

Phases 1, 2 and 3

From Finding Deals To Deploying Capital

PHASE 1: DEAL FLOW

■ NOTES ON THIS SECTION...

The first stage of screening will happen based solely on the marketing material provided by the Issuer.

NAME OF COMPANY:

NAME OF FUNDING PORTAL:

[note: If the deal is not listed on a FINRA regulated crowdfunding platform, proceed with caution]

OFFER URL:

EXEMPTION TYPE:

- Reg-A
- Reg-CF

SECURITY TYPE:

- Equity
- Debt
- Exotic (i.e. SAFE)

Other

FUNDRAISING DETAILS:

■ Minimum Raise Amount: \$_____

■ Maximum Raise Amount: \$_____

INVESTMENT MINIMUM:

What is the minimum investment in this opportunity? \$_____

Is this amount greater than your Average Position Size (APS)?

If YES, proceed with caution.

If no, proceed to next step

WHAT IS THE SOURCE OF THE INVESTMENT OPPORTUNITY?

In your assessment, is the person/company who told you about this opportunity a “Trustworthy” or “Non-Trustworthy” source?

On a scale of 1 to 10, 1 being low and 10 being high, how “Trustworthy” is this source?

0 1 2 3 4 5 6 7 8 9 10

HOW IS THE ORIGINATOR COMPENSATED AND/OR WHAT ARE THEY MOTIVATED BY?

Issuers

Generally speaking, Issuers who are looking to raise money will tell pretty much anyone they know about their deal.

Their motivation is well known, transparent, and obvious.

Portals

Generally speaking, they are compensated by a combination of flat fee for listing the deal, a percentage of funds raised, and a percentage of shares issued as part of the offering.

Their motivation is oftentimes less easily understood given the economics of each deal.

Research Services & Data Providers

Generally speaking, they are compensated by selling subscription based services of some sort.

Many services will publicly state they do not receive any form of compensation for promotion, but this can't always be verified.

[Note: FINRA rules clearly state who can, and cannot, receive success based compensation. Please do your own due diligence if you have reason to believe any non-regulated entity is receiving any form of “kickback” that would make their business dealings illegal]

Co-Investor / Lead Investor

Generally speaking, their main motivation is to expand the shareholder base and improve position/diversification/risk in the investment opportunity

You should reasonably assume this party benefits from both short term financial compensation and the potential for long term capital gains.

■ CHECKPOINT

Based on your initial assessment, does this opportunity reasonably match your Investment Policy Statement?

If NO, the deal is rejected.

If YES, deal proceeds to Phase 2: Due Diligence

PHASE 2: DUE DILIGENCE

■ HOW TO COMPLETE THIS SECTION...

For initial due diligence screening, the answers to these questions might not necessarily be available inside of the issuers marketing material. Be sure to review the Form C (or Form 1-A) provided by the issuer, along with all financial disclosure documentation.

If you cannot easily answer these questions based on what's been provided, please use the Q&A forum that is legally required to be present on all Regulation Crowdfunding opportunities listed on Portals.

If the issuer cannot answer your questions or refuses to do so in a timely manner, this is a good indication you should consider passing on the deal.

Easy Disqualifiers / Red Flags

■ DOES THE DEAL HAVE ANY MAJOR RED FLAGS?

We are looking for the major problems with any deal that would immediately disqualify your participation, no matter how good the marketing material makes the deal appear.

- Existing Sanctions? Do any officers or participating members of this deal have any charges of securities fraud?
- Pending Lawsuits? Are there any currently active lawsuits that could materially affect the company operations?
- Unserviceable Debt? Is the company on a “debt death spiral?”
- Absurd Valuation? Is this company raising capital at an obviously inflated valuation that isn't based on defendable comps?

- Risks, Disclosures, & Going Concerns? Is there anything that sounds like it could be really bad news or otherwise cause you to think “hey, this seems bad.”
- Shareholder Rights?
 - Voting?
 - Waterfall?
 - Tag Along?
 - Dilution?
 - Dividend?
 - Membership Units?
- Are any existing shareholders planning to sell their shares as part of this offering? If so, why are they selling shares?

■ CHECKPOINT

If after reviewing all major “Red Flags” you are comfortable with this deal, please assess further, in the order you have deemed important, as outlined in your Investment Policy Statement (i.e. People, Product, Process, Financial)

People: Do You Like The Management Team?

■ ARE THE PEOPLE RUNNING THE COMPANY ANY GOOD?

Does the management team have a proven track record of success that is relevant to this current endeavor?

- List all notable achievements

Do they have a track record of presenting business objectives and hitting milestones?

- If not, why?

