



**DUE DILIGENCE  
PROCESS AND  
FUNDING STRATEGY**

**PRESENTED TO 757 MAKERSPACE**

Leah Clayton, Michael Gempe, Angele Mainhart, Martin Mongiello, William Tyner



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# EXECUTIVE SUMMARY



"Making an Impact Everyday"

<b>COMPANY NAME</b>	757 Makerspace, Inc. a Virginia Benefit Corporation.
<b>WHO</b>	Beau Turner, owner, artisan and entrepreneur.
<b>WHERE</b>	421 W. 22nd Street, Norfolk, VA. 23517 <a href="http://www.757makerspace.com">www.757makerspace.com</a>
<b>WHAT INDUSTRY SECTOR</b>	Do It Yourself (DIY). This sector is niche oriented enough to have its magazine called, "Make," (since 2005). There are also exciting Maker Faires that many attend.



**PRODUCT  
DESCRIPTION**

The Maker Movement is an innovative current of individuals, inventors, groups, tinkerers, friends, designers, hackers, artisans and families that are inquisitive about building, prototyping, crafting, and making things. Anything! The 757 Makerspace, Inc. follows this movement in featuring a Wood Shop, clay, Metal Shop, glass, 3D Printers, Laser Cutters, CNC Machines, Textiles, Robotics, Electronics, and Fabrics.

**DEVELOPMENT  
STAGE**

Second Stage in downtown Norfolk, VA presently doubling in size and moving into a massive, new facility down the street. This will be a ten-year lease, rent-controlled with full ability to sub-lease and after six months the payment will be \$9K per month. \$20K down to get in and will have first right of refusal.

**BROAD-BRUSH  
BUSINESS  
TARGET  
MARKET  
ANALYSIS**

Since forming his C corporation, as a Benefits (B) corporation in 2013 Beau has shared the love of DIY at 757 Makerspace for the world to enjoy. Classes, at times, are sold out well in advance and stretched for space. 757 has been featured across the news and media as a confident, community-based organization recognized by the city of Norfolk, VA. Accolades come in the form of parents, military (large in Norfolk), and fun-loving guests and clients making and building things. ALL TYPES of things! Humans love creating but cannot routinely invest in a laser and suddenly draft up the expertise of working with that device. Having a \$14,000.00 set of machines handy and an expert allows 757 to thrive.



### STAGE III DESCRIPTION OF EXPANSION AND OPPORTUNITY

Through due diligence, a funding strategy is being openly discussed and sought via some ideas, investor thoughts, and proposed policies. The community and city honestly find this business to be tremendously beneficial to the populace and additional business investments coming into town. The influence such a project offers to other companies considering Norfolk is powerful. The opportunity to help such a business grow and strengthen further is significant to many aspects of Norfolk. The expansion and possibility, therefore, is no longer about one company making money for itself and investors.

### KEY STRATEGIC INSTRUMENTS

- Unique movement continuing to be celebrated
- Touches children's lives in a unique and special way of creation, exploration, and discovery
- An even more extensive exhibit and museum area is going to be built in the new DREAM FACTORY building for crafters to share their creations
- Only one owner to deal with and make an offer - no boards or trustees to present with, deal with multiple personalities or differing opinions / one person = simple
- Many other mediums and areas remain available for an investors children to explore and become involved in
- An investor newly moving to the region has a ready made business to enter and help with, or for a spouse

### RECOMMENDATIONS

- Have Benefit Corp certification & annual report present and visible on website and all corresponding documents readily available for viewing by investors
- Board of Directors/Safety Committee
- Full-time staff to take over administrative duties
- (Where seek funding - next possible steps)
- Kickstarter or other crowdfunding source for equipment pieces or other such items

# CONTACT

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# Due Diligence Process

Due Diligence refers to the care that a reasonable person should take before entering into an agreement or a financial transaction with another party (Investopedia, 2013). The due diligence process helps to verify and confirm statements about the business. Every deal has certain risks; some risks may be so great that they will sink the deal entirely while other risks are acceptable or may require further investigation. Either way, due diligence will help reduce the risk of the investment (HBAN, 2018).

We have identified 11 Due Diligence steps that can be followed to make sure that you are prepared for the types of questions and information that an investor will ask for.

# Due Diligence



## Investor Pitch Documents

This is your elevator pitch. A summary of your business plan



## Organizational Documents

Investors will check company records: all government filings, annual reports, etc.



## Organization Structure

Organization and management structure.



## Contact Information

For all key members in management and the board of directors + bios.



## Development Plans

Financial plans, marketing plans, business plans



## Product / Services

What we make and how much it costs



## Intellectual Property

Patents, trademarks, know-how, Copyrights, and Logos



## Customers

Customers and competition



## Legal / Contracts

Supplier agreements, litigation, regulatory



## Financials

Financial statements, tax records, insurance policies



## Social and Environmental Impact

Highlight positive social and environmental impact

# 757 MAKERSPACE

## FUNDING STRATEGY



### Create a case for support

What the problem is, proposed solution, the difference you will make, why 757 is uniquely qualified

Plan for funding from multiple investors

### Analyze and plan

### Structure

Nominate a fundraising board, or hiring a dedicated employee to consistently recruit donors

Cater your project outcomes to appeal to your audience.

### Create a proposition



"Welcome home, let's make more AWESOME together!"



"Welcome home, let's make more AWESOME together!"

# Funding Strategy Overview

MacArthur  
Foundation



ACCION

The Virginia  
IMPACT   
Investing Forum



ANGELS

SBA

# SOCIAL IMPACT MAP

A social impact map lays out the mission, activities, and impact of an organization. This tool can be helpful to see where a company's strengths lie, whether it is sticking to the core values, and where it might be lacking. These show the "building blocks" that demonstrate the company's ability to create impact. "The better the building blocks are aligned, the higher the chances are of delivering the expected impact" (Allman, 2015).

**The better the building blocks are aligned, the higher the chances are of delivering the expected impact**

Ultimately, a social impact map shows whether the organization's social mission matches up with an investor's. If an organization would like to go a step further, they can have a third party validation of their impact, which can help streamline the investment process and be seen as a positive metric for investment assessment (Allman, 2015). A good reference for how a company's activities and impact are linked together can be found in an article by Stephanie Poppendoerfer. "One powerful way to visualise the path from your activities or inputs (e.g. investing in employment training to ex-offenders) to the impacts that are your ultimate goal (e.g. ex-offender obtains long-term employment) is using a Theory of Change.

A Theory of Change (TOC) serves as a comprehensive description and illustration of how and why a desired change is expected to be brought about in a particular context" (Poppendoerfer, 2016). She uses a diagram showing the links between activities, outcomes, and impact, which can be found here:

<https://www.bitc.org.uk/media-centre/blogs/mapping-your-impacts-first-step-effective-social-impact-measurement>



# SOCIAL IMPACT MAP

## 757 MAKERSPACE



### MISSION

**Teach others how to design, prototype, and manufacture.**

*Everything (classes, teaching) is done in the light of this mission. If it does not touch upon one of these aspects, it is not done. Everything is open to all ages, including school children (with supervision) and is focused on the local community*

### SOCIAL/ENVIRONMENTAL GOALS

#### SOCIAL GOALS

- Access to Education
- Access to Information
- Community Development
- Employment Generation
- Equality and Empowerment
- Income/Productivity Growth

#### ENVIRONMENTAL GOALS

- Sustainable Land Use

*Community is very important to Beau. The classes foster cooperation. Everyone is given instructions, treated the same, and instructed to work together. This includes transient members from the military (who are only in the community for a limited period of time) to school children. Beau has found that some of the children they end up serving are special needs and the program puts them on level ground with the other children in their classes as well as teaches them all social skills.*

*Because they are renting old warehouse space, they are helping revitalize these areas of the town and focused on reuse rather than building new from scratch.*

### INPUT

- Machines (3D printers, laser cutters, sewing machines, etc).
- Materials (wood, extrusion, etc).
- Expansion into second building (more space and more classes).
- Tours of the facility (set times for free tours and paid for additional times).
- Consulting services and school visits.
- Strategic partnerships (new brewery/hot spot next door purchases products from 757; schools).
- Use current customers as teachers (contractors rather than full-time employees).
- Very little money spent on marketing (bartered 4 memberships for radio spots).
- Currently in the process of securing a second warehouse facility in order to expand and serve more of the community.
- Give free tours during certain days/times so people can learn more about the space and how it can be used.
- 757 is involved in the community, working alongside schools to bring program into the classrooms.
- They've also sold pieces to the new brewery next door, which looks onto their space so people see what's happening.
- Instead of hiring teachers outside of organization, they use customers to teach their own craft to others.

