, liquid and illiquid.

Staff is interested in views from a broad range of market participants as to whether targeted changes should be made to optimize the market structure for thinly-traded securities.

(Hosted Apr, 2018)

Why We're Different

Deal Structure, Due Diligence & Customer Service

The Equifund team has decades of experience helping small cap companies with the unique challenges of they face in the public markets:

- Corporate Finance
- Capital Markets
- Hiring Professional Service Providers

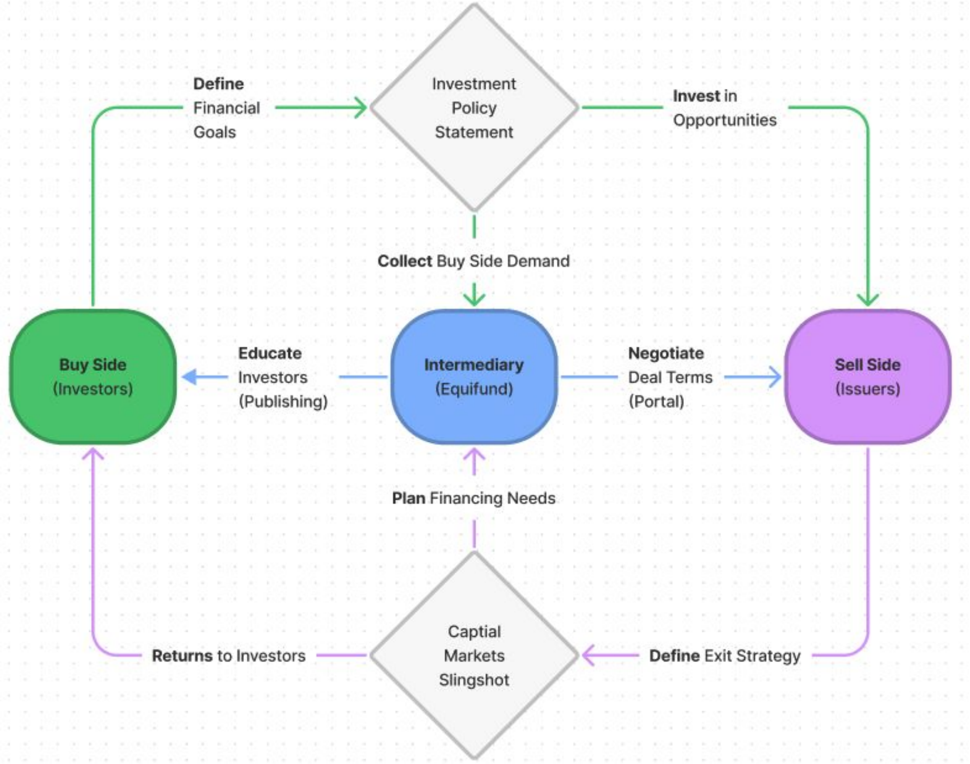
Thanks to **the JOBS Act**, we have several new – and attractive – fundraising options that can help small public companies prepare for an IPO (and continue to grow in the public markets).

Our Investment Thesis

The Customer/Shareholder Flywheel

Customers who love the product, become long-term ***Shareholders***, and have incentives to help grow the company as an ***Advocate*** in the marketplace (i.e. generate referrals, write testimonials, and provide enhanced product feedback).

With this framework, the ***Equifund Community*** doesn't just bring early stage capital. We can potentially provide full lifecycle support by helping to bring in new customers, employees, key relationships, trading volume, and additional capital on reasonable terms.



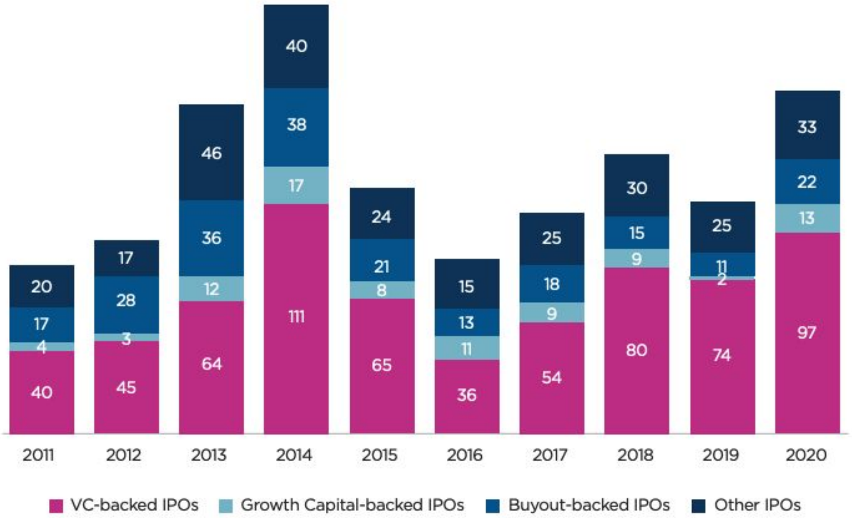
Types Of Deals We Look For

The Great Game of Pre-IPO Investing

We look for companies that are 1-3 years away from going public (or already are).

