EQUITY BASED FUNDING FOR MINORITY OWNED BUSINESSES

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Minority owned businesses should receive greater access to equity-based funding given the existing structural barriers to obtaining debt. This paper provides minority business owners with sufficient detail on various equity-based funding options for them to consider the best form of funding for their business model. Further, equity funding is not without its dangers. Thus, this guide also explains several contractual provisions founders should consider before agreeing to equity-based funding initiatives.
TWO PILLARS OF THE ANALYSIS:

(1) Inequity in Black owned businesses and

(2) Equity-based funding options

Statistics highlight the disparities in Black business ownership.

Also centers on equity-based options because the structural barriers that keep Black founders from debt financing. Further, equity-based funding typically receive less attention in scholarship.

Thus, the paper can equally serve any minority owned business searching for an alternative to debt financing.
HIGHLIGHTING DISPARITIES BETWEEN BLACK AND WHITE FOUNDERS

- Poverty Rate?
- Wealth Assets?
- History of discrimination and mob/state violence
- Stagnant social mobility
ACCESS TO CAPITAL

Debt Financing
• Largest source of financing for startups
• Credit scores and collateral extremely important for institutional borrowing
  • Lower rates of loans for Black founders
• According to the Kauffman Survey, creditworthiness is not as critical for obtaining debt in the later stages of business expansion

Equity Financing
• Very tiny rates of black founders with equity financing
• Asymmetric info causing few founders to even try
  • Limited network of investors
• SEC rules limit solicitation
  • JOBS Act and Crowdfunding
• Investor Bias
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NECESSARY DOCUMENTATION FOR EQUITY FUNDING

- Thorough Business Plan/Private Placement Memo
- Co-Founder Agreement
- Venture Capital Contracts
- Employee Contracts
- Valuation of Shares
CONTRACTUAL PROVISIONS

Necessary Provisions

• Vesting Terms
• Liquidation Preference
• Conversion Rights
• Anti-Dilution Protection
• Redemption Rights
• Voting Rights

Defensive Provisions

Founder
• Poison Pill
• Right of First Refusal
• Discretionary Stock Redemption
• Warranty Provision for Nonfinancial Services

Investor
• Negative Covenants
• Demand Registration Rights
QUESTIONS/
SUGGESTIONS?