



# Investing for Change

renewal  
Funds



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# HOW TO FINANCE YOUR FOOD COMPANY

**FSC Food Business Bootcamp**

**November 25, 2013**

**Paul Richardson | CEO | Renewal Funds**

# Renewal Funds Introduction

Renewal Funds is a **values-based social venture capital** fund that invests in early growth stage companies in North America. Our three primary sectors are:

Organic &  
Natural Foods



Green Products



Environmental  
Innovation



**Renewal2** is a \$35mn fund that has invested in the following 11 impact companies:



**Renewal3** was launched in 2013 and currently at \$34mn

# Renewal Team

## Renewal Team



**Paul Richardson**  
CEO & Co-Founder



**Joel Solomon**  
Chairman &  
Co-Founder



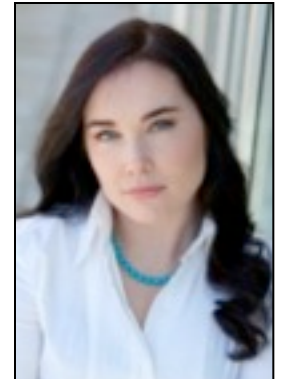
**Carol Newell**  
Co-Founder



**Nicole Bradbury**  
Vice President



**Mike Cormack**  
Venture Partner



**Kate Storey**  
Senior Associate

## Admin & Legal

**In House:** **Stephanie Tulev**, Administrative & Legal Manager and **Valerie Raynard**, Office Manager & Special Projects.

**Service Providers:** Back Office – **Pinnacle Fund Administration**, Audit – **PriceWaterhouse Coopers**, Tax – **PriceWaterhouse Coopers**, US & Canadian Legal Counsel