- **Venture Backed IPOs –** Investing in companies that focus on R&D (technology, life sciences)
- **Growth Backed IPOs –** Investing in companies that focus on building/acquiring assets (roll ups)
- **PIPE/Up-listings –** Currently trading on the Junior Exchanges and looking to upgrade to Sr. Exchanges (Nasdaq/NYSE)

The number of IPOs has varied over the last decade; however, VC-backed companies continue to be the majority of exchange-listed IPOs.[89]



Source: The Securities and Exchange Commission Office of the Advocate for Small Business Capital Formation, Annual Report for Fiscal Year 2021

Why This Is Hard

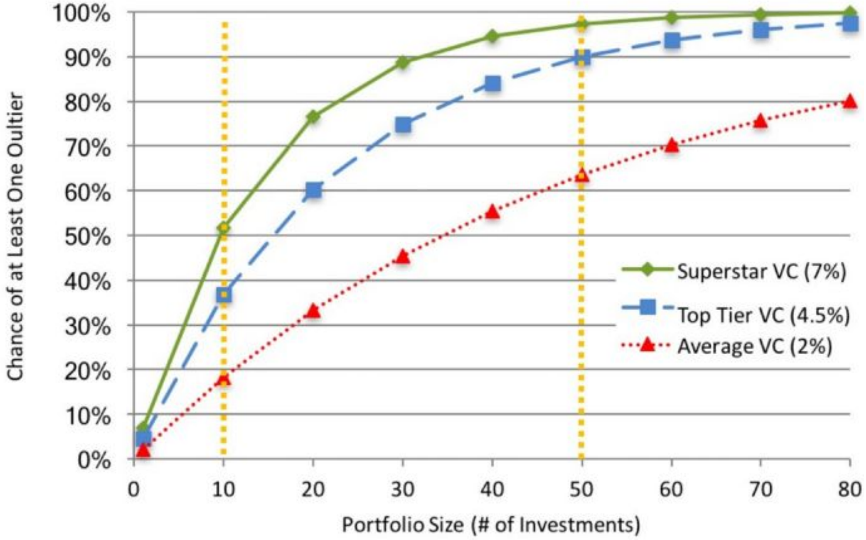
The Reality of Early Stage Investing

According to Clint Korver, co-founder at seed stage VC firm Ulu Ventures…

"Returns in venture capital are distributed according to a Power Law with the lion's share of returns earned from a small number of investments.

In short, VCs cannot reliably pick winners. They can, however, construct portfolios that [can potentially] generate [market beating] returns.

Simply stated, ***more investments give a venture firm better odds of investing in an outlier company that can make a fund."***[1]



(1) Clint Korver, Ulu Ventures, Published May 29, 2018, [Picking winners is a myth, but the Power Law is not]

We Do The Work For You

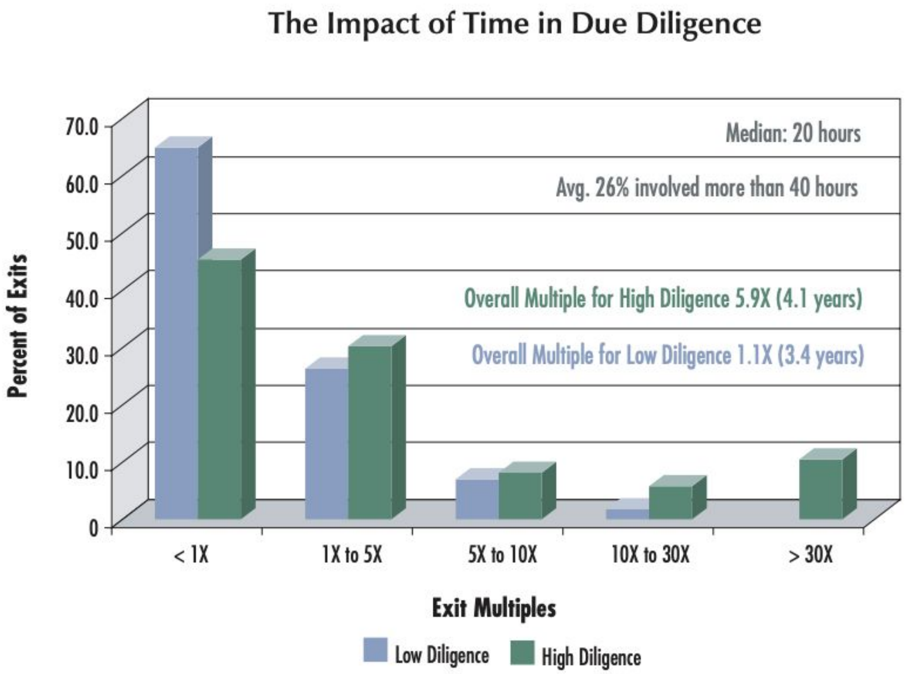
Our Due Diligence Process

We all know we're supposed to perform due diligence, but most retail investors simply don't have the time, ability, or interest to do so.

They want access to pre-screened opportunities that meet some sort of known criteria.

Unlike other platforms that are willing to list deals in a matter of days or weeks, our issuers go through an 8 - 30+ week due diligence process before we're ready to introduce them to our investors.

Why? **Because we believe you'll forgive us for being wrong, <u>but you'll never forgive us for being sloppy.</u>**



Source: Wiltbank, Robert and Boeker, Warren, Returns to Angel Investors in Groups (November 1, 2007). Available at SSRN: https://ssrn.com/abstract=1028592 or http://dx.doi.org/10.2139/ssrn.1028592

Our Big Hairy Audacious Goal

Help 300 Companies Go Public
(or Uplist to a Sr. Exchange) by 2032

Sure, we certainly want to see financial returns, but as the legendary philanthropist and chocolatier, Milton Hershey, one said: “What good is money unless you use it for the benefit of the community and of humanity in general?”

We want to build the economic engine that truly makes the world a better place…

A support system that not only gives everyday people access to Pre-IPO investment opportunities they can’t get anywhere else…

But has the potential to create successful public companies we can be proud of.

However, we can’t accomplish this goal alone. We need you – and tens of thousands of people like you – to answer the call to adventure and participate in what we like to call ***“The Great Game of Pre-IPO Investing”*** equifund

Q&A

What questions do you have?