CARDIFF LEXINGTON
CORPORATION
A PUBLIC HOLDING COMPANY

Understanding A, B, C, Fundraising Stages

Most of Cardiff Lexington 's pending acquisitions look to outside investment sources to assist financially in different stages of their growth. When dealing with capital funding sources it is helpful to understand how to position your company's requirements that will comply to their hierarchy.

Traditionally there are four distinct investment rounds. The main differences between rounds is the maturity level of the company seeking a capital infusion, the type of risk tolerance of the investors involved, the purpose of raising capital and how it is ultimately allocated.

At the beginning or conception of the business there is a need for Seed Capital which is followed by what is referred to A, B, and C round funding. These represent the stages (and Series) in the process of growing a company using external funding. Once you understand and grasp the distinction between these rounds it will be much easier for you to target and communicate with the correct Investor audience.

Stages or Series A, B, and C simply describes the Investor audience which targets certain perceived levels of risk and return based upon which development stage the companies raising additional funding have achieved to date.

External Funding 101

Investors aren't just altruistic entrepreneurial-loving businesspeople. Although they may be genuinely interested in your business, they generally are not philanthropic, they ask for and expect a significant portion of your company ownership equity in return for investing their money.

Before each round of funding, a valuation of the company is typically provided. This allows Investors to access the company's track record to date, the market for the product of service, the management in place, and the revenue and margins the company has generated to determine Investor risk. The risk, will, to a great extent, determine the amount of company equity that must be given away to Investors in exchange for funding.

Seed Capital

This is the initial where capital is invested by the founders of the company and/or the generosity of friends and family who may have also invested. Founders and their circle of influence typically have limited resources that will not suffice to grow the business long term. Next second phase, Seed Capital funding raises substantial funds to support the initial launch where a product of service is introduced to a market and begins to generate revenue. The key players in this round are comfortable with assuming higher levels of risk in return for higher levels of return. Usually, angel investors and early stage local of industry specific venture capitalists are the most likely sources for this less formal round of funding.

Typically, the amount of capital raised during the seed phase generally ranges from a little as $250,000 to as much as $2 million, the amount may differ widely based upon unique variables determined on a case by case basis.

Stage A Funding

Often times, seed startups have great ideas that generate a substantial number of enthusiastic users, but the company doesn't yet know how it will monetize them profitably. Once the Company has been able to show a track record, Stage A funding is very useful in expediting the company growth timeline optimizing the product or service delivery and related cost points. Opportunities may exist to scale the product across different markets and/or to implement efficiencies of scale to increase margins. Marketing and advertising will likely be exponentially expanded. In this round, it's important to have a strong strategic business plan for developing a business model that will generate long-term profit.

The investors involved in Stage A funding rounds come from more traditional well-known venture capital firms and occasionally targeted investment groups. How exactly the process works differs slightly from seed capital rounds since in Stage A rounds there is more data to analyze and specific Investor agendas come into play. A few firms lead the pack, and may do so strategically. Angel investors also invest but tend to have much less influence in this funding round.

Typically, Stage A funding rounds raise anywhere from $2 million to $20 million.

Stage B Funding

Stage B funding rounds are all about building companies to the next level, past their development stages. Building a winning product or service means growing an effective team requiring quality talent acquisition (people costs are significant), and expanded overhead. Business Development, Marketing, and Advertising also require major funding. Investors at this juncture help these companies grow by expanding market reach and capacity.

In Stage B, venture capitalists have more of vision around where the company will evolve, what is required, and as a result how large of an equity position they expect to obtain. The funding process and key players are often the same as Stage A, however there are other Investment Firms that specialize in later stage funding.

Typically, Stage B funding rounds raise approximately $5 million to $10 million.

Stage C Funding

This funding is about scale and speed to maximize market share. One way to scale is acquiring competitors, suppliers and/or distributors; another method is expansion into new markets. These would be synergistic acquisitions and/or expansions that drive market share.

In Stage C rounds investment banks, hedge funds, and private equity firms inject capital into strategically targeted companies in efforts to expand more rapidly and to drive significantly higher margins increasing ROI. Series C is about perfecting, and scaling quickly to achieve a larger footprint, possibly dominating a market sector.

Typically, Stage C funding rounds raise $5 million to more than $100 million.

Summary

Understanding the marketplace's distinction between the Seed, Stage A, B, and C fundraising rounds when raising capital is critical to maximize the company's exposure to viable investment sourcing. The process of each stage works essentially the same, the difference is risk tolerance or risk mitigation that attracts different capital sources seeking different returns on investment which translates to how much equity will be required for the infusion of cash. At each Stage, investors will make different demands to the Company based upon perceived risk/reward.

Cardiff Lexington is a Public Holding Company. Our strategy is growth through acquisition. From time to time we seek equity funding as a component of these acquisitions.