[Note: If management cannot present a believable – and relevant – track record of success, or justification for past failures, deal is rejected.]

■ DOES THE MANAGEMENT TEAM HAVE A BIG ENOUGH VISION?

How big does the management team want to grow the company?

- Are they looking to go all the way to \$100m+? If not, is this because they lack competency? Are they missing a key member of the management team that needs to be filled?
- Are they looking for an earlier exit?

■ DO THEY HAVE A CLEARLY DEFINED EXIT STRATEGY?

Mergers & Acquisitions

- Do they have a list of potential Private Equity / Corporate buyers?
- Why would they acquire you?
- Do you have existing relationships with them?
- Why would they acquire your business vs anyone else?

[Note: The business case needs to make sense for the “Why?”]

Going Public

- Do they have a transfer agent?
- What exchange are they going to list on?
- How are they getting the listing requirements based on the exchange?
- What mechanism are they using to go public?

- Buying an OTC shell company?
- Reverse Takeover?
- IPO?
- SPAC?

■ DO THEY HAVE THE OPERATIONAL CAPACITY TO GROW AND MANAGE THEIR SHAREHOLDER BASE?

- Do they know how shareholders benefit from being in this deal?
- Do they know how to handle all managing and reporting?
- Do they have a transfer agent?

■ CHECKPOINT

Does the existing management team have a big enough – and exciting enough – vision that you want to participate in?

If no, proceed with caution

If yes, move to next question

Do you believe they have what it takes to compete at that level?

If no, proceed with caution

If yes, move to next question

Product: Does the Product/Technology/Solution Make Sense?

■ DO THEY HAVE AN EXISTING PRODUCT?

What is the name of the product/service the company sells?

- If they don't have an existing product, this is not an "emerging growth company," this is an "early stage startup". **Deal is rejected**

■ DOES THE PRODUCT THEY'RE SELLING SOLVE A CLEARLY DEFINED PROBLEM?

What is the problem being solved?

- In a paragraph or less, describe what the existing problem in the marketplace is that needs to be solved. If management can't clearly articulate the problem, proceed with caution.

How does the product solve this problem?

- If they can't define this clearly, it likely means they have not reached "product market fit." If this is the case, this is not an "emerging growth company," this is an idea for a startup. **Deal is rejected**

"Customers won't care about any particular technology unless it solves a particular problem in a superior way. And if you can't monopolize a unique solution for a small market, you'll be stuck with vicious competition." — Peter Thiel, Zero to One: Notes on Startups, or How to Build the Future

■ DOES THE PRODUCT WORK?

Is there evidence that the product does, in fact, solve this problem?

- If yes, there should be results of some kind that proves it does,
 - How many new users are being added every month?
 - How many new sales are being made every month?
- If there are no measurable results, there is no evidence the product works. **Deal is disqualified.**

■ DOES THE PRODUCT WORK?

Does the market already know they want a solution to this problem?

- If yes, do you believe this product is at least 10x better – from a combination of price, effectiveness, and convenience – than what is already available?
- If no, deal is disqualified

■ WHO ARE THEIR COMPETITORS?

Who else is competing to solve this problem?

- List all competitors in their space. *[Note: if they cannot identify any competitors, suggesting this is a wide open “Blue Ocean,” chances are someone isn’t being honest with themselves, or is unaware of the actual market forces at hand. Proceed with caution]*

■ IS THERE A CLEAR MOAT?

How easy is this company’s product/position to defend in the marketplace? (list all that apply)

Patents

- How many patents does the company control?
- What types of patents does it have?

Key Customers

- Does the company have notable customers? If yes, list them. *[Note: if any single customer represents more than 20% of revenue, this can be a red flag.]*

Key Partnerships and Relationships

- Does the company have any joint venture relationships, affiliate re-

relationships, or partnerships with other companies that give it a competitive advantage? If yes, list them...

Intellectual Property

- Does the company have knowledge, insights, processes, and procedures that give it a competitive advantage? If yes, list them...If yes, list them...

“Institutional Privilege”

- Does the company have things like government contracts or long-term contracts with large institutions? If yes, list them...

Brand Equity

- Can the company command a premium price based on the merits of its brand? If yes, list why...

Other Barriers to Entry

- Does the company exist in a space that has high barriers to entry (i.e. regulations, R&D cost) that prevent “copy cats” from easily competing against this company? If yes, list reasons...

[Note: If you cannot identify a clear moat based on available marketing materials and asking management followup questions, deal is rejected]

■ CHECKPOINT

Do you believe the problem being presented is both accurate, clearly defined, and urgently necessary to be solved?