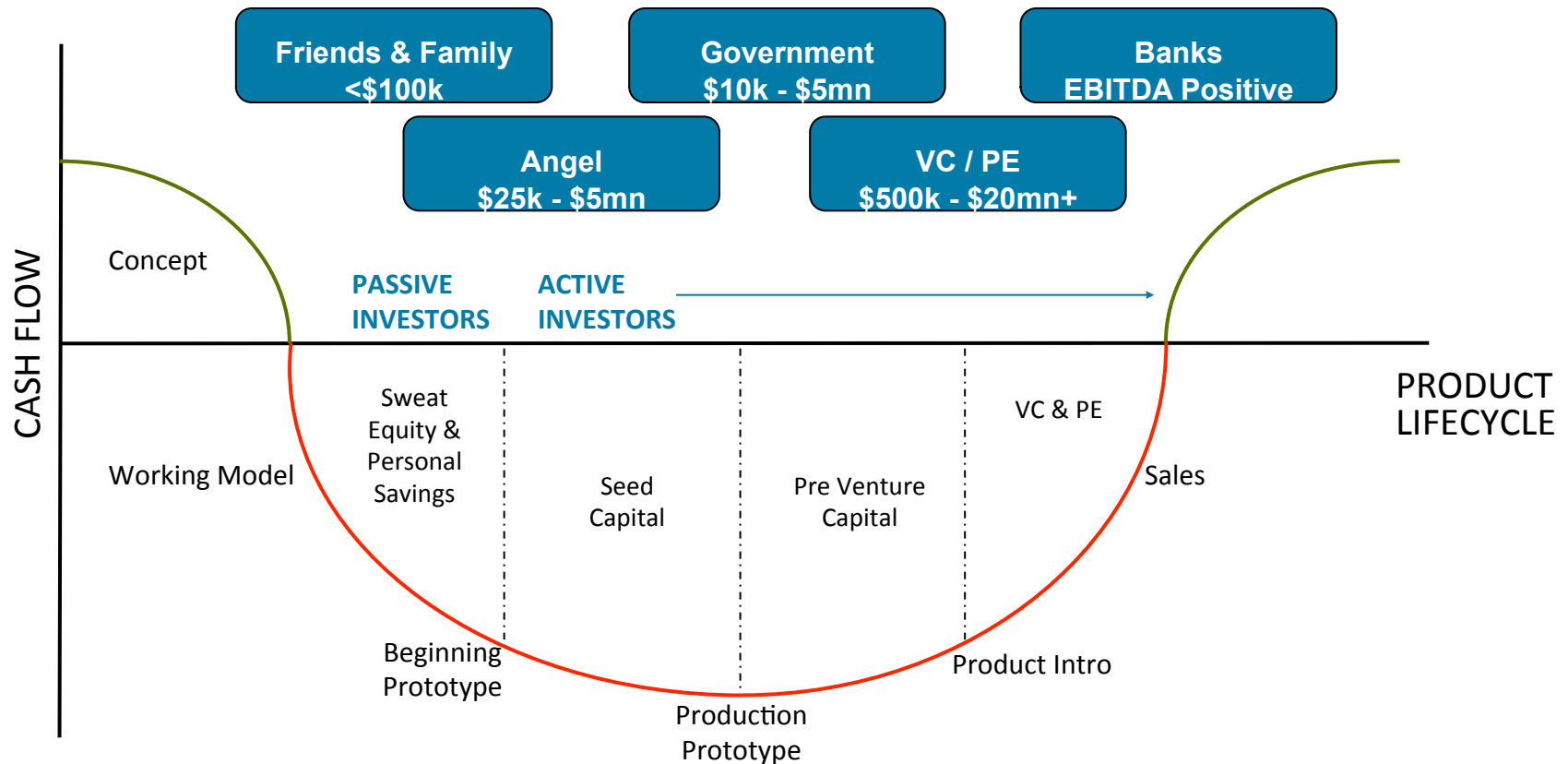
# Agenda

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- **Who's in the room?**
- **Your financing options**
- **Finding & working with investors**
- **Effective pitches**
- **Negotiating a termsheet**
- **Q & A**

# Financing Options : Overview\*

- Access to funding sources changes dependent on the stage of your company

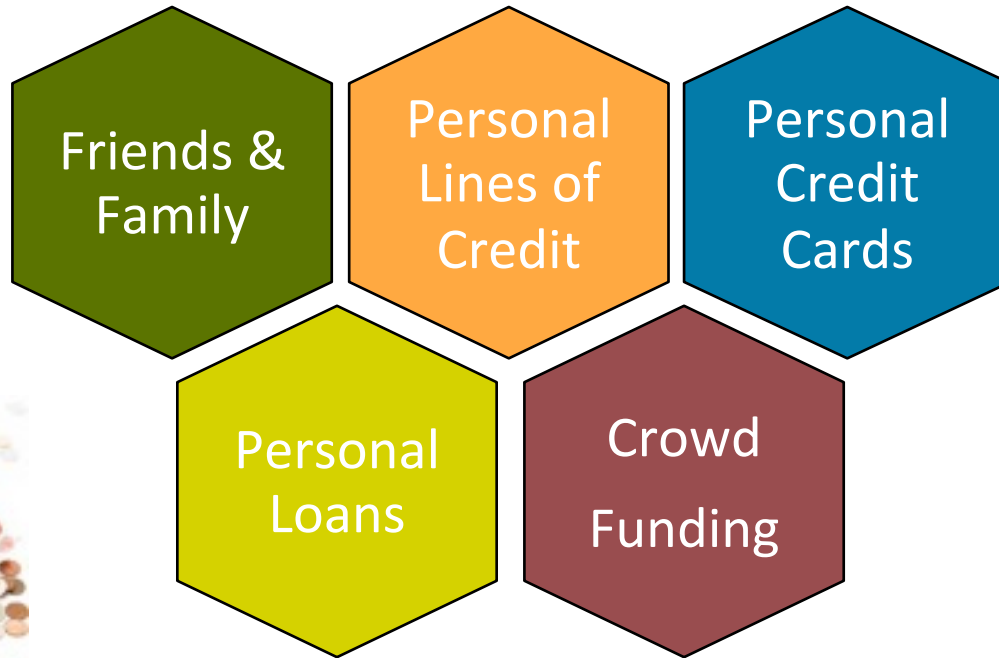


\* From 'Financing Farm to Fork', March 2011, by 2X Consumer Products Growth Partners & New Venture Advisors LLC.

# Resources to Explore First: Bootstrapping

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Financing growth from **cash flow and personal resources** without taking on external investment



**KICKSTARTER**

 **indiegogo**

# Resources to Explore First: Bootstrapping

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## Benefits

- ✓ Maintain control over decisions
- ✓ May spend cash more effectively than financed companies

## Drawbacks

- ✓ Additional financial risk on entrepreneur
- ✓ Slower growth due to limited resources
- ✓ May miss an opportunity if competitors are financed and invest heavily in marketing and growth





# External Financing: Equity Considerations

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If you've already asked your friends & family, you may need to take on external investment

If so, are you prepared to:

- Give an investor an **ownership position** in your company?
- Provide an investor with one or more **board seats**?
- Treat an investor as a **partner** in your business?
- Spend time with an investor to **discuss all aspects of your business**?
- Accept that future decisions may require **discussion and negotiation with others**?
- Have a **comprehensive business plan** prepared?

# External Financing: Equity Investors

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## Benefits

- ✓ Access to more capital
- ✓ Non-repayable
- ✓ Advice and sounding board
- ✓ Their networks
- ✓ Help to grow and succeed
- ✓ Can be a positive partnership

## Drawbacks

- ✓ Loss of freedom
- ✓ Resource intensive (time / \$)
- ✓ Dilute your equity
- ✓ May require salary caps
- ✓ Mess up? = consequences
- ✓ Partners can be problematic



# External Financing: Angels

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- Invests own money
- Typically consider **seed or early stage**
- Lower commitments (typically \$10k - \$300k)
- **Less due diligence** / quicker timeline
- Fewer conditions of investment
- Fewer restrictive covenants
- Often don't require a board seat

- Unfortunately, sometimes a business plan must show **overly optimistic projections** to attract angel investment to make up for the **risk** they are assuming
    - **Unrealistic** projections can be a **difficult starting point** for future finance partners
  - Equity crowdfunding
    - Online platform **for angel investors** (and potentially in the future, the public)
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# External Financing: Venture Capital

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- Invests on behalf of a group of investors
- May consider seed, **typically consider early stage**
- Mid-range commitments (typically \$500k - \$10m)
- **More due diligence** / building partnership takes time
- More conditions of investment
- **More restrictive covenants** & complex term sheets
- Often requires a board seat

# External Financing: Private Equity

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- Invests on behalf of a group of investors
- Typically consider **mid- to late-stage**
- Large commitments (typically \$5mn+)
- Significant due diligence
- **Active** management & oversight
- Potentially make significant **strategic changes** to business
- Often require a **control position**
- Sometimes considers **mergers, acquisitions, or divestitures**
- More conditions of investment
- More restrictive covenants & complex term sheets
- Will requires one or more **board seats**

# External Financing : Debt – Early Stage

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- It **may be difficult** to obtain a loan from a bank / financial institution
  - Due to lack of **track record** of cash flow or **liquid assets**
- Debt can be arranged from **individuals or angels**
- There are also **loan funds / mezzanine debt**
  - Interest rates range from **8 – 20%**
  - Typically request **warrant** coverage
  - Ensure they will **subordinate** if you get bank financing



# External Financing : Debt – Bank Financing

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- Banks offer **more normalized interest rates**
- Banks require **predictable and adequate cash flows** to cover the debt payments
  - Often, the company needs to be **EBITDA positive**
  - May request **collateral** to pledge
- Bank financing can be **secured** by:
  - **Fixed asset(s)**
  - **Inventory** (security requirement dependent on perishability)
  - **A/R** (security requirement dependent on how aged the A/R is)

# External Financing: Grants

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## Benefits

- ✓ No cost of capital
- ✓ No dilution to shareholders



## Drawbacks

- ✓ Complex process
- ✓ Time & cost to apply
- ✓ Adherence to grant rules
- ✓ Documentation
- ✓ Limits flexibility



# Agenda

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- **Finding & working with investors**
- Effective pitches
- Negotiating a termsheet
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# Finding Investors: Identifying Relevant Partners

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- Create a **shortlist**
- **Focused approach** better than scattered
- Connect in through **your network** (lawyers, accountants, advisors)

**Right partner at a fair price**

vs.