### MAIN ACTIVITIES

- Designing: People come up with designs for things they want to build.
- Prototyping: Can make simple models, test ideas to see how and if things will work.
- Manufacturing: Ability to manufacture designed items.
- Learning: Students are taught in classes, hands-on activities also contribute to learning.
- Experimentation: The learning environment fosters experimentation.
- Teaching/Training: Teachers show students how to use equipment, impart skills.
- Interacting: Students interact with teachers, other students, and the physical world (tools, machines) around them.
- Payment: Memberships, day passes, classes, consulting, paid tours, materials purchased.

*Payments through the memberships and various activities are collected, but, in addition, the fact that it is in a shared space allows for social sharing. Consumers swap best methods or show how to do whatever type of project they're working on with each other. This fosters more ideas and camaraderie.*

*They also uses some of the consumers to actually teach workshops based on their specialty.*







## OUTPUT

- Kids Sessions: 50 weeks of classes \* five years.
- Several school groups weekly.
- 3 currently active school contracts.
- 75 Memberships (up from 65 memberships 6 months ago and 45 about a year ago).
- Average of 10 Classes/Workshops per month (approximation based on 2017 classes listed on Facebook).
- 3 Tours per week (free) + additional paid tours.
- 0 Full-time employees, but 10-12 contractors.
- Additional 20 spots marked out in new building to bring in additional community members, such as artists.
- Number of memberships are growing which shows that the market is there.
- New spaces for artists and other innovators, adding more community members to the mix.
- Tours had to be put on a limit of three free per week because so many people and school groups were showing up. They now charge for tours outside of scheduled times and schools are booking them.



## OUTCOMES



- Jobs created (in stressed area).
- Learned skills.
- Social skills (interactions with people of different ages/cultures).
- Community development.
- Future reports from school groups could show improved science/technology grades and how many students were touched.
- Builds relationships within community. They barter radio advertising for memberships.
- Transient family members of military that may have a hard time finding work because they won't be in area long are able to pick up extra work teaching classes on their skill.
- Special needs students and students in general are picking up social skills from being around a mixed group of people.

*Builds relationships within community. They barter radio advertising for memberships.*

*Transient family members of military that may have a hard time finding work because they won't be in area long are able to pick up extra work teaching classes on their skill.*

*Special needs students and students in general are picking up social skills from being around a mixed group of people.*



## IMPACT

- Community, people brought together (shared workspace and collaborative projects).
- Sense of accomplishment.
- Employment (10-12 contractor positions).
- New businesses created from skills/products produced, which creates new revenue streams for the local community.
- Reclamation of old warehouse space.
- Learned skills (technical, mechanical, craft-based).
- Working on better financial tracking and reporting.
- The idea behind the space is to create an atmosphere that brings the community together to build and create.
- Revitalization of local area - reuse of warehouse spaces.
- Recycles wood and old sawdust to help eliminate waste.
- Reputation (Community members volunteer to come in and help paint or other small projects just to help out the company because they value it so much).
- Improved school behavior and academics through social skill building and hands-on projects.

***"The aesthetic of the space comes from the needs of the community, we continue to build on what our community wants to achieve."***

Beau Turner  
(757makerspace.com)

# BUSINESS ANALYSIS

We performed an analysis of 757 Makerspace. We created a Value chain map and SWOT analysis. Based on interviews, we created pricing, light financial projections, and determined the relative valuation. The sections that follow are summaries of the information.

For all of our recommendations and a more detailed analysis please see the appendix

## STRENGTHS

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- Community support
- Larger facility, more space
- Opportunity to use equipment like 3D printers and lasers that is not readily accessible
- Wide range of classes from practical to exotic
- Family friendly with kids many programs
- With a large military presence (e.g., transient), offers a work space and tools that attracts this population
- Studio space and clean areas for artists

## WEAKNESSES

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- Lack of management sand organizational structure
- Immature business model
- Financials are not readily evident or available
- Possible failure to separate personal and business purchases/finances
- Growth could be too fast with new terms and payment schedule
- No funding timeline
- Weak social media presence



## SWOT ANALYSIS

## OPPORTUNITIES

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- Larger facility, more space
- Certifications/continuing education credits
- Vocational training
- Greater school interactions across region
- Larger online presence with tutorials and classes
- Monetize tours, cater to large groups
- Beginning to run financials via Intuit/Quickbooks
- Franchising

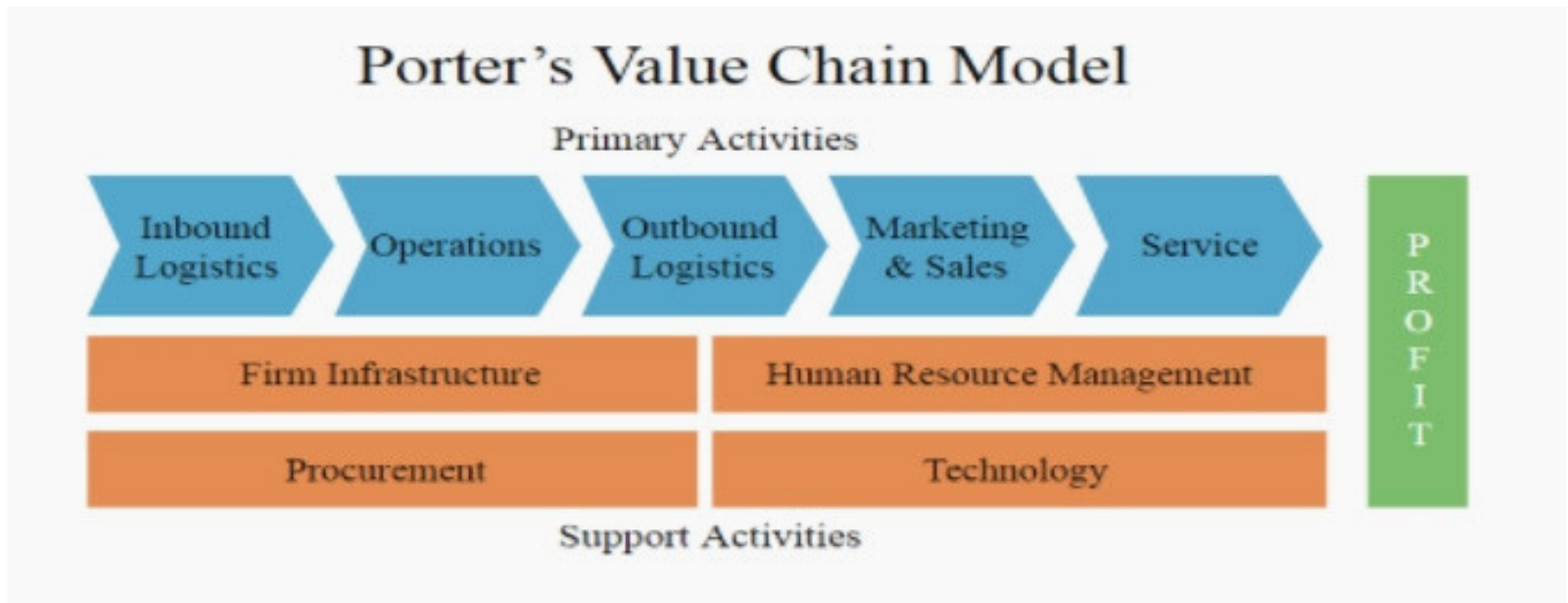
## THREATS

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- Economic downturn
- Liabilities -what kind of legal exposure with equipment and accidents
- Classes offered by box stores (Michaels, Lowes, Home Depot, etc.)
- Insufficient hold harmless agreement that includes disfigurement and death clauses typical for this industry
- No safety program and manual
- Failure to conduct independent, third party safety surveys of facility

# VALUE CHAIN

Value chain analysis looks at what value a company's product and services offer. After identifying where the value is, you then analyze how to use this value to reduce cost and leverage the value to stand out from the competition (Frue, 2016).



For all of our recommendations and a more detailed analysis please see the appendix

# PRICING AND FINANCIALS

**Pricing** - Ranges from \$20.00 per student class, \$125.00 for memberships, and \$325.00 for studio space. Also, there are \$10 to \$20K training contracts.

**Volume** - Spans 75 memberships and growing, 50 to 75 classes per year+, 12 specialty classes+, and 20,000+ random class students. 20 studio spaces keep artisans coming and going.