If no, proceed with caution

If yes, move to next question

Do you believe this product is good enough to compete on a national level, against all existing incumbent providers and all available solutions?

If no, proceed with caution

If yes, move to next question

Process: Can the Company Aggressively Grow with a Capital Infusion?

■ DO THESE RESULTS SCALE?

- Yes, this product/solution can be delivered at scale with minimal “cost to replicate”
 - Software has the lowest cost to replicate
 - Services have the highest cost to replicate
- No, this product/solution doesn't not easily scale

■ HOW BIG COULD IT SCALE?

How large is the Total Addressable Market?

- How many people could potentially benefit from the products the company sells?

What is the estimated Market Cap?

- What is the Market Cap presented by the Issuer in real dollar terms?
- What are Market Cap estimates other analysts have determined?

Do you think these estimates are reasonable?

- If no, why not?
- If yes, why?

■ DO THEY HAVE CLEAR ANALYTICS THAT DEMONSTRATE A SCALABLE MARKETING & SALES STRATEGY?

- What is the “Cost to Acquire a Customer? (CAC)
- What is the “Lifetime Value” of each customer? (LTV)
- What is the “Attrition Rate” of each customer? (Churn)

*[Note: If you cannot determine these metrics based on available marketing materials and asking management followup questions, **deal is rejected.**]*

■ CHECKPOINT

Based on the disclosed metrics, do you have a reasonable expectation that adding investor capital would greatly accelerate growth of the company?

- If Yes, you have a reasonable degree of expectation that this is an “emerging growth company”
- If no, this deal is most likely not ready to take on investor capital.

“You’ve invented something new but you haven’t invented an effective way to sell it, you have a bad business—no matter how good the product.”— Peter Thiel, Zero to One: Notes on Startups, or How to Build the Future

Financials

■ DESCRIBE THE TERMS OF ANY INDEBTEDNESS OF THE ISSUER.

Does the company have any debt?

- No, company has no debt
- Yes, company has debt
 - What are the terms of the existing debt?
 - Does the company have enough cash flow to service existing debt?
If no, proceed with caution

[note: Most companies have debt. This isn't a necessarily bad thing. We just want to know if they can afford the payback terms]

■ WHAT OTHER EXEMPT OFFERINGS HAS THE ISSUER CONDUCTED WITHIN THE PAST THREE YEARS?

- Yes
 - Under what terms?
 - At what valuation?
- No

■ WHAT OTHER SECURITIES OR CLASSES OF SECURITIES OF THE ISSUER ARE OUTSTANDING?

Describe the material terms of any other outstanding securities or classes of securities of the issuer.

- Include a description of classes of stock (e.g., common, preferred, series A preferred, etc.), options, warrants, convertible notes, SAFE or other securities.

■ DOES THE COMPANY HAVE ANY INSTITUTIONAL INVESTORS?

- Yes
- Who are they?
 - What share class do they hold?
 - What voting rights do they have?
 - Are they above you in the capital table?
- No

■ HOW MUCH MONEY IS THE COMPANY RAISING?

- Minimum Raise: \$
- Maximum Raise: \$

■ HOW ARE THE SECURITIES BEING OFFERED BEING VALUED?

What is the valuation? \$

What is the valuation method being used?

- Berkus
- Revenue multiple
- DCF
- DCF multiple
- First Chicago
- Other: _____
- None

How much of today's valuation is built into future performance?

- Example: "we're going to do \$10m by the end of the year and \$25m by the end of next year. With this in mind, we are going to pull forward valuation"

Has this been confirmed by a third party?

Yes, all valuations have been confirmed

If no, proceed with caution

■ HOW DOES THE ISSUER INTEND TO USE THE PROCEEDS OF THIS OFFERING?

Are they using it to pay down debt?

- No
- Yes (please provide explanation below)

Are they using it to pay inflated executive salaries?

- No
- Yes (please provide explanation below)

Are they using it for non-growth related expenses?

- No
- Yes (please provide explanation below)?

■ DO THEY INTEND ON RAISING CAPITAL IN THE FUTURE?

- Yes

- How much would you be looking to raise in the next round?
 - At what valuation?
 - Does that math fit with this current offering?
- No?

■ WHAT IS THE GROWTH RATE FOR THE PAST FIVE YEARS?

What is their total growth rate?

- Total increase in real dollar terms (Market Cap)
- Total increase in percentage terms

What is their compounding annual growth rate (CAGR)?

- If they are a new company, use CGAR

Do you have reason to believe the company can continue to grow at this rate, or better?

- Yes, I believe the company can exceed past performance
- Yes, I believe company can maintain past performance
- No, I believe company cannot maintain past performance

[Note: If they have five years of operating history, but have not shown meaningful growth, ask questions about this.]

■ HOW LARGE IS IT PROJECTED TO BE FIVE YEARS FROM NOW?

Are they projecting AT LEAST a 10x growth rate over the next 5 years?

- Yes
- No (proceed with caution)

Does this growth rate appear believable?

- Yes
- No (proceed with caution)

■ CHECKPOINT

Based on the financial metrics, do you see a clear path towards generating a meaningful return?

- Yes
- No (proceed with caution)

Is this an investable company?

- Yes, deal is now and Investment Qualified Lead (IQL)
- No, deal is rejected rate

PHASE 3: DEPLOY CAPITAL

■ PURPOSE OF THIS SECTION...

Once the deal has been considered IQL, now it's time to figure out where the actual capital is coming from.

■ WHAT INVESTMENT VEHICLE AM I USING FOR THIS TRANSACTION?

- Personal Savings

- Checkbook
- ACH/Wire
- Individualized IRA
- Corporate Accounts
 - A legal entity you've set up for investing activity
- Trust
- Other: _____

■ ALIGNMENT

Does this investment align with my Investment Policy Statement?

- Yes
- If NO, what is the rationale for investing outside of your directive?

■ OWNERSHIP

What percentage of the company I will own after making this investment?

- $\text{Shares Purchased} / \text{Shares Issued} \times 100 = \text{Total \% Owned}$

■ RETURN ON INVESTMENT

Do I understand how I will generate a return on investment?

- If NO, ask questions until you do
- If YES, proceed to next step

How likely do you think it is that you will lose 100% of your investment? [Hint: it's very likely]

- Scale of 1 - 10 (1 being least likely, 10 being most likely)

0 1 2 3 4 5 6 7 8 9 10

What is your expected potential gain?

- Is it 3x? 5x? 10x? 50x? 100x? Higher?

- My potential return is ____ times my initial investment

- Explain why:

- When I multiple my initial investment by my potential return, my investment could potentially be worth \$_____

- When I subtract my initial investment from the amount listed above, my Expected Potential Gain (EPG) is \$_____

How likely do you think this is to happen? [Hint: it's not likely]

- Scale of 1 - 10 (1 being least likely, 10 being most likely)

0 1 2 3 4 5 6 7 8 9 10

■ RISK VS REWARD

Crowdfunding should be considered a high-risk, with potentially high reward, asset class. Based on your current assessment of the risks and reward associated with this investment...

Am I comfortable with this risk/reward ratio?

If NO, deal is rejected

If YES, proceed to next step

■ LOCKUPS AND RESTRICTIONS

What are the lockup terms or restrictions?

According to the SEC...

Securities purchased in a crowdfunding transaction generally cannot be resold for a period of one year, unless the securities are transferred:

- (1) to the issuer of the securities;
- (2) to an “accredited investor”;
- (3) as part of an offering registered with the Commission; or
- (4) to a member of the family of the purchaser or the equivalent, to a trust controlled by the purchaser, to a trust created for the benefit of a member of the family of the purchaser or the equivalent, or in connection with the death or divorce of the purchaser or other similar circumstance.

However, there may be additional restrictions on shares purchased. Please review the Form-C (or Form 1A) for further guidance.

■ TOTAL COST TO PARTICIPATE

Most people don’t realize how many potential fees are associated with both buying and selling shares. Please factor these costs to determine how they could affect your potential future returns.

What are the fees associated with purchasing this investment?

- Membership Fee? How much \$?
- Transaction Fee?
 - Fixed \$ Amount?
 - Variable % Amount?

Total Transaction Costs (TTC): \$_____

What are the fees associated with selling this investment?

- Before any shares can be traded on a secondary market, they must be deposited into a brokerage account. This is called “Clearing.” How much will it cost to deposit these shares into a brokerage account? Average cost to do this is ~\$1,500 if the company IPOs

Estimated Clearing Costs (ECC): \$_____

What is the total cost, in real terms, to participate in this deal, assuming a successful liquidity event happens?

TTC + ECC = Total Cost to Participate (TCP): \$_____

■ TOTAL COST TO PARTICIPATE

Is my Expected Potential Gain greater than my Total Cost to Participate?

NO, Deal is rejected

YES, Deal is accepted and funds are allocated

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. Investors must acknowledge and accept the high risks associated with private securities offerings. All investing involves risk of loss. Past performance is not indicative of future performance. All investors should make their own determination of whether or not to make any investment in an offering based on their own independent evaluation and analysis after consulting with their financial, tax and investment advisors. By registering with equifund.com you agree to the terms of our Privacy Policy.