**Any partner at best price**

# Finding Investors: Cash Flow

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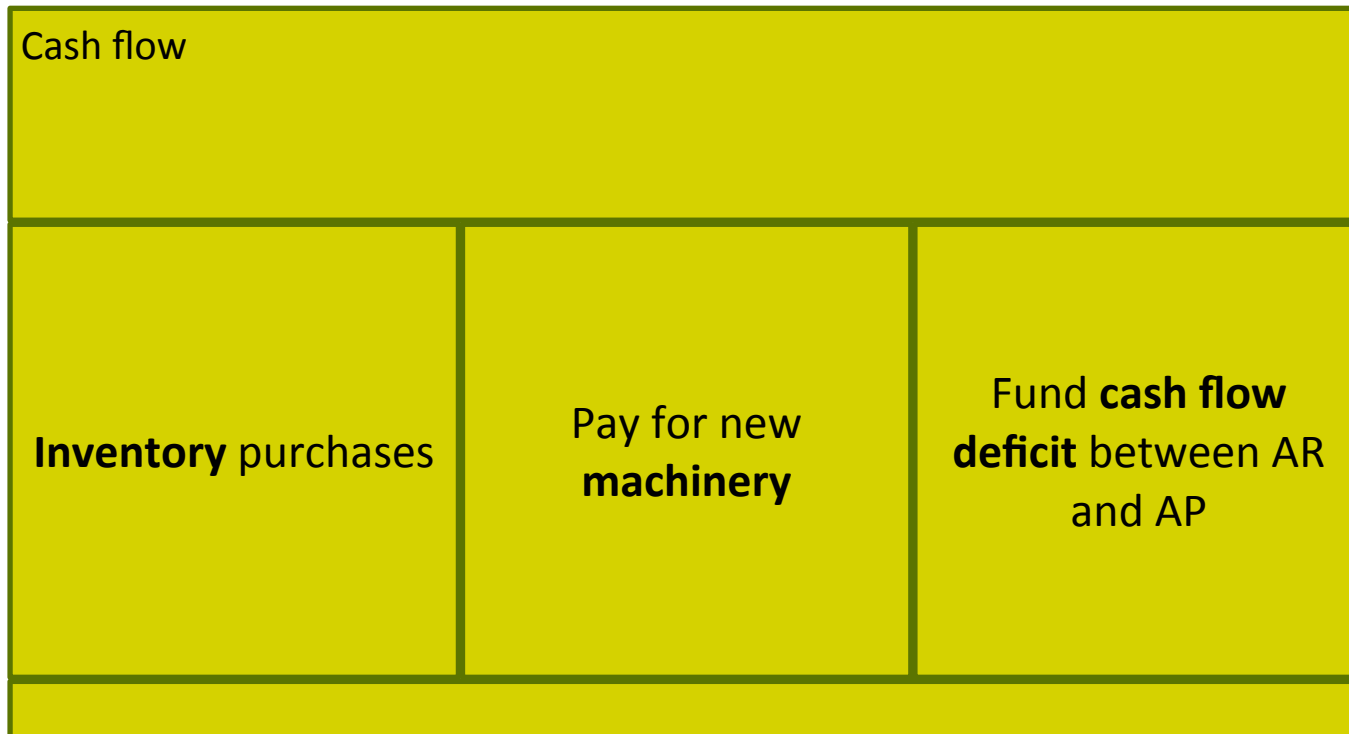


- Focus on investors who typically invest at **the level of funding** you are seeking (i.e., \$500k, \$1mn, etc.)
- The **size and timing** of capital requirements for a quickly growing business can be determined by using **cash flow forecasting**
- Cash flow (not net income) is the **most important number to monitor** in an early-stage company

# Finding Investors: Cash Flow Lags

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- While an income statement shows **revenue, costs & expenses...**
  - **Cash flow often lags** when there is rapid growth



# Finding Investors: Getting on the Radar



- Use your network to connect in
- Try to build context
  - Analyze portfolio companies – are there any links there?
  - Leverage contacts, networks and advisors
  - Attend events, tradeshows and conferences
  - Relevant PR around product also helps



- VCs spend their time looking for businesses with momentum (sales, media coverage, etc)

# Building Relationships: Suggestions

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- Do your research on the investor
  - Values, goals, return targets, sectors

- Be upfront and transparent on everything
  - Surprises are bad

- Make due diligence easy
  - Have an investor package prepared

- Keep investors informed as you work through due diligence
  - Updates, progress, setbacks

- Set realistic and achievable goals



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# Effective Pitches: What Do Investors Look For?

