# Frequently Asked Questions

## Can I speak to Sustainable Life Solutions, Inc. by phone?

Yes. Education with Sustainable Life Solutions, Inc. (SLS) is getting you the answers—and funding—you're seeking as quickly and easily as possible. We've designed our consulting & education programs to do just that. These following pages have answers to most common questions about our funding approach aka/ Revenue Sharing. And if it's capital you seek, simply ask! It's the smartest and friendliest financing structure and education around.

## Do you offer seed funding for pre-revenue startups?

Our revenue-based financing model is best suited for companies that are currently generating at least $120,000 in annual revenue. If you're a pre-revenue startup, you can still request assistance so that we can mentor you on your needs. Success is created through adequately funded companies and with distribution.

## What type of companies do you fund?

Our revenue-based financing model is suited for nearly any type of companies. Entrepreneurs in high-growth, high-margin markets will find our model to be an exciting new way to raise growth capital **without giving up equity**. Entrepreneurs in industries with inherently more assets (i.e. collateral) will general find that there are existing sources of capital for that may be better suited for their needs. Industries including real estate, technology, food and beverage, manufacturing, sustainable sciences, construction and related services have many financial structuring options.

## Can you fund non-U.S. based companies?

Currently, we and/or our strategic partners are able to fund US and NON US-based companies.

## How much funding can I get from Revenue Sharing?

Revenue Sharing typically provides from $100k-$20 million USD. The amount of funding you can obtain is based, in part, on your growth rate, existing debt, use of funds, etc.,

## Is this an old idea, used in a new way?

Yes. Revenue-based financing (RBF) is a renewed type of financing structure where a company "sells" a set percent of its future top line revenues to the investor in exchange for a capital investment. The simplest way to think about it is as a revenue share between the company and the investor. RBF is something of a blend between bank debt and venture capital, and a company should expect the cost of capital to fall within that range as well. RBF,

sometimes also known as royalty-based finance, is a financing structure that's historically been used in music, drug development, mining, and film production, but as the early-stage funding landscape has shifted, funding growth with revenues is gaining a lot more interest – from entrepreneurs and investors alike!

## How revenue sharing finance works

Instead of a business being required to pay fixed interest payments like a typical bank loan, a Revenue Sharing finance program is paid with a percentage of top line revenues. In that case, monthly "interest" payments will fluctuate if a company has inconsistent cash flow or seasonal revenues. As software, or products & services infrastructure and other business costs evolve into "-as-a-service" to adjust with the ebbs and flows of a business needs, revenue-based payments naturally adjust up and down along with a business. The built-in variability of Revenue Sharing makes the structure compelling. Potentially, if a company's revenues drop to zero, the payment drops to zero in lock step, and when revenues come back up (hopefully) payments increase by the same percent. Instead of a fixed monthly expense regardless of business performance, Revenue Sharing turns a top line revenue based payment into a variable expense. This is a huge advantage for entrepreneurs, and a predictable outcome for your investors.

## When revenue sharing finance works

Companies with hard assets (property "brick &mortar", equipment) should usually qualify for a typical bank loan, but what if your business doesn't have that? Revenue-based investments are, by nature, most appropriate for companies already generating revenues but have no assets with which to collateralize a traditional bank loan. It's useful for companies that have lumpy, seasonal, or hard to predict revenues. Start-up companies with foreseeable revenue within 2 years are also candidates.

For entrepreneurs, revenue-based structures are attractive to founders who are allergic to dilution and loss of control. The structure of Revenue Sharing is often **non-dilutive** to founders and does not require a board seat. The financing is obtained **without having to agree to a valuation**, which leaves management in control of the company and typically requires no personal guarantees from management.

## How does revenue sharing financing work?

Revenue Sharing is a flexible financing option with entrepreneur-friendly terms. With no dilution, no loss of control, and no fixed repayment schedule, and most importantly **transparency**, entrepreneurs can stay focused on growing their businesses. We may structure $100k-$20M in capital to help grow your business. Your monthly payment is based on a percentage share of your monthly top-line revenue. If your revenues drop, so do your payments. This is ideally suited for early-stage companies that are generating sales, but need additional capital to take full potential of their opportunities and grow as fast as possible. The Revenue Sharing structure is often terminated when a predefined total repayment cap (i.e. 3 to 5X range) is reached, and we target a 1 to 4 year payback term, depending on your unique situation. If your revenues grow faster than plan, you pay back the investment a little faster;

if they are slower, then your payback is slower. Revenue-based finance aligns outside investors or us, as the investors, with you, the entrepreneur in your sales growth goals – we want you to grow your business and not push for a quick exit too soon.

## Who needs revenue sharing based financing (RS), anyhow?

Entrepreneurs who've figured out a "money machine," but are cash-constrained as to how fast they can grow. VCs often only "swing for the fences" on billion-dollar market opportunities. Banks want personal guarantees and/or hard assets as collateral. There's no middle ground; it's like saying you have to have an aircraft carrier, or else stay on terra firma. We want to help all kinds of corvettes, frigates, cigarette boats, catamarans, and hydrofoils make the journey to startup success.

## Is revenue sharing just a fancy way to say "factoring" or "receivables financing?"

**No.** Revenue Sharing Finance (RS), means investors give you unrestricted capital for growth, in return for a reasonable percentage of future years' revenues. "Factors" or "receivables financiers" basically speed up the cash flow from sales that *already* happened (or are just about to happen). Compared to "factors," a Revenue Share is a bigger amount for a longer time, is for growth instead of working capital, and comes with fewer restrictions and impositions on your workflow.

## What do I owe in return?

A percentage of topline revenues (typically in the range of 1% to 7%) are paid out. Generally, this is calculated and debited monthly via ACH. Sometimes you may also be asked for a small stock warrant. For flexibility, we routinely set up two-tier structures, where we might take a higher rate until principal is repaid, then a lower rate thereafter, its always negotiable.

## If it's like a revenue "Loan," then what's the interest rate?

Unlike a normal "loan," the Revenue Sharing model doesn't have a set payment amount each month. Instead, the payment due *floats with your revenue level*, such as 6% of topline revenue. So, if you beat your plan and grow faster, your "rate" goes up, but if you miss plan, your "rate" goes down. But you asked about the rate, so here is what investors really want today: to earn about 15 to 20% IRR equivalent, on average.

## Do I keep paying this percentage of topline revenue *forever*?

No. When we structure the Revenue Sharing, we generally set up either a target total payback cap, or some other option (see below) for terminating the Revenue Sharing in a mutually

acceptable way. However, be prepared to entertain alternative options for the sophisticated investor who wants a preferred return with a conversion right to common shares in a liquidation event. Every deal may be slightly different depending on the investor needs.

# Can I pay back the Revenue Sharing investment early?

Yes. While most Revenue Sharing Loans will be structured as multi-year investments, we include as a standard feature fair early buy-out clauses.

# OK, I understand the return "cap" and the "rate" question. But isn't the cost of capital still high?

Yes. Investors are usually taking a lot of risk, and in our experience, we think providing a high return is fair and deserving by investors in this approach. But it's not so high that a business with solid margins and solid growth plan can't "beat" the rate. If you think about our model, you'll realize that investors *only* want to invest in cases where the business can continue healthy growth even *after* paying our Revenue Share percentage — because they're aligned with the entrepreneur on revenue growth.

# What do I get besides just the money? Are investors or you guys "adding value?"

Your average commercial bank won't add much, if any, intellectual value beyond the money — they have hundreds of loans outstanding. A typical VC will be on 4-8 boards and will spend a lot of time and energy helping (or trying to) with strategy, intros, recruiting, mentoring, etc. We're somewhere in the middle. Our team has a ton of experience with business development and with growing companies, so we will help any way we can, time and resources permitting. (We'll have 3-10+ investment projects in development, so we'll have more time to give than a banker, or a VC.)

# What's the straight dope on banks and VCs? I can always go to them instead, right?

In a perfect Economics 101 world, yes, entrepreneurs would always have capital available to them, at a market-determined price, subject to the perfect competition of rational and well-informed investors and lenders. Hmmm…Yeah, right.

In practice, for companies with, say, $1-5 M in revenue, a banker's first question won't be about the company. It'll be: "How much equity do you, Mr. Entrepreneur, have in your house?" If there's not hard-asset collateral, a commercial bank isn't going to touch your small business without your personal guarantee. Even optimistic entrepreneurs don't always want to hock the homestead for growth capital. Rule: NEVER give a personal guarantee! It's bad and messy business. VCs serve an important role, but their model of "10x home runs" doesn't admit for a lot of types of investments (specifically, any kind of company that doesn't have a good shot at a hyper-fueled "strategic" buyout or IPO). Also, the VC community is a pretty exclusive fraternity.

If you don't speak their specialized language, and show up with the kind of pedigree they are used to, they might not even hear the words you're saying. Interestingly VC's on average, according to the Kaufman Foundation, are successful only 10% of the time!

# Surely you're not saying you're *always* better than banks or VCs?

Of course not, but our model is highly competitive. If you want to finance real estate or equipment, you should definitely seek traditional debt, which will be cheaper and more suitable than a Revenue Sharing structure. If you truly have a billion-dollar market opportunity and a Stanford EE/CS pedigree, you may find VCs a better fit.

# Who are you guys?

We're passionate about pioneering Revenue Sharing based financing in most new startups and early stage companies. We have been entrepreneurs, and from time to time, have taken a turn as angel investors and venture capitalists. But, while you can take the boy out of the startup, you can't take the startup out of the boy, so we're back into startup mode.

# What are you people all about?

If you think a Revenue Sharing might be the right answer for your business, here are a few things you should know about us:

- We know a lot about how to grow companies and we're here if you need us — but we aren't looking for ways to get up in your grill.
- We strive to be direct, decisive, and fair — so you always know what we're thinking.
- We're willing to roll up our sleeves and know from experience that entrepreneurship is sometimes a contact sport.
- You'll have direct relationships with the investing professionals of our company — not junior support staff.
- We're happy to work with others — venture capitalists, angels, and banks — though we recognize that many of the companies that we participate in may not be appropriate for traditional equity or debt investors.

## Closing and Escrow.

The Company and Investors desire to have the ability to close on each proposed subscription when subscribed and immediately use those funds in the operation of the Company. Each investor must choose either to close immediately or to escrow their investment proceeds in the Investor Representation and Subscription Agreement. The escrow will be released after a minimum number (i.e. 60 Units) have been purchased ($1,500,000 invested). The offering may be closed before or after all (i.e.120) units have been purchased ($3,000,000 invested). The Company nearly always has the right to oversubscribe.

In the PPM, we provide a notification that we may oversubscribe. We don't provide any restriction that we can't in either the PPM or the operating agreement. It would seem that you can oversubscribe, even if silent to the point. From a financial perspective, if your formula is the same as ours, there is no dilution to the investor.