

Small Business Majority

Raising Equity Capital: Empowering Women & Minority Entrepreneurs

August 31, 2022

The Securities and Exchange Commission disclaims responsibility for any private publication or statement of any SEC employee or Commissioner. The views expressed in this presentation are the speaker's own and do not necessarily reflect those of the Commission, Commissioners, or Commission Staff. This resource represents the views of the staff of the Office of the Advocate for Small Business Capital Formation. It is not a rule, regulation, or statement of the Securities and Exchange Commission ("Commission"). The Commission has neither approved nor disapproved its content. This resource, like all staff statements, has no legal force or effect: it does not alter or amend applicable law, and it creates no new or additional obligations for any person. This presentation does not provide legal advice. This presentation was produced and disseminated at U.S. taxpayer expense.



U.S. Securities and Exchange Commission

**Office of the Advocate for
Small Business Capital Formation**

Roadmap

-  MEET THE SEC'S SMALL BUSINESS ADVOCACY TEAM
-  WHAT IS EQUITY CAPITAL RAISING?
-  WHO IS RAISING CAPITAL?
-  WHAT ARE THE OBSTACLES TO ACCESSING CAPITAL?
-  EMPOWERING ENTREPRENEURS TO OVERCOME BARRIERS





MEET THE SEC'S SMALL BUSINESS ADVOCACY TEAM



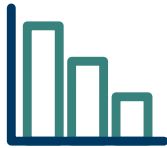


U.S. Securities and Exchange Commission

Three-part Mission



Protect investors



Maintain fair, orderly and efficient markets



Facilitate capital formation





Office of the Advocate for Small Business Capital Formation



Mission: Champion pragmatic solutions so small businesses —from startups to smaller public companies—and their investors can build great companies together using our capital markets.



Special Focus: Identify and address unique capital raising challenges faced by minority-owned, women-owned, rural, and natural disaster-affected small businesses and their investors.





Office of the Advocate for Small Business Capital Formation

How?



- Education and outreach
- Review rules and regulations
- Recommend policy changes to Congress and the Commission



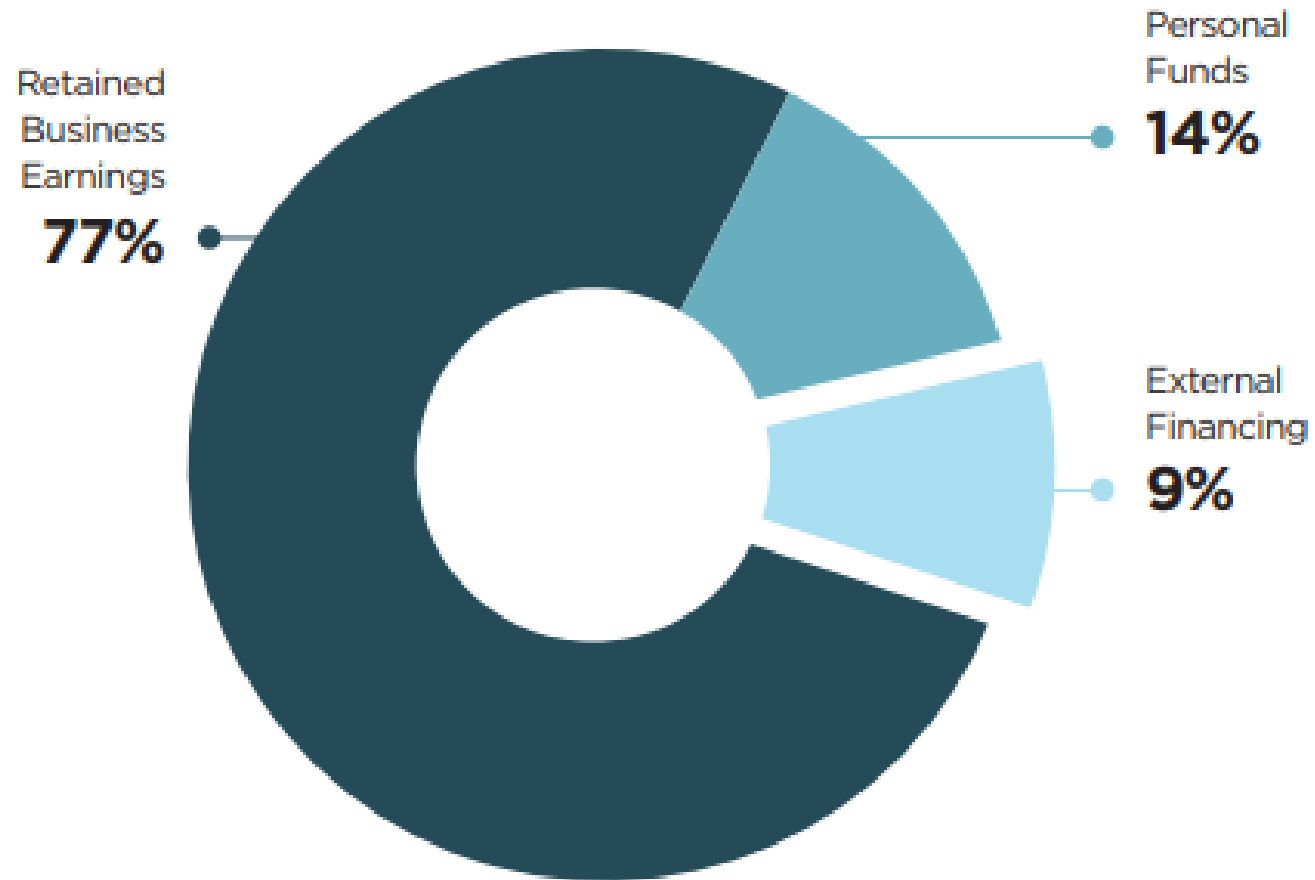


WHAT IS EQUITY CAPITAL RAISING?





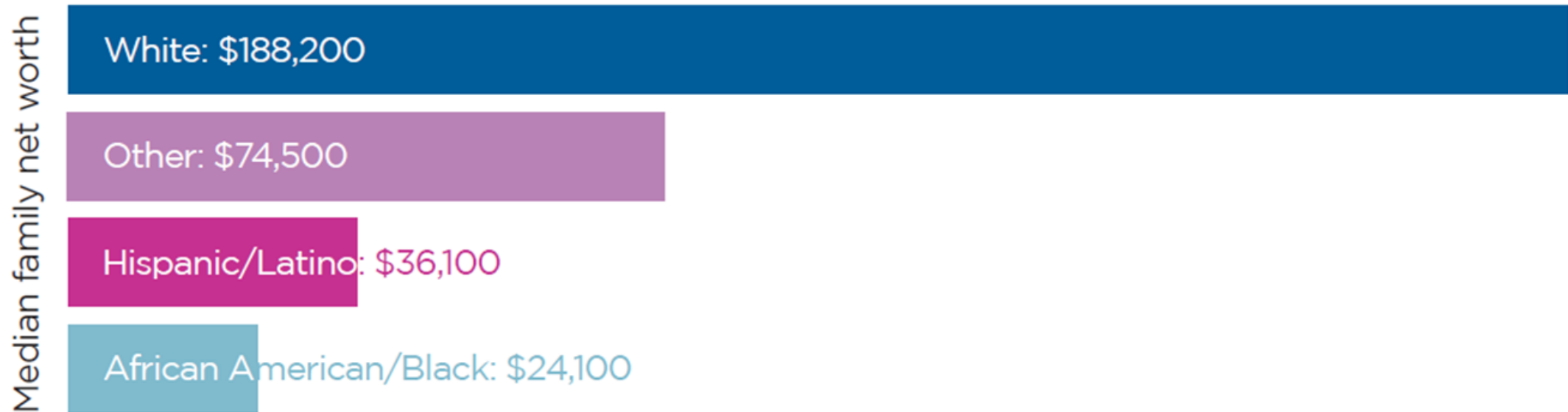
Sources of Capital





Internal Sources of Capital

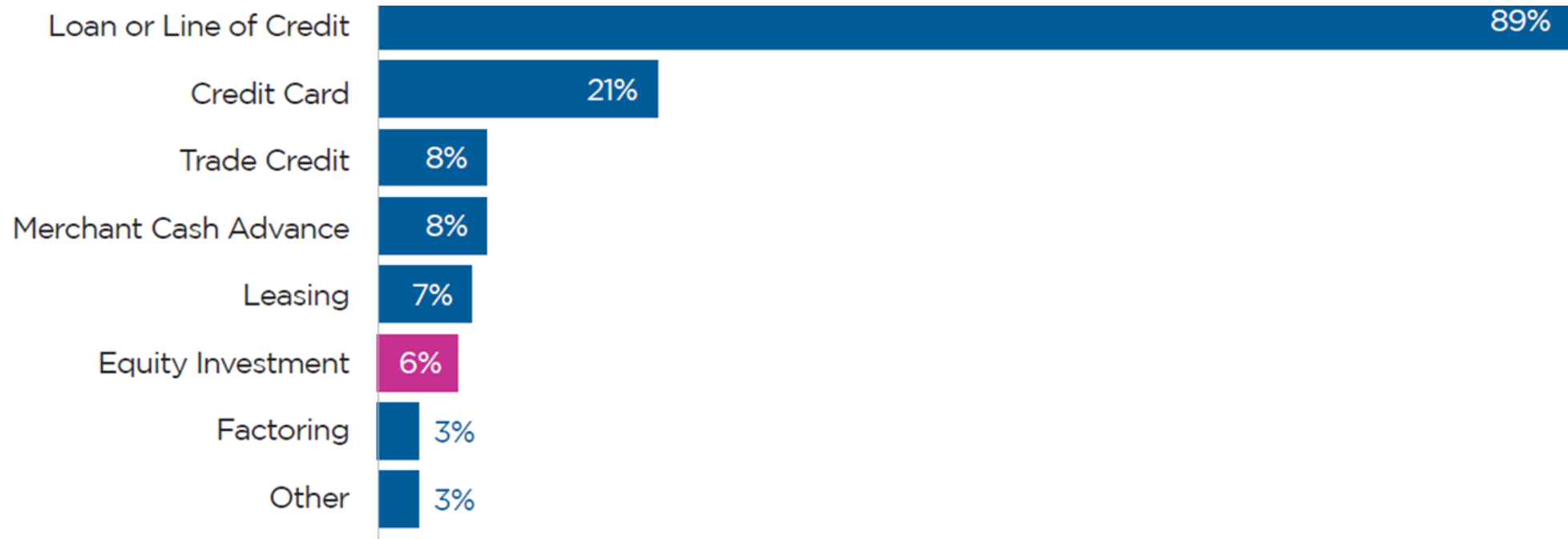
Personal wealth dictates the financial starting line for many entrepreneurs - funding is often more accessible for those who own a home or have family assets.





External Sources of Capital

Equity investments remain only a small portion of external capital funding for small businesses.



External Sources of Capital

Have you explored other options for external capital before focusing on raising capital from investors?



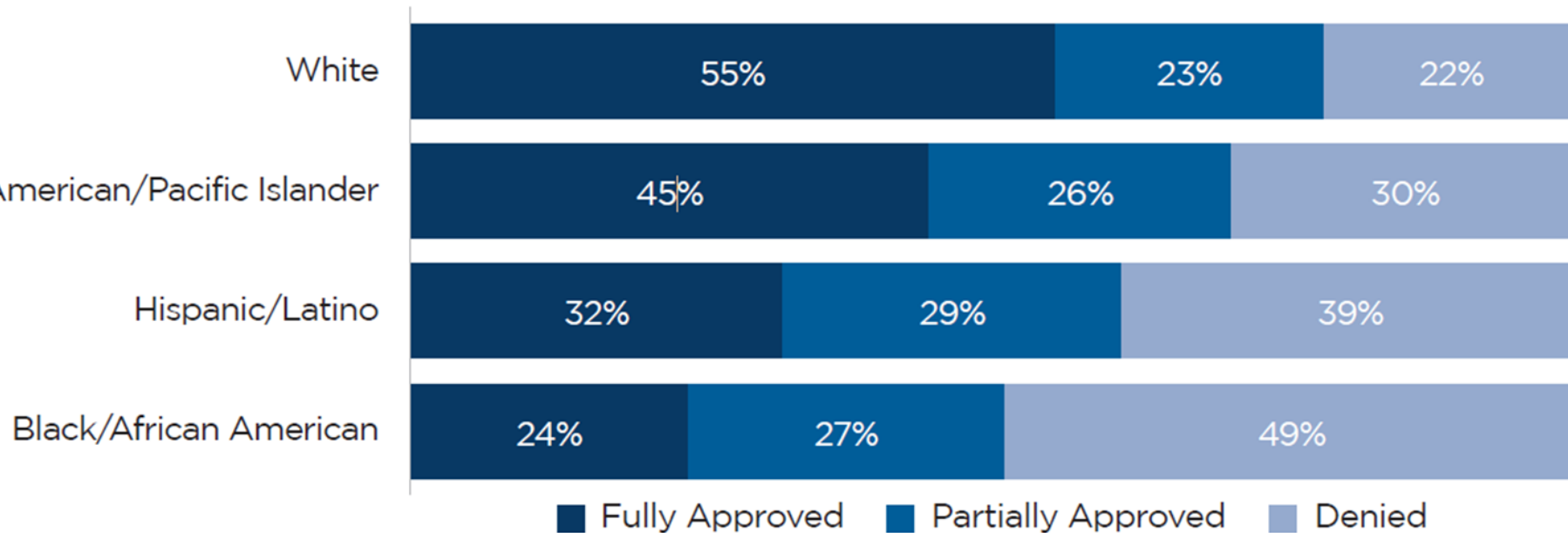
Founders often focus on non-dilutive capital or lower cost capital, such as grants or loans, before raising capital from investors.





External Sources of Capital

Minority entrepreneurs face greater challenges accessing debt financing, including loans, lines of credit, and cash advances

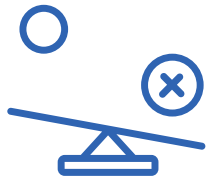


Equity Capital Raising

What does the SEC have to do with my private company?



Under the federal securities laws, every offer and sale of securities, even if to just one person, must either be registered with the SEC or conducted under an exemption from registration.



This is true for companies of all sizes, private and public alike, and includes sales made to anyone, including friends, family, angel investors, and venture capital funds.



Equity Capital Raising

What is a security?

Federal securities laws broadly define the term “security,” capturing many different forms of investment interests.

Some types of securities that startups often issue include:



Stock



Membership
Interest



Stock
Option



Restricted
Stock



Convertible
Instruments



Debt

Other early-stage capital raising options may not involve a security, such as federal grants, donations, and rewards or pre-purchases of a product.



Ready to Raise CAPITAL?

Cap tables and financials

Update your financials for disclosure

C



Amount needed

Calculate your runway needs

A



Plan for proceeds

Describe how you'll use the money

P



Investor strategy

Focus on experts who bring value

I



Time and resources

Prepare to invest yourself in the process

T



Advisors

Line up your attorneys and accountants

A



Long term vision

Pitch with the investors' exit in mind

L



Early-stage Investors



Friends and family



Angel investors

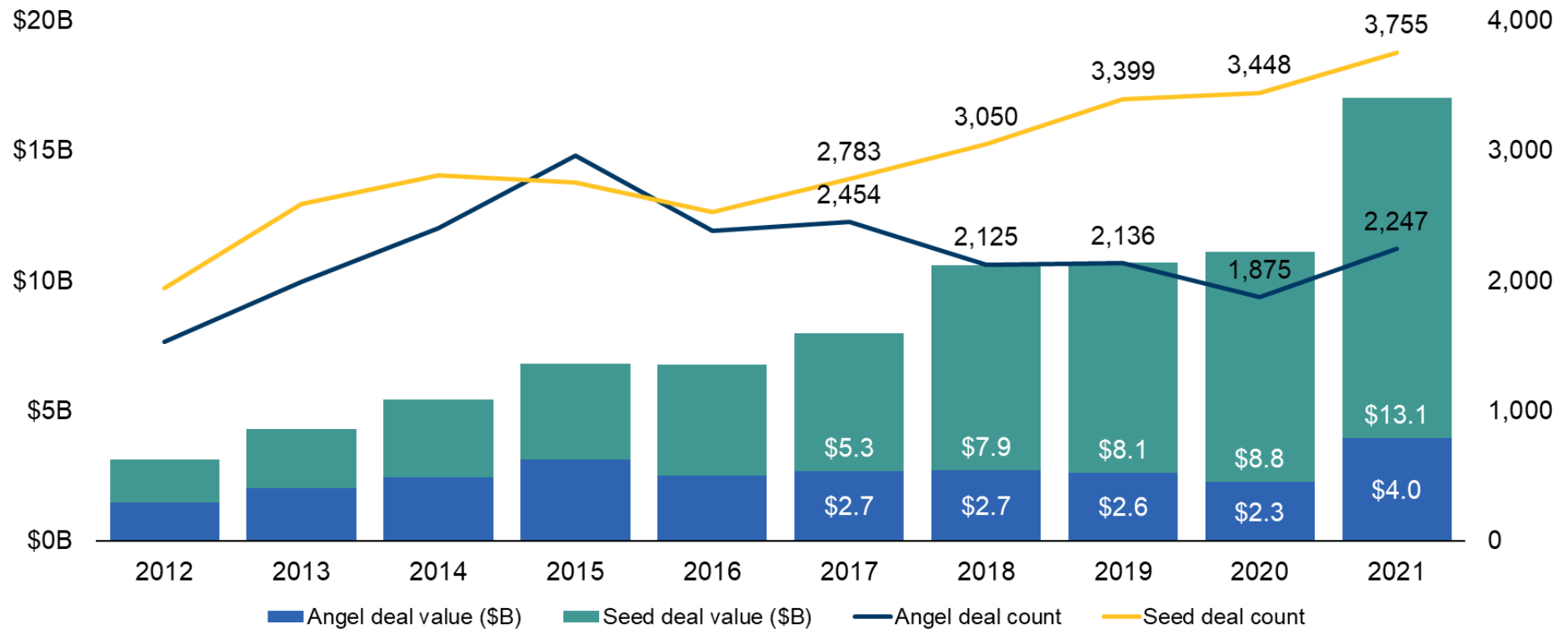


Venture capital funds



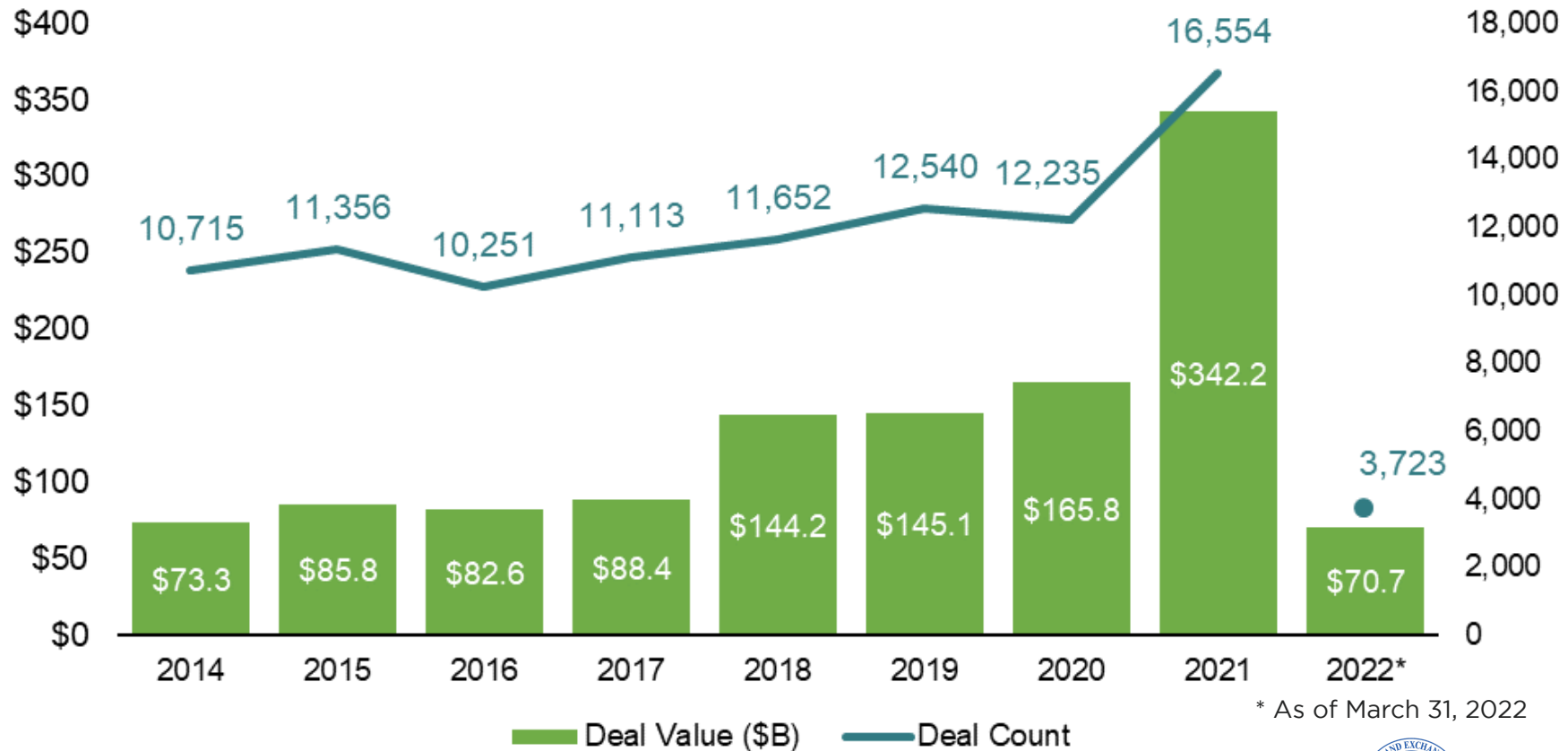
Angel Investors

By deal count and value, angel and seed activity increased in 2021.



Venture Capital

Venture capital activity increased considerably in 2021, by deal count and value.





WHO IS RAISING CAPITAL?



Investments Remain Localized

The distance between lead angel investor and the target company averages



Women Business Owners

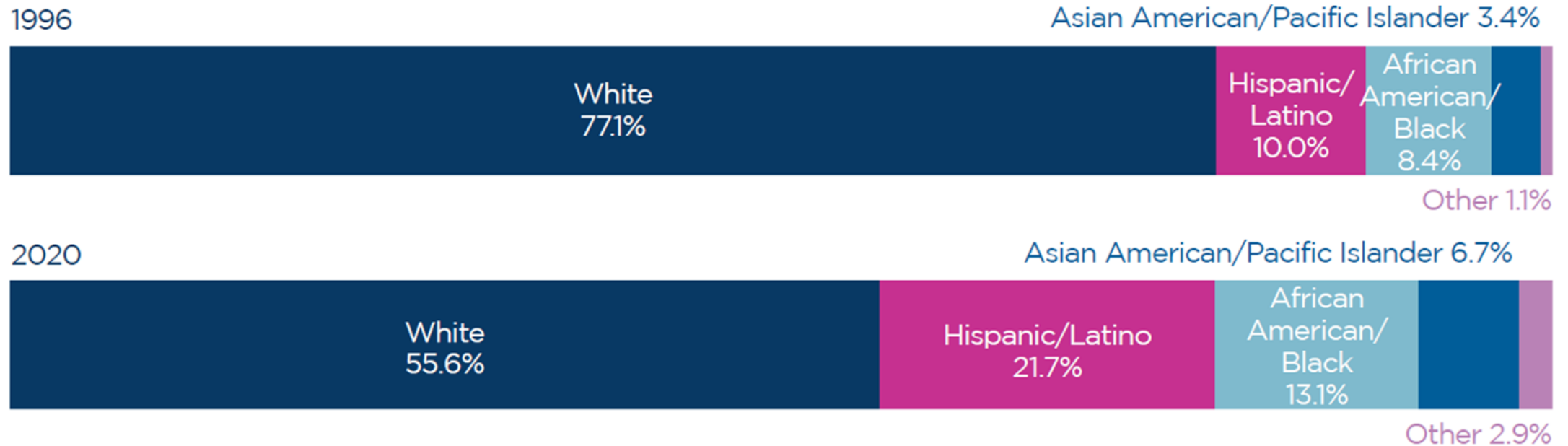
Underrepresentation by gender persists.



41% of new entrepreneurs in 2020 were women.

Minority Business Owners

Entrepreneurial activity has meaningfully increased across minority groups in the past 15 years.



Minority Business Owners

New entrepreneurs in 2020 also largely reflect population by race and ethnicity.

Working age population





WHAT ARE THE OBSTACLES TO ACCESSING CAPITAL?



⊗ Capital Needs



Running out of cash and an inability to raise new capital is the **number 1 reason startups fail**



⊗ Networks



1/2 of newer entrepreneurs
report challenges with
networks and connections
compared to 1 in 3 entrepreneurs
with mature businesses.



⊗ Education



1/2 of new entrepreneurs
report challenges with
information, education,
or **knowledge** —
more than **2x**
the rate for entrepreneurs
with mature businesses.





EMPOWERING ENTREPRENEURS TO OVERCOME BARRIERS










Resources and Tools

www.sec.gov/capitalraising



Explore SEC resources to help equip small businesses, from startup to small cap, and their investors with the tools needed to navigate capital raising.

Getting Started: Understanding the Fundamentals

 <p>Navigate Your Options Explore what regulatory pathways you could use to raise capital from investors.</p>	 <p>Glossary of Terms Cut through the jargon and learn the language of capital raising.</p>	 <p>Building Blocks Explore the fundamentals of capital raising.</p>
 <p>Capital Raising Video Gallery Check out these informational videos on the basics of capital raising.</p>	 <p>Additional Resources Find more tools for small businesses and their investors from the SEC and other agencies.</p>	





Resources and Tools



Navigating Your Options



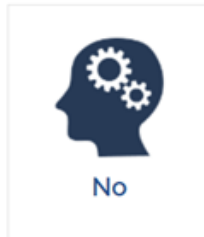
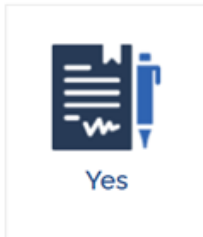
When raising capital, a business may not offer or sell [securities](#) unless the offering has been registered with the SEC or falls within an exemption from registration. Each exemption has specific requirements that a company must meet.

This interactive tool can help you navigate the many regulatory pathways to raise capital, based on the criteria that matter most to you. While this tool does not provide legal advice, it can help you better understand your options so that you make informed decisions. Let's get started!

1 of 8

Does your business already exist?

Have you formed your business under applicable state or territorial law and finalized organizational documents (such as bylaws or operating agreements)?



Fund(amental)s

Whether you are looking to a fund for financing or as an investment opportunity or you are forming your own fund, a familiarity with these commonly used terms will help guide your way.

3(c)(1) Fund

A 3(c)(1) fund is a *pooled investment vehicle* that is excluded from the definition of *investment company* in the *Investment Company Act* because it has no more than 100 beneficial owners (or, in the case of a *qualifying venture capital fund*, 250 beneficial owners) and otherwise meets criteria outlined in Section 3(c)(1) of the *Investment Company Act*.






Resources and Tools




Explore the fundamentals of capital raising with the [Office of the Advocate for Small Business Capital Formation](#).


Getting Ready to Raise Capital



How do I know when I am ready to raise capital from investors?




What different types of securities are issued to startup investors?




What are the differences in friends and family, angel investors, and venture capital funds?


Early-Stage Capital Raising



What pathways are available to raise capital from investors?



What is the role of accredited investors?

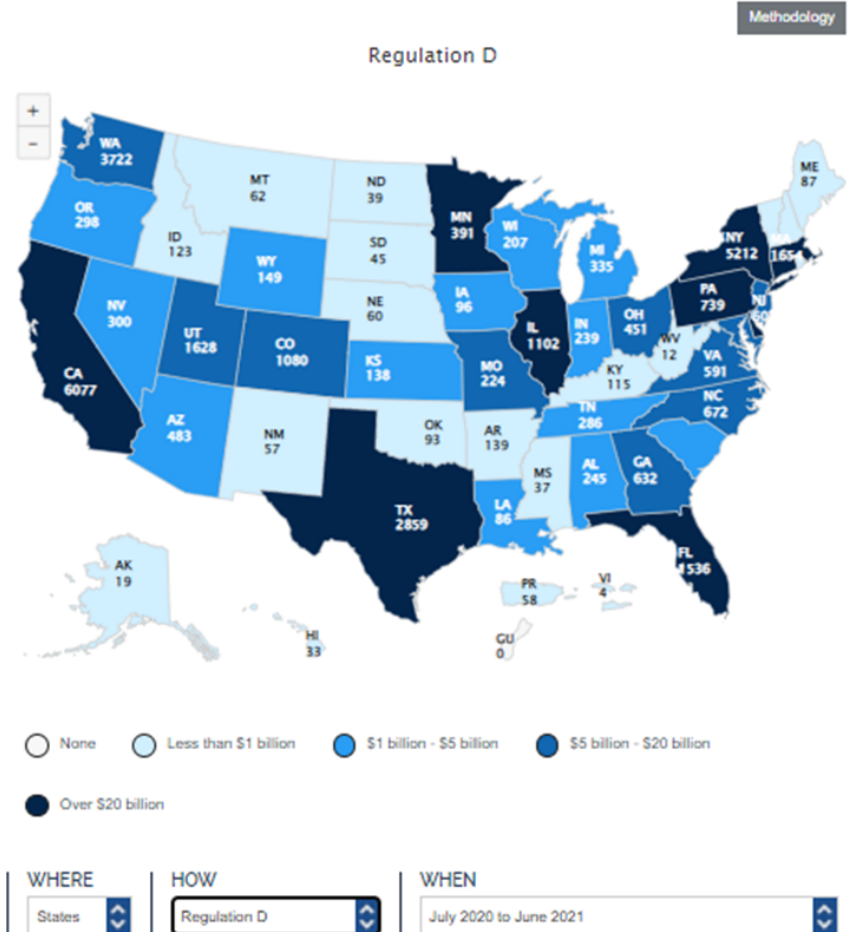


What is general solicitation?

Capital Trends



Mapping Investment in America: Where are Companies Raising Capital?



ENGAGE WITH US



smallbusiness@sec.gov



www.sec.gov/oasb



[@SECGOV](https://twitter.com/SECGOV)
[#SECSmallBiz](https://twitter.com/SECGOV)