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## TEAM



## PRODUCT



## TRACTION



Why should an investor give you money?

- Market opportunity
- Unique product / service
- Business model
- Strong management team



# Effective Pitches: Ways to Tell Your Story

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## ELEVATOR PITCH

- 30 sec
- Easy to understand
- 2 key elements:
  - 1) Pain point / problem
  - 2) Value proposition / solution
- Conveys opportunity for investor (financial / social return)

## PITCH DECK

- 10 – 15 slides

## EXECUTIVE SUMMARY

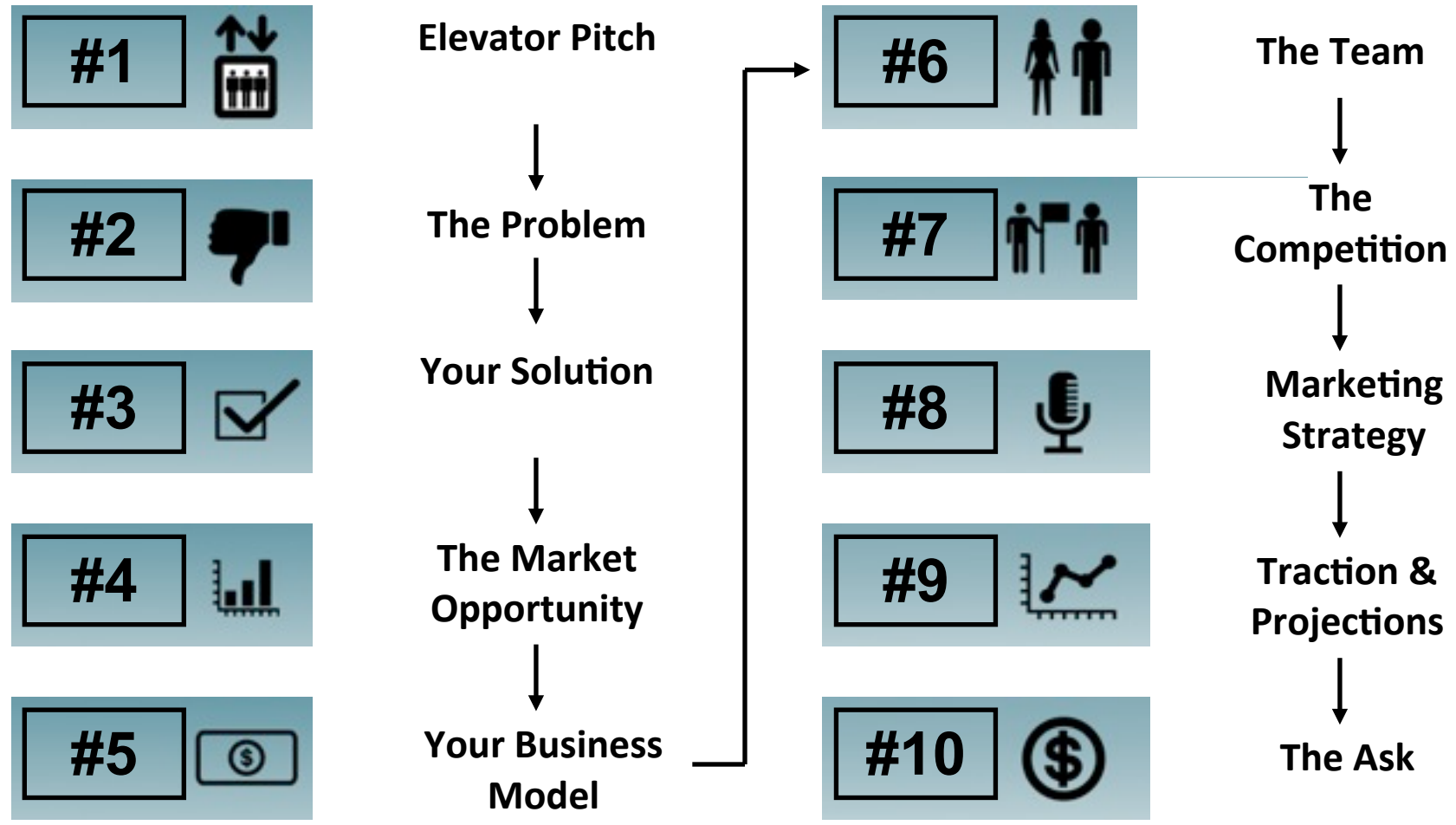
- 1 – 2 pages (but one is better)

## FULL BUSINESS PLAN WITH FINANCIALS (HISTORICAL & PROJECTED)

- 15 pages +
- Business strategy, market, competition, capital plan, etc.

**BE PASSIONATE,  
BUT RATIONAL**

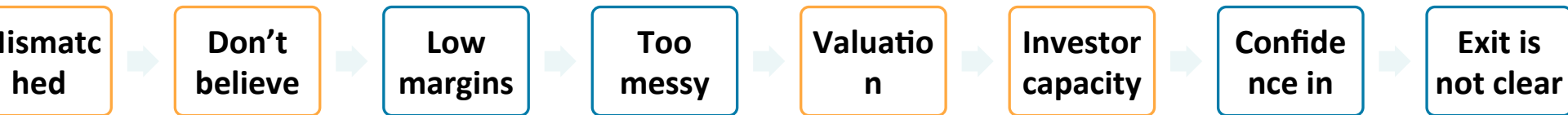
# Effective Pitches: The Pitch Deck\*



\* From '10 Slides For a Perfect Startup Pitch Deck', by The Noun Project & Barcinno

# Effective Pitches: Why Do Investors Say No?

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- Who's in the room?
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# Termsheets: Overview

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- **Pre  
Termsheet**

- **Termsheet**

- **Business Due  
Diligence**

- **Legal Due  
Diligence and  
Closing**

# Termsheets: Sharing Relevant Information

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## Pre Termsheet

- Identify **market opportunity**
- Discussion around **growth strategy**
- Proof of **traction**
- Review **financial projections**
- Identifying **use of proceeds** post closing
- **Cap table**
- **Valuation** discussion
- Formal **presentation** to VC partnership



# Termsheets: Negotiating a Termsheet (1)

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## Investment Structure

- **Common shares**
- **Preferred shares**
  - Liquidation preference
  - Preferred returns
- **Convertible debt**
  - Convertible into equity shares typically at a discount to purchase price
- **Warrants**



# Termsheets: Negotiating a Termsheet (2)

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## Rights, Covenants & Provisions

- Drag along / tag along
- Anti-dilution
- Participation
- Board of directors
- ROFR
- Restrictive covenants
- Registration rights
- Information rights
- Exclusivity





# Termsheets: Valuation

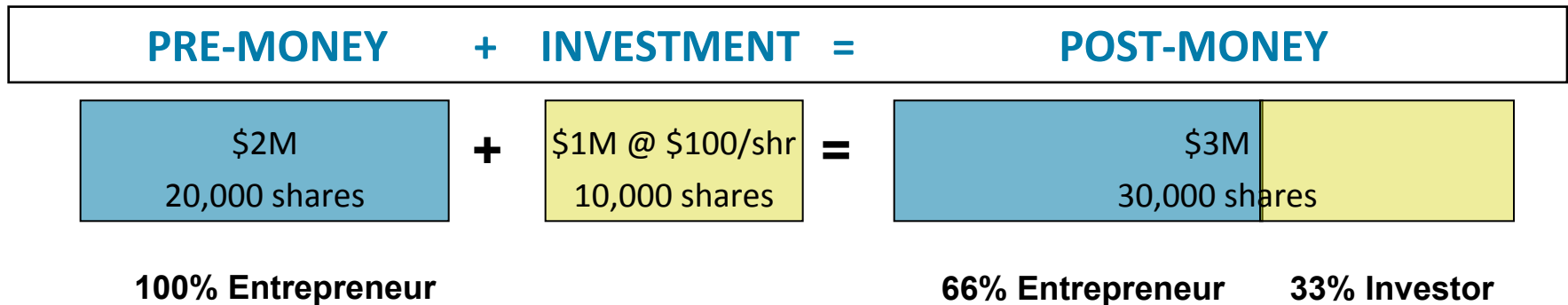
## Pre-Money

- Value of a company before raising funding

## Post-Money

- Value of a company including the funding raised

Valuation determines **how much equity / percentage ownership** the investor gets for the capital invested



# Termsheets: Valuation Example

- Example: Revenue and EBITDA Multiples of Comparable Companies

Date	Deal	Valuation	EV/Sales*	EV/EBITDA	
				Multiple	Source
12-Oct-12	Snyder-Lance acq. Snack Factory from VMG	\$340M	3.3x		VMG Partners
09-Jul-12	Campbell buys Bolthouse Farms	\$155B	3.0x		Press Release
11-Jun-12	Teavana Canada acq. Teaopia Limited	\$26.9M	1.6x		Deloitte Report
31-May-12	Flowers acquires Lepage Bakeries	\$370M	2.8x		Press Release
31-May-12	Smart Balance acquires Udi's Gluten Free Foods	\$125M	2.1x		Press Release
23-May-12	Ralcorp Holdings acquires Petri Baking Products	\$84M	1.7x		Deloitte Report
22-May-12	ConAgra Foods acq. Kangaroo Brands Inc's Pita Chips	\$48M	2.4x		Deloitte Report
28-Mar-12	Annie's IPO	\$316.3M	2.3x		Press Release
06-Mar-12	ConAgra Foods acq. Del Monte Canada	\$185M	1.2x		Deloitte Report
29-Feb-12	General Mills acq. Food Should Taste Good	\$175M	3.1x		Circle Up
30-Nov-11	B&G Foods acq. Alberto-Culver Specialty Brands	\$325M	3.6x		Deloitte Report
11-Oct-11	Dole Fresh Vegetables acq. HCE Corp	\$106.5M	1.7x		Deloitte Report
12-Sep-11	Premium Brands Holdings acquires Piller Sausages & Delicat	\$110M		7.5x	Deloitte Report
03-Aug-11	Smart Balance acq. Glutino Food Group	\$63.5M	1.1x		Deloitte Report
31-Jul-11	McCormick & Co acq. Kitchen Basics Inc	\$38M	1.5x		Deloitte Report
06-May-11	Nestle Waters acquires Sweet Leaf Tea	\$150M	3.2x		Circle Up
23-May-11	Brossard acq. Pain Jaquest	\$124M	1.5x	8.0x	CapIQ
02-Mar-10	Treehouse Foods acquires Strum Foods	\$660M	2.0x	8.1x	KPMG Corp Fin Report
01-Mar-10	Nestle USA acquires North American Frozen Pizza Business	\$3.7B		12.5x	KPMG Corp Fin Report
25-Feb-10	Diamond Food acquires Kettle Chips	\$615M	2.6x		Circle Up
28-Jan-10	KS Frozen Foods Acquires TableMark	\$42.9M		5.6x	CapIQ
18-Nov-09	Birds Eye Foods acq. by Pinnacle Foods	\$1.375B	1.5x	9.6x	CapIQ
08-Oct-09	Monterey Gourmet Foods acq. Pulmuone Wildwood	\$42M		12.8x	CapIQ
25-Aug-08	Thai Agri Foods Public Company	\$165M	1.7x	11.3x	CapIQ
10-Jun-08	General Mills acq. LARABAR in 2008	\$87.5M	3.6x		Circle Up
25-Feb-08	Watts Better Frozen Foods acq. by ConAgra	\$233M	2.3x		CapIQ
Average			2.2x	9.2x	

The average food multiple of the branded company transactions is 2.2x EV/Sales.

# Termsheets: Due Diligence & Closing

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## Post Termsheet

- **Business Due Diligence**
  - Calls with current / prospective customers or partners
  - Personal reference calls
  - Past employer/customer calls
  - Competitive and market analysis
  - Financial scrub
  - Identifying key management hires and areas for improvement
- **Legal Due Diligence & Closing**
  - Legal / accounting audit (if relevant)
  - Drafting legal documentation (share holders agreement, etc.)



# Conclusion

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**In the end, it can be totally worthwhile.**

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**Questions?**