**Various ratios as applicable** - An exponential ratio is three times the current space of 5K sq ft as the owner moves into a new 17K sq ft building. See the Relative Valuation projections and assumptions.

**Light Financials/Projections** - We speculate that bringing in three more memberships per month would continue to be helpful. At the rate of 10 more per month, the rent, projections, and financials would be healthier.

For all of our recommendations and a more detailed analysis please see the appendix



# RELATIVE VALUATION

This valuation is a broad-brush assessment based on a partner joining to grow 757 Makerspace with better machines, a more stable debt-service.

Relative valuation total  
\$260,000.00 to \$400,00.00

Relative valuation total with real estate combined  
\$2M to \$2.2M

For all of our recommendations and a more detailed analysis please see the appendix



# TERM SHEET

The term sheet is an important and necessary document when beginning negotiations with a potential investor. While it is not a legally binding document, it is the starting point for negotiations, laying out the intended terms of the investment. Many compare a term sheet to a prenuptial agreement in a marriage, dictating who gets control of what, and how assets and capital will be divided after the investment ends (Miller).

Because the term sheet is not legally binding, it is merely a starting point. The terms listed are negotiable by both parties. Below, we have included a sample term sheet with explanations of each component.

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## Example of a Term Sheet for 757 Makerspace, Inc.

Dear investors and colleagues,

757 Makerspace (757) is pleased to present to you the following term sheet proposal for a building and equipment purchase in the city of Norfolk, VA. The costs outlined herein are estimates. The creation of a legally binding commitment or obligation is subject to the delivery of documents requested, final approval of the purchase price, and the execution and delivery of an agreement by both investors and 757 to the transactions contemplated hereby, and the consummation of such transactions will be subject to the satisfaction of the conditions set forth, therein. The current term sheet developed is for \$2.4m, and have had a property (LoopNet, 2018) identified (That encompasses buying the present property of 237 West 24th Street, Norfolk, VA last listed for sale at \$1.75M in 2007, or a new building, with additional equipment requested of a garage door for \$250,000.00, and operating capital added into the package (Beau Turner, 2018). The project could float up, or down, pending on a total of material and exact negotiated price). Alternatively, a CDFI, such as Virginia Community Capital could be used for a much lower amount to just buy equipment or expand a bit. The Modern Movement style (Virginia, 2018) property is in the premium locale of the target region (Norfolk AIR, 2018) encompassing the Norfolk market and currently priced well for the market value of comparable properties recently sold. It falls in the middle.

- Borrower: 757 Makerspace, Inc.
- Lender: Investors and possibly a standby of Mercury Capital and Morgan Stanley Bank has been offered (This may take a loan, and an investor to provide the money down).
- Guarantor(s): Beau Turner and other instruments (These are documents signed and financial portfolio's backing the deal like metal holdings, stocks on file, real estate in a collection, or other items).
- Loan Amount: \$2.4 million
- Loan Term and Structure: As represented below: (This is just an example, so this could change up and down, drastically depending on the deals offered).
- Collateral: 1st Deed of Trust on land, a building located onsite and other items may be needed.
- Closing Costs: Estimated closing and transaction costs include an origination fee, property & building appraisal fee, environmental report, loan packaging fee, and miscellaneous charges. The closing package does not cover costs for title insurance, lien searches, attorney fees, and other items.
- Insurance: All insurance (title, fire and theft, flood, extended coverage and liability and life) are the responsibility of Borrower. The Borrower will be responsible for maintaining in force property insurance with companies and in amounts and coverage's satisfactory with the lender.
- Expiration: This proposal shall expire on December 31, 2020.

Loan Amount	\$2.4 million (approximated and could be less) <i>(That encompasses buying the present property, or a new one with additional equipment, operating capital).</i>
Fixed Period	20 to 25 years depending on if an SBA 504 status package is engaged in and Subject Matter Ex (SME) determination for a preferred term of 25 years.  <i>(Either an investor comes in and buys everything for you, or you could get an SBA loan under 504 program up to 7 million. In that case, the lender is still going to require money down of up to 40%, or, in this example, about 1.68 million down. If that is obtained from an investor, then the program protects everyone from unscrupulous rip-off statements, clauses, and fraud. It also will off the loan if you default).</i>
Interest Rate	Pending final provision up to 9.99%, but most likely would qualify for 3% above prime.  <i>(The prime rate is published each day in the major papers, like the Wall Street Journal, and float and down according to the Federal Reserve actions and other factors. On February 23 of 2018, the prime rate was 4.5%, so most lenders add 3% to that in a contract approved only by the SBA. The SBA protect you if they find they are doing anything wrong. So the total repayment percentage as of February 23, 2018, was 7.5%).</i>
Anticipated broker fee	1% if needed and with a cap ceiling <i>(maximum allowed to be paid to any helper, broker, friend, or agent)</i> to not exceed a specified amount of 42k. Most likely no broker will be needed. <i>(For this size of a deal a broker is most likely not required unless an investor would like to pay the fee themselves)</i>
Purchase price including new equipment and operating capital	2.4 million including new equipment. <i>(It is estimated that the current owner of 75/25, LLC will again try to sell around \$2 to \$2.5M as it has been 11 years since the last listing and may have driven down to the \$1.7M range again (Norfolk AIR, 2018)).</i>
Operating capital for lift-off	Remaining liquidity <i>(Money left over after buying the building and before purchasing any additional equipment)</i> based on ultimate purchase price will be determined. Break-even <i>(how much money needs to be coming in before you can pay all of your bills and break even)</i> needs to be established proforma <i>(a spreadsheet of projections into the next five years)</i> to determine where the investor wants to go.
Other offers of funding that could coordinate with loan or investment	A. Mercury Capital could offer a 30% down pledge by other securities instead of cash 100% financing at 1.975% for ten years interest only converting to fully amortized for the next ten years.  B. Angel investment and private investment can offer a 15% down loan at 4.5% fixed rate for 30 years on the purchase of existing structures.  C. An SBA 7a loan or 504 loan could be arranged for the purchase.
Tax bills and survey or hand for the property	Yes, but recommend further due diligence of hiring a planner, geodesic study, surveyor, architect or building inspector evaluations before contract smoothing (Norfolk AIR, 2018).



· This Proposal constitutes only a general, non-binding expression of interest on the part of the parties. THIS PROPOSAL IS SUBJECT TO A CREDIT, LEGAL, AND INVESTMENT APPROVAL PROCESS AND IS NOT INTENDED TO AND DOES NOT CREATE A LEGALLY BINDING COMMITMENT OR OBLIGATION ON PART OF AN INVESTOR OR BANK. The creation of such a legally binding commitment or obligation is subject to, among other things, the completion of an in-depth investigation of the proposed investment, the results of which are deemed satisfactory and the negotiation, execution and delivery of definitive documents which are mutually agreed upon and no occurrence of a material adverse change in business, financial condition, or prospect of borrower or any guarantor. This proposal is provided solely for your benefit and shall not be reproduced, distributed, quoted, or otherwise made reference to except between the senior management, officers and legal counsel of the borrower.

**It is required that each party of investment have their CPA with membership in good standing with the AICPA, attorney, and financial advisor. Parties agree not to utilize each other's advisors. (This helps to get honest opinions and NOT to be using their lawyer, their CPA, or advisors).**

- Post-money valuation can be agreed to be done by the financial advisors.
- Type of security will be the building, the potential SBA 504 protections and personal guarantees by Beau Turner, insurance policies that would pay the investor 100% of their money and security bonds. (This protects and assures any investor of getting all of their money back).
- Voting rights to encompass Mr. Turner having the full power to control and run the operation and management as he sees fit subject to Droit Moral, Felony Conviction, and Malfeasance clauses. The clause would neutralize voting right concerns. Mr. Turner's rights in the matter would require a unanimous vote in the bylaws, to change it, on file with the Virginia State Corporation Commission. (When you first sign and have notarized the contract and agreement with an investor in the attorney's office, that document is subject to be changed, typically, with a vote by the owners. This type of due diligence means talking about this clause because one hour after you sign if you do not have this clause in there, then they can come in and say we held a special meeting and voted you out as manager. This clause prevents that. When you get a notarized copy that day for your own safe, you then file that set of bylaws with the Virginia State Corporation Commission. The inclusion of this clause ultimately forces the prominent investor to get along with you, and should they desire you out they will have to offer a reasonable, massive buyout).
- Information rights will include all access to Intuit Quickbooks with a login and password 24 hours per day by management and investors as well as CPA for state and federal filings.

- Social and environmental considerations for 757 are being driven by the capability to have no direction to space. Socially, it is encouraged to have people think what they might build, design, create, or craft. That can be done in an environmentally safe arena, considerate of the earth and utilizing sunlight, wind power, green electricity, recycling of batteries, lights, soap, plastics, metals, wood, pulp, and smart-car power stations.
- The option pool size is considered to be initially small for class A owners and would benefit significantly by having thousands of class B, non-voting owners.

(Remember what we discussed (Beau Turner Recap, 2018) about having ten thousand fans out there with stock certificates anywhere from \$1.00 to higher driving business as owners, but not being able to enter a shareholders meeting and launch a take-over bid, act up, or other actions).

- Warrants, Anti-dilution preferences, and conversion terms will be laid down in the bylaws filed with the state of Virginia. Mr. Turner's rights in the matter would require a unanimous vote in the bylaws, to change it, on file with the Virginia State Corporation Commission.

(When you first sign and have notarized the contract and agreement with an investor in the attorney's office, that document is subject to be changed, regularly, with a vote by the owners. This type of due diligence means talking about this clause because one hour after you sign, if you don't have this clause in there then they can come in and say, "we held a special meeting and voted to dilute the company and do an IPO with 100 million shares as we now go franchise starting in Istanbul." Since the police are here, we want you out of the building as our attorney is waiting outside with the law enforcement officers. This clause prevents that. Moreover, when you get a notarized copy that day for your own safe, you then file that set of bylaws with the Virginia State Corporation Commission. The clause ultimately forces the prominent investor to get along with you, and should they desire you to dilute your value, issue more shares, IPO, or other actions. They will have to offer a reasonable, massive buyout).

- Dividends or disbursements can be issued by the CPA of record, quarterly. (When you have stock shares you can offer dividend payments from that quarter's profits, or if you have a private investor, they call those disbursements. It is the same thing. You still own your portion of the company but get free money sent to you each quarter on top of that).
- Pre-money valuation to be conducted by hired, third-party expert  
(It is best to have an expert in the area who has no connection or conflict of interest with any of the parties' attorneys, CPAs, or financial planners. If that proves to be impossible to find, then you can hire one from out of town).
- Legal fees will be assumed by each party on their own.

- Co-sale or right of first refusal is agreed upon in full. Mr. Turner's rights in the matter would require a unanimous vote in the bylaws, to change it, on file with the Virginia State Corporation Commission or subject to an arbitration agreement with the American Arbitration Association or a court of law.
- Board seats on all boards operate by Roberts Rules of Order newest edition (Presently on the 11th edition, these tell a meeting how to work, how to vote, who gets to speak and for how long. One can either buy the book and carry it to meetings with them or use the online version). 1. A voting ownership board will consist of Mr. Turner and single representatives from Class A investors. 2. An advisory board of Class B stock owners will be granted advisory voting privileges on items presented to them. Voting can be conducted on any platform offered by the class A owners. 3. An advisory student and teachers board made up of Norfolk Public School teachers and students will meet twice each year to advise Mr. Turner on current school makerspace needs. 10% of the Advisory student and teachers board must consist of children under the age of 12. 4. A Family advisory board consisting of 757 members will meet quarterly.
- Social impact by means of making and distributing hats, gloves, socks, etc. with 757 machines and materials is scheduled and assessed monthly. (Here is where the intended social impact will be written).
- An energy return on investment will be measured from the environmentally safe arena considerate of the earth and utilizing sunlight, wind power, green electricity, recycling of batteries, lights, soap, plastics, metals, wood, pulp, and smart-car power stations. (This is the space to write out the intended energy return from the investment, giving clear expectations to both parties).

Electronic signatures shall have the same legal effect as original signatures.

757 Makerspace, Inc.

Investor

Signature \_\_\_\_\_ Signature \_\_\_\_\_

Print name \_\_\_\_\_ Print name \_\_\_\_\_

Print title \_\_\_\_\_ Print title \_\_\_\_\_

Date \_\_\_\_\_ Date \_\_\_\_\_

# SOURCES OF FUNDING



We would suggest Beau get involved with the Virginia Impact Investing Forum (VIIF). The VIIF's mission is to connect those who are active in the Impact Investing space with those who want to learn more and do more, specific to the state of Virginia. Stakeholder groups represent Investors, foundations, financial planners, entrepreneurs/social entrepreneurs, small businesses, academic institutions and government (VIIF).

## **757 Angels Group**

Virginia Beach, Virginia

<https://www.757angelsgroup.com/>

"757 Angels seeks to provide risk adjusted returns for its members and investors and to catalyze the economy. 757 Angels is a select network of over 100 business and community leaders in the Hampton Roads region, who provide investment capital, strategic advice and mentoring to selected startup and early stage companies to help them achieve market leadership. 757 Angels seeks deal flow from the Commonwealth of Virginia."

757 Angels Group is a possible option for funding. They serve the local community, specifically the Hampton Roads region. While they are not specific to impact and social investments, their concentration in the local area makes 757 Makerspace a qualified candidate.



# SOURCES OF FUNDING

Virginia Community Capital

Norfolk, Virginia

<http://www.vacommunitycapital.org/ways-to-invest/>

“VCC’s lending capital fills a gap in community development finance throughout Virginia. Through our network of public and private partnerships, we create investments that have an impact in the regions of greatest need.

While VCC is mostly associated with lending to small business and real estate projects, the magic of our organization begins with our consulting and technical support for developers and small businesses that need it. We believe there is a far greater chance of an entrepreneur or developer succeeding if they are given proper guidance to thrive.

We offer flexible financial tools and advisory services to a range of project types. With lenders and officers in all corners of the Commonwealth, we are constantly on the lookout for the next great real estate or small business project that will make a big impact.

In all we do, we do so with our mission in mind: To be the first choice for innovative capital and collaborative leadership promoting local communities and enhanced quality of life.”

Accion serving the East Coast

New York, NY

<https://www.accion.org/>

As a member of Accion’s nationwide network of lenders, Accion Serving the East Coast empowers small business owners through access to capital and education. We offer affordable business loans, complemented by in-depth guidance, coaching and an entire support system of peers, mentors and resources.

Accion is a global network with smaller sectors in the US. They lend to businesses and startups who have a focus on making a positive social impact. Their due diligence process is tedious, but if approved, Accion also offers services on making the most of your loan.



# SOURCES OF FUNDING

MacArthur Foundation  
Chicago, Illinois  
<https://www.macfound.org/>

The John D. and Catherine T. MacArthur Foundation supports creative people, effective institutions, and influential networks building a more just, verdant, and peaceful world. MacArthur is placing a few big bets that truly significant progress is possible on some of the world's most pressing social challenges. MacArthur is one of the nation's largest independent foundations. Organizations supported by the Foundation work in about 50 countries.

MacArthur Foundation is based in Chicago, but lends throughout the US. Their focus is on lending to businesses making a social impact and addressing social challenges. Their loans typically help businesses making efforts to help climate change, but they are broadening their scope to include more impact investment areas.

MacArthur  
Foundation

# APPENDIX



1. Non-Disclosure Agreement
2. Questions and Answers
3. Social Impact Map v1
4. Bibliography
5. Due Diligence Process
6. Value Chain
7. Relative Valuation
8. Term Sheet

# Non-Disclosure Agreement





**MUTUAL NON-CIRCUMVENTION & NON-DISCLOSURE AGREEMENT**

This mutual non-circumvention and non-disclosure agreement (“Agreement”), dated as of  
(Effective date) by and between:

First Party: Martin CJ Mongiello, responsible for his behavior under law

And

Second Party: **757 Makerspace of Norfolk, VA** , responsible for his/her behavior under law  
And additional parties as may enter the deal, talks, email transmission under the Digital Signature Act:

\_\_\_\_\_  
757 Makerspace  
f Beau Turner  
\_\_\_\_\_

WHEREAS the above-named parties wish to cooperate with each other whereas the First party will relay information regarding

**Beau Turner**  
**757 Makerspace, 421 W 22nd St, Norfolk, VA 23517**

to the Second Party, hereinafter referred to as the subject business.

WHEREAS the parties mutually recognize that in the transaction of the subject business, each may learn from the other (including associates, agents, relatives, heirs or assigns) the identity, address and or telephone numbers and other means of access thereto of clients, brokers, sellers, financiers and/or bank or trust contractors and other pertinent miscellaneous contacts (hereinafter referred to as “confidential sources”) which, the other party acquired by the investment of time, expense and effort.

AND WHEREAS the parties further mutually recognize that in the transaction of the subject business, each may learn from the other proprietary information about documents, product information, patents, engineering designs, equipment, sources of goods, loan sources, and other pertinent miscellaneous information (hereinafter referred to as “confidential information”), which the other party acquired by the investment of time, expense and effort.

Now, therefore in consideration of the mutual promises set forth herein, each party covenants and agrees with the other as follows:

- 1. That all confidential sources and confidential information of each party are valuable property and shall be and remain the property of each party.

Initials MS Initials \_\_\_\_\_ Initials \_\_\_\_\_ Initials \_\_\_\_\_  
Initials A Initials \_\_\_\_\_ Initials \_\_\_\_\_ Initials \_\_\_\_\_

**MUTUAL NON-CIRCUMVENTION & NON-DISCLOSURE AGREEMENT**

2. The parties agree not to circumvent, avoid, bypass or obviate each other, directly or indirectly, to avoid payment of fees, commissions or other forms of compensation, in any transaction with any corporation, partnership, individual or other confidential sources, revealed by either party to the other, in connection with pursuing the subject business.
3. That no party (including associates, agents, affiliate and/or representatives of such party) will attempt, directly or indirectly, to contact the other party's confidential sources on matters relating to subject business or negotiate with the confidential sources or use confidential information of the other party, except through such other party.
4. Each party agrees that neither such party (including associates, agents, affiliates, and/or representatives of such party) will disclose to any third person or entity any confidential sources or confidential information of the other party obtained in the transaction of the subject business, without agreement of the parties herein.
5. If, in any event, either party on disclosure of the other party's confidential sources, has had communications or contact within the past twelve months or is having communications or contact presently with the confidential source related to the subject business, said party must disclose within fifteen business days said previous working relationship and show written proof of such relationship.
6. The parties agree that the following information shall not be considered confidential information:
  - a) Information which, at the time of disclosure to the receiving party, is in the public domain by written publication;
  - b) Information which, after disclosure to the receiving party, becomes part of the public domain by written publication through no fault of the receiving party;
  - c) Information which the other party can show by written document was within its possession at the time of disclosure to it and was not acquired directly or indirectly from the disclosing party;
  - d) Information which the receiving party can show was acquired after disclosure to it from a third party who did not receive it directly or indirectly from the disclosing party and who did not require the receiving party to hold such information in confidence.
7. Disputes. Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial [or other] Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.
8. Each party agrees with the other that essentially, the spirit behind this agreement is one of mutual trust and confidence and reliance on each other to do what is fair and equitable and to act in good faith.
9. All additions or modifications to this Agreement must be made in writing and must be signed by both parties. This Agreement shall be governed by, and construed in accordance with the laws of the State of North Carolina and incorporates all laws and regulations relating to non-circumvention and non-disclosure of the United States or any other governmental entity having jurisdiction thereof. Digital communications are agreed upon to be subject to the Digital Signature Act.

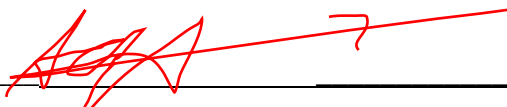
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Initials A      Initials \_\_\_\_\_      Initials \_\_\_\_\_      Page 2 of 3




**MUTUAL NON-CIRCUMVENTION & NON-DISCLOSURE AGREEMENT**

10. This Agreement shall be binding upon the parties, their heirs, successors and assigns for a period of one year or for the duration of a transaction that may be completed between the parties from the Effective date of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective date:

Signature:   
Date: 2-13, 2018

Signature: \_\_\_\_\_  
Date: \_\_\_\_\_

Martin Mongiello  
**Printed or Typed Name**  
Signature:   
Date: 2/12/18  
Beau Turner  
**Printed or Typed Name**

\_\_\_\_\_  
**Printed or Typed Name**  
Signature: \_\_\_\_\_  
Date: \_\_\_\_\_  
\_\_\_\_\_  
**Printed or Typed Name**

Signature: \_\_\_\_\_  
Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
**Printed or Typed Name**  
Signature: \_\_\_\_\_  
Date: \_\_\_\_\_



\_\_\_\_\_  
**Printed or Typed Name**  
Signature: \_\_\_\_\_  
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**Printed or Typed Name**  
Signature: \_\_\_\_\_  
Date: \_\_\_\_\_

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Page 3 of 3

MUTUAL NON-CIRCUMVENTION & NON-DISCLOSURE AGREEMENT

10. This Agreement shall be binding upon the parties, their heirs, successors and assigns for a period of one year or for the duration of a transaction that may be completed between the parties from the Effective date of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective date:

Signature: [Handwritten Signature]

Date: 2-13, 2018

Martin Mongiello  
Printed or Typed Name

Signature: [Handwritten Signature]

Date: 2-13-18

Angele Mainhart

Printed or Typed Name

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed or Typed Name

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed or Typed Name

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed or Typed Name

Signature: \_\_\_\_\_  
Digitally signed by Gempe, Mike C  
DN: cn=Gempe, Mike C  
Date: 2018.02.13 15:12:56 -05'00'

Printed or Typed Name

Signature: Leah Clayton

Date: 2/13/2018

Leah Clayton

Printed or Typed Name

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed or Typed Name

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed or Typed Name

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed or Typed Name

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# Questions and Answers



# INTERVIEW FEB 14/21, 2018 - BEAU TURNER

## Drive towards this

### Lacking in experience

No prototype

No clear market demand

Early competition

No staying power

Lack of protection on product

### Well-qualified team, skills

High-tech project

Marketable product

Protected product

Exceptional perseverance

Highly protected and successful product

## Tell us about your business...

Why did you start 757 Makerspace? Mission

Do you feel like you've been successful? How can you tell?

Benefit Corp? Nothing on the website about it.

--community is important

--mission: design, prototype, manufacture

--kids classes, adult classes

--mission is successful

Kids sessions: 50 weeks of classes \* 5 years

Maker labs in schools

School groups a few weekly

Social skills, tools

--Make money

- Product: membership (like gym), access to all tools (\$125-\$150 /month)

- 24 HR access to space

- Classes

- Paying instructors for certification classes

Workshops

Instructions

Services

Excess capacity, materials, specialty stores around

(ask) How many memberships? 75, (65 6 months ago)

Day passes, 3 studios

New space 17500 sq/ft (old = 5500)

Staffed 12:00-8:00. 3 scheduled tours/week, charge for other tours  
Consulting opportunities (pre-sales, opportunities), is the quarterback  
60%/40% for professional splits  
Eventbright

0 debt  
No partners

Investments - new equipment/infrastructure, another ~\$50K  
New staff  
Possible grant  
Community involvement helping to stuff

# of staff:

### **Questions for social impact map**

Step 1: Mission: What is the aim? What social/environmental challenge is the organization addressing? Who are the beneficiaries? How will meet the needs (product/service)?

Step 2: Social Goals: Social/environmental goals? Specific, time-bound.

Step 3: Inputs: What is the organization investing in to meet goals? Where's the focus with regard to resources? How serious are they?

Step 4: Activities: Management and Board. Can they deliver? Adequacy of products/services to customers/beneficiaries? Distribution and payment? Operations?

Step 5 and 6: Output and Outcome: Output – direct result of the company's activities (number of...). Outcome – the difference this makes on the life of the customer/beneficiary...Include underlying assumptions! # classes/attendees is how they track. Should be tracking and working on it is the tours. Did tours last week to 45 people. Probably another 5-10 that dropped by and another member gave one. 40-60 average a week (1/3 children/parents, 1/3 businesses or groups, 1/3 random people)

Step 7: Impact: What is the impact? Rapid examination and then dig deep in value chain and for v2 in due diligence.

**CITE YOUR WORK WITH THE DETAILS FROM YOUR INTERVIEW AND OUTSIDE RESEARCH (don't just turn in a map) – this is primary research.**

Let's review p. 31 - 35

### **Bottom-up questions**

Startups don't command "5% of a market."

Income Statement ("Composition of revenues and costs"—Allman):

- Product(s)/Services: What do they make (specs)? What is their business model (revenue streams)?

- Customers: How many new per month? Recurring customers? 125/member - 75 members. (probably about 45 members a year ago. 65 last month)

Have a few school contracts - 10-30K. 3 of those active at moment (length of school year) ~63K

Train the trainers -

- Typical Sale: What is it per customer in dollars and units? Pricing? Volume (how much)?

- Revenue: Multiply customers by typical sale for a revenue each month (check back on financials – does it hold?)

- Costs: Estimates to deliver product/service?

- Gross Margin: Rev – Costs

- Sales and Marketing Expense: Details sales and marketing costs to reach and convince customers. - not really (bartered 4 radio spots for memberships)

- Operating expenses: what does it take each month to keep the doors open? 10K

1750 in rent -1800 with water/electricity/internet

Studios across the street - 4500/month + 120 electricity (water included, shared internet)

(studios - only two spots available now out of 11. \$300 each (2) and rest are \$500) pricing based on 70% filled.

Consumables (3d printer filament) - 150-200 - 400/month

Contractors, no full-time - 25K for Beau; 10% revenue share for contractors on classes; teaching classes, revenue share of 60 to them/40 (10% to coordinator); varies between 10-20 contractors

- Profit or Loss

- How much money do they have now?

- Who owes them money? Outstanding invoices - 2500 - 3200 (floats as more comes in and gets paid). Expecting a loss of 1200 total (client that moved out and never paid- end up being a write off. Hoping they'll come in and do mural work in exchange to wipe debt clean)

- Who do they own money to? 0 debt, all equipment paid for



What's the funding timeline? (existing investments and achievements, significant milestones – what are they investing in? Future funding needs?)

Lease negotiations in hand. Expect closed next week and by March 1 have keys ready. End of March will be completely out of workshop 1. 3 months completely of no rent. Then 3 months of partial rent. Then full amount of what new lease will be. New rent will be 9,200. End up with 17,500sq ft of workshop space and 10,000 outdoor/parking

Configurable spaces within 10x10ft for individual spaces. Marked out 20 spots. \$3.25 sq ft - monthly.

What's the Burn Rate? How much money start-up burns each month to stay alive. Direct costs, estimated sales and marketing costs, salaries and wages, overhead, future hiring

Net cash on hand

\$600,000 = 12 Months left

\$50,000

Monthly net burn rate

- How are you considering IMPACT? This needs to be built in.
- How do they measure impact? Outputs and outcomes?

He has never done any kind of valuation on company

# Social Impact Map v1



**757 MAKERSPACE  
SOCIAL IMPACT MAP**

**VI - SIMPLE**

		<b>EXPLANATION IF NEEDED</b>
<p align="center"><b>MISSION/ SOCIAL GOALS</b></p> <p>What is the aim? What social/ environmental challenge is the organization addressing? Who are the beneficiaries? How will meet the needs (product/service)?</p> <p>Social/environmental goals? Specific, time-bound.</p>	<p><b>Mission:</b> Teach others how to design, prototype, and manufacture.</p> <p><b>Social Goal:</b> Build community; employment generation; education.</p>	<p>Everything (classes, teaching) is done in the light of this mission. If it does not touch upon one of these aspects, it is not done.</p> <p>Community is very important to Beau. The classes foster cooperation. Everyone is given instructions, treated the same, and instructed to work together. This includes transient members from the military who are only in the community for a limited period of time - to school children. Beau has found that some of the children they end up serving are special needs and the program puts them on level ground with the other children in their classes.</p>
<p align="center"><b>INPUT</b></p> <p>What is the organization investing in to meet goals? Where's the focus with regard to resources? How serious are they?</p>	<p>Machines (3D printers, laser cutters, sewing machines, etc).</p> <p>Materials (wood, extrusion, etc).</p> <p>Expansion into second building - more space and more classes.</p> <p>Tours of the facility - set times for free tours and paid for additional times. Consulting services and they go into schools who can't bring the students to the space.</p> <p>Strategic partnerships - new brewery/hot spot next door purchases</p>	<p>Beau is serious about the organization - enough so that he is in the process of securing a second warehouse facility in order to expand and serve more of the community.</p> <p>They give free tours during certain days/times so people can learn more about the space and how it can be used.</p> <p>757 is involved in the community, working alongside schools to bring program into the classrooms.</p> <p>They've also sold pieces to the new brewery next door, which looks onto their space so people see what's happening.</p>

	<p>products from 757; schools.</p> <p>Using current customers as teachers.</p>	<p>Instead of hiring teachers outside of organization, Beau uses customers to teach their own craft to others.</p>
<p><b>ACTIVITIES</b></p> <p>Management and Board. Can they deliver? Adequacy of products/ services to customers/ beneficiaries? Distribution and payment? Operations?</p>	<p>Designing - people come up with designs for things they want to build.</p> <p>Prototyping - can make simple models, test ideas to see how and if things will work.</p> <p>Manufacturing - ability to manufacture designed items.</p> <p>Learning - Students are taught in classes, hands-on activities also contribute to learning.</p> <p>Experimentation - The learning environment fosters experimentation.</p> <p>Teaching/Training - Teachers show students how to use equipment, impart skills.</p> <p>Interacting - Students interact with teachers, other students, and the physical world (tools, machines) around them.</p> <p>Payment - memberships, day passes, classes, consulting, paid tours, materials purchased.</p>	<p>Beau collects payments through the memberships and various activities, but, in addition, the fact that it is in a shared space allows for social sharing. Consumers swap best methods or show each other how to do whatever type of project they're working on with each other. This fosters more ideas and camaraderie.</p> <p>Beau also uses some of the consumers to actually teach workshops based on their specialty.</p>
<p><b>OUTPUT</b></p> <p>direct result of the company's activities (number of...)</p>	<p>Kids Sessions: 50 weeks of classes * five years.</p> <p>Several school groups weekly.</p>	<p>Number of memberships are growing which shows that the market is there.</p> <p>Tours had to be put on a limit of 3 free per week because so many people and</p>

	<p># Maker labs in schools.</p> <p>75 Memberships (up from 65 memberships 6 months ago).</p> <p># Classes/Workshops.</p> <p>3 Tours per week (free) + additional paid tours.</p> <p># Employees.</p>	<p>school groups were showing up. He now charges for tours outside of scheduled times and schools are booking them.</p>
<p><b>OUTCOME</b></p> <p>the difference this makes on the life of the customer/ beneficiary. Include underlying assumptions!</p>	<p>Jobs created (in stressed area).</p> <p>Learned Skills.</p> <p>Social Skills.</p>	<p>Transient family members of military that may have a hard time finding work because they won't be in area long are able to pick up extra work teaching classes on their skill.</p> <p>Special needs students and students in general are picking up social skills from being around a mixed group of people.</p>
<p><b>IMPACT</b></p> <p>What is the impact? Rapid examination and then dig deep in value chain and for v2 in due diligence.</p>	<p>Community, people brought together.</p> <p>Sense of accomplishment.</p> <p>Employment.</p> <p>Reclamation of old warehouse space.</p> <p>Learned skills.</p>	<p>Revitalization of local area - reuse of warehouse spaces.</p> <p>Improved school behavior and academics through social skill building and hands-on projects.</p> <p>Building up economy - new businesses created from Makerspace.</p>

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# Due Diligence Process

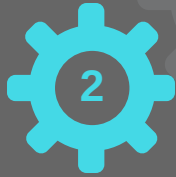


# Due Diligence



## Investor Pitch Documents

This is your elevator pitch. A summary of your business plan



## Organizational Documents

Investors will check company records: all government filings, annual reports, etc.



## Organization Structure

Organization and management structure.



## Contact Information

For all key members in management and the board of directors + bios.



## Development Plans

Financial plans, marketing plans, business plans



## Product / Services

What we make and how much it costs



## Intellectual Property

Patents, trademarks, know-how, Copyrights, and Logos



## Customers

Customers and competition



## Legal / Contracts

Supplier agreements, litigation, regulatory



## Financials

Financial statements, tax records, insurance policies



## Social and Environmental Impact

Highlight positive social and environmental impact

## Due Diligence Overview

Due Diligence refers to the care that a *reasonable* person should take before entering into an agreement or a financial transaction with another party (Investopedia, 2013). The due diligence process helps to verify and confirm statements about the business. Every deal has certain risks; some risks may be so great that they will sink the deal entirely while other risks are acceptable or may require further investigation. Either way, due diligence will help reduce the risk of the investment (HBAN, 2018).

We have identified 11 Due Diligence steps that can be followed to make sure that you are prepared for the types of questions and information that an investor will ask for.

- 1) Investor Pitch Documents - This is your elevator speech that the entrepreneur can give at any time to an investor. You should be able to follow-up with a short presentation (10-slides) that covers the information and a business plan.
- 2) Organization Documents - Investors will verify all government filings (e.g., articles of incorporation, application for employee IDs, etc.). They will look for debt holders and shareholders.
- 3) Organization Structure - Investors will want to understand the company structure. They will look at organization charts and also bios and resumes for key stakeholders and board of directors.
- 4) Contact Information - Investors will want contact information for all key players and the board of directors.
- 5) Development Plans - Investors want to see your financial plans, marketing plans, and business plans
- 6) Product / Services - How much does it cost to deliver your product or service? How much did you spend on developing these processes?
- 7) Intellectual Property - All documents related to trademarks, copyrights, logos, and patents.
- 8) Customers - Who are your key customers? Who are your competitors? What are their strengths and weaknesses?
- 9) Legal / Contracts - Sales agreements, supplier agreements, any pending litigation, licensing or regulatory issues.
- 10) Financials - Current and previous year financials; federal, state, and local income taxes; insurance policies
- 11) Social and Environmental Impact - Tell them about the positive impact that you have on the community. How do you mitigate the environmental impact?

# Value Chain

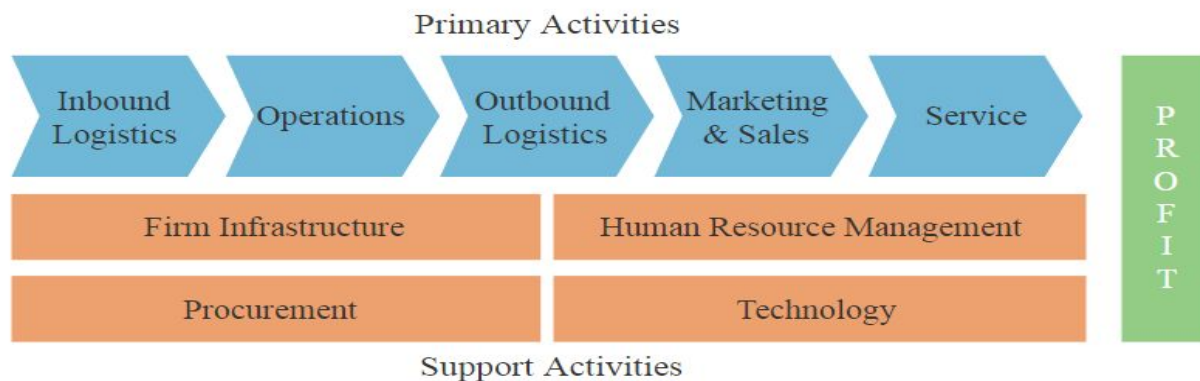


Value chain analysis looks at what value a company's product and services offer. After identifying where the value is, you then analyze how to use this value to reduce cost and leverage the value to stand out from the competition (Frue, 2016).

It is important to note that value chain represents internal activities of the company when transforming inputs to outputs. By looking at these internal activities, we can identify both competitive advantages and disadvantages (Jurevicius, 2013).

A specific example for 757 Makerspace is the readily available free parking. 757 Makerspace has two competitors in the downtown that lease workspace for artists. There is not free parking in town and a monthly parking pass is \$200. This is both a competitive advantage and a value to the customer (Turner, Feb 21, 2018).

## Porter's Value Chain Model



Michael Porter introduced the generic value chain model in 1985 (pictured above). This model represents all internal activities that **directly** add value to the final product and all support activities that **indirectly** add value. (Jurevicius, 2013).

*The recommendations that follow are based on interviews with Beau Turner on Feb 14 and 21, 2018 unless referenced otherwise. Since the team was not supplied actual financial data, all monetary values mentioned are assumed to be accurate.*

There are two different ways to approach the analysis depending on what type of competitive advantage the company wants to create. We can either look at cost advantage or differentiation advantage. When looking at a cost advantage, we are looking to compete on cost. When looking at differentiation advantage, we are looking to create superior products or services to differentiate ourselves from the competitor.

**Recommendation:** 757 Makerspace should be competing for differentiation. The product and services are specialized, and Beau is looking to create a unique experience as well as a vibrant community. We should be aware of costs for consumables and sensitive to our customer's price point, but to fulfill the mission of "design, prototype, and manufacture" we want the products and services to be recognized for their superiority.

## **Integrity toward the social mission and social and environmental objectives**

As we strive towards adding value and differentiating 757 Makerspace, it is important to keep focused on the positive impact that we are having on our community. We always want to make sure that our objectives are matched to our social and environmental goals.

### **Social Goals:**

- Access to Education
- Access to Information
- Community Development
- Employment Generation
- Equity and Empowerment
- Income/Productivity Growth

## Environmental Goals

- Sustainable Land Use

## The following are primary activities in the Value Chain:

**Inbound logistics:** These are suppliers. Without supplies, we are limited in what we produce and the services we offer.

We have identified the following suppliers:

1. **Teachers** - These are the craftsman and artisans that are teaching classes or giving training on particular equipment. They are instrumental in making 757 Makerspace a unique experience.

**Recommendation:** The classes are a key source of revenue. You should be looking for ways to grow this component of the business. You should look at partnering with either local community or technical colleges to offer adult continuing education classes and more certifications. You should be looking to establish recurring classes (e.g., once a week for six weeks). This not only gets some lock-in on the customer side, but it also will generate lock-in on the supplier side. The teachers have an incentive to stay and have more consistent work.

2. **Volunteers** - These are people that are volunteering time around makerspace to help with needed functions like painting and construction.
3. **Makers** - These are the members. They also supply knowledge and expertise to new members, guided tours and can be the initial face to the general public/potential new members.
4. **Suppliers of the consumable goods** (e.g., 3D printer supplies, etc.)

**Recommendation:** The traditional suppliers are a very important component of the business from a financial point of view but also from an impact point of view for building the desired community. These relationships should be fostered. The fact that you have suppliers close by that can supply you with the appropriate maker materials is a huge benefit. The art community is a tight-knit community. These suppliers will attract new customers to the area in search of supplies. These

customers will also find you. As 757 Makerspace grows, your suppliers will attract business from your client base. Artists tend to cluster will cluster in a community because of the uniqueness of their supplies and customer bases. With 757 Makerspace, these established suppliers, and a craft brewery, the foundation of a potential growing arts community is in place. 757 Makerspace should nurture this.

## 5. Tour guides

**Operations:** These are the products and/or services that are offered to the public.

1. **Memberships** - This was described by Beau as his primary product in the first interview. This does not match what in reality seems to be slow growth. If this was the primary product, there should be an expectation of a higher growth rate. (it has only grown 10 members over the last 6 months; the company has been in business for 5 years and has 75 members)
2. **Classes** - The classes are very popular and usually very full. We should be striving to build the class schedule and keep the classes full. This gets nonmembers into the building and gives an introduction to the facility.

**Recommendation:** Keep up the kids classes! This really contributes to your social mission. Amazing that you have had 50 weeks of kids classes for 5 years. A Lot of lives are touched by this and many new experiences have been learned.

**Recommendation:** Look for ways to monetize classes online thru training or how to videos. This could be a subscriber channel on youtube or another platform. Use these videos to advertise your classes and membership benefits. This could be free to all members.

3. **Studio Space** - Renting of studio space has been very successful. Occupancy in the old building has stayed above the 70% and there been able to cover the lease payments. It is very important that this revenue stream is pursued.

**Recommendation:** Studio space should be maximized in the new facility. You should pay special attention to this community by giving an opportunity to sell their art whether in their facilities or hold a craft fair on a semi-regular basis to draw more



customers to the area and to also help support the local artists.

- 4. Tours** - It is good that you are looking to add more structure to the tours and define them better

**Recommendation:** You should try to monetize all tours in some way. At the end of a free tour, there should be options to make a small project. Another suggestion is that artists can display/sell artwork during tours. This helps add a revenue stream for your customer base and gives them added value.

**Sales/Marketing:** These are the activities that we do to convince the customer that our products and services are worthwhile. Are product and service benefits being properly highlighted?

- 1. Social media**
- 2. Radio advertising**

Overall the sales and marketing looks to be an afterthought. Most advertising seems to be via social media, but there is no measurement of the effectiveness of any medium.

**Recommendation:** Memberships do not seem very high for the amount of time the facility has been in business nor does it seem to be growing at a fast rate (10 memberships over six months). With the move to the new facility, stronger growth in memberships is important. The current membership levels for one month would barely cover a single months lease. There should be a concerted effort to grow this part of the business.

**Service:** Do we have good customer service? Are we offering good value both pre and post-sale?

With his emphasis on community, Beau places a high value on customer service and satisfaction. As 757 Makerspace grows, it is important to maintain a strong focus in this area.

**Recommendation:** This is a general recommendation with regards to the move to the new facility. You should use this opportunity to look at all your pricing and make sure that the rates you are charging can support your new lease rates when the full amount

sets in after six months.

## **The following are support activities in the Value Chain:**

**Firm Infrastructure and Human Resource management:** This is the organizational structure of the company and the processes that are in place to manage employees.

It is important to note that Beau Turner is a very capable individual with a unique skill set that allows him to grasp the technical details of his business, an ability to be able to provide guidance on the larger picture of design, and a man that can interact socially with the public. What follows is by no means meant to take away anything that he has accomplished and is only meant to shine a light on where improvements can be made to add to the value of his company.

The lack of any noticeable company infrastructure and employee management is by far the biggest impediment to the growth and sustainability of the company and community that Beau is trying to build. Beau is the only employee of 757 Makerspace drawing a salary of \$24,000 in 2017. All of the organization infrastructure built around Beau is either based on contractors who are paid commission, paid with discounted memberships or volunteers. There is no one else around Beau that has skin in the game.

With the impending move to the new facility and large increase in rent, there is more space to manage. 757 Makerspace will need to purchase more equipment, oversee more equipment, manage more workspace for artists, require substantial growth in both memberships and occupancy of the artist area.

The lack of organizational structure already shows signs of affecting the primary activities due to indifference or inability, most likely due to lack of time, to focus on any particular area well. Sales and marketing seem non-existent when looking at the low membership totals. The reliance on an informal network of makers and commissioned contractors to act as the face and initial representation of 757 Makerspace to the public without any real policies of conduct, specific training or expectations more than likely begins to fall apart if the operations grow as desired and necessary to offset the newly incurred costs.

**Recommendation:** At a minimum, those who are interfacing with the public in an official capacity for the company (reduced membership rates, volunteers, contractors) should be presented with a basic contract that lays out expected behavior.

There is no realistic way to expand to such a large area with a staff of one and maintain supplier relations, customer relations, and operations effectively. The community, which is a driving factor for Beau, cannot be nurtured in alignment with his ideals either.

**Recommendation:** Beau needs to make sure that someone has a strong grasp on the financials. While he does seem like he can speak to the numbers it was not clear if he or anyone else was in tune with the true daily operating expenses. We were told that he was willing to and would supply us the financials (he never did) so we can only assume he was unable to do so because they were not readily available. 757 makerspace is at a key juncture with the leasing of a new building and taking on a lease that will increase from \$1750/month to \$9200/month. Such a large increase in commitment is going to require better tracking and tighter control of the financial information.

**Recommendation:** Beau needs to give up control to gain control. He needs to decide if he is the technology/maker guy or the “community” guy. He needs to define a basic organization and fill positions around him who can manage contractors, sales, and marketing, and make sure that classes continue to be filled and run smoothly.

**Technology:** Technology is essential to help make sure the company is run efficiently by maintaining a network, wifi access, and necessary tools to keep the business running (e.g., email, invoicing, etc.). From a maker point of view, it is important to stay abreast of current technical trends in the maker community with regards to new technologies and evolution of technology with regards to 3d printing, robotics, AI, etc.

**Recommendation:** 3D Printing, lasers, and robotics are all dependent on fast-changing technology. New technology can be expensive to procure and maintain. With rapid shifts in the market, technology can become obsolete quickly. It is necessary to stay aware of current trends and exercise judgment to remain current but be cautious of investments here.

# Relative Valuation



## Relative Valuation

*(This is a document that places a value on your business assets when compared to others and local data. There is no exact way to do a "Relative Valuation," but equating business inventory, building sales prices, financial data, like operating properties, can provide a close idea. The more risky valuation methods are a. absolute valuation, and b. discounted cash valuation).*

This valuation is a broad-brush assessment based on a partner joining to grow 757 Makerspace with better machines, a more stable debt-service *(this means a mortgage you can live with by extending the length of payments (called TERM) and having the partner provide the money down for a safe loan)* by purchasing the building, and assessing the current sale of all equipment at 75% off.

### Identification of assets that can be compared and value

**Earnings: \$63K** per annum based on contracts for training. 75 memberships averaging about \$125.00 = \$9375.00 per month = **\$112,500.00 per year**. Studios can generate \$4 to \$6K per month = **\$48,000.00 per year** in the old facility. An assumption would be in the new facility, tripling size, this can grow exponentially. With 100% occupancy of 10' x 10' configurable space x 20 = \$6,500.00. Classes may generate anywhere from \$20k to \$30K per (average of **\$25K** per year) year with 75 classes per year and 20,000 students (approximated).

**Name, Intrinsic, and Trademark value:** The 757 Makerspace name and logo has substantial value in the marketplace when compared to other like businesses around it. It could be worth between \$10 and \$15k (average is **12.5K**). This value will increase the size of the operation increases to three times the current format *(registering with the USPTO could increase the value of the trademark)*.

**Equipment value:** Based on 20% of original price estimated at \$75,000.00+.

**Expenses for rent, consumables, salary, and utilities:** The business stays about one month ahead of bills at all times. \$23.5K salary in 2017. The owner is operating on using all contractors with a 60/30/10 split revenue share - 60% for the instructor, 30% for the owner, and 10% for a resource coordinator. The new rent will be \$9k per month. Expenses are only allowing for a take-home salary of the one owner and equalling earnings. This will affect overall Relative Valuation.

**Whether original owner would stay on?** Based on any new partner coming in to help, the importance of having the original owner by name is worth a lot, approximately \$250 to \$300k if asked to use his name for five years and have him step aside (*while this may be a relative value, it doesn't mean you would accept such offer*). The additional benefit of having such creator still, happily involved every day with the business is worth even more. At present, the owner is accepting \$23.5K+ per annum in remuneration.

**Real estate value:** Potentially \$1.35 to \$1.75 million

<b>Relative valuation total</b>	<b>\$260,000.00 to \$400,00.00</b>
<b>Relative valuation total with real estate combined</b>	<b>\$2,000,000.00 to \$2.2M</b>

# Term Sheet



The term sheet is an important and necessary document when beginning negotiations with a potential investor. While it is not a legally binding document, it is the starting point for negotiations, laying out the intended terms of the investment. Many compare a term sheet to a prenuptial agreement in a marriage, dictating who gets control of what, and how assets and capital will be divided after the investment ends (Miller).

Because the term sheet is not legally binding, it is merely a starting point. The terms listed are negotiable by both parties. Below, we have included a sample term sheet with explanations of each component.

*757 Makerspace Due Diligence Process and Funding Strategy with the Graduate School class of Lenoir Rhyne University students Gempe, Mongiello, Clayton, Tyner and Mainhart for Benjamin Beau Turner. 421 W. 22nd Street, Norfolk, VA. 23517 - 757.301.1118. SCC ID: 07649098 in Virginia - The students in Graduate School are not Certified Public Accountants or Attorneys, and this work product contains samples and examples based on relative, speculative information not verified in audited financial statements.*

### **Example of a Term Sheet for 757 Makerspace, Inc.**

Dear investors and colleagues,

757 Makerspace (757) is pleased to present to you the following term sheet proposal for a building and equipment purchase in the city of Norfolk, VA. The costs outlined herein are estimates. The creation of a legally binding commitment or obligation is subject to the delivery of documents requested, final approval of the purchase price, and the execution and delivery of an agreement by both investors and 757 to the transactions contemplated hereby, and the consummation of such transactions will be subject to the satisfaction of the conditions set forth, therein. The current term sheet developed is for



\$2.4m, and have had a property (LoopNet, 2018) identified *(That encompasses buying the present property of 237 West 24th Street, Norfolk, VA last listed for sale at \$1.75M in 2007, or a new building, with additional equipment requested of a garage door for \$250,000.00, and operating capital added into the package (Beau Turner, 2018). The project could float up, or down, pending on a total of material and exact negotiated price)*. Alternatively, a CDFI, such as Virginia Community Capital could be used for a much lower amount to just buy equipment or expand a bit. *(Virginia Community Capital is a potential funding source listed in the Sources of Funding portion of the presentation documents. They lend solely to the state of Virginia, and focus on lending to impact investments)*. The Modern Movement style (Virginia, 2018) property is in the premium locale of the target region (Norfolk AIR, 2018) encompassing the Norfolk market and currently priced well for the market value of comparable properties recently sold. It falls in the middle.

- **Borrower:** 757 Makerspace, Inc.

- **Lender:** Investors and possibly a standby of Mercury Capital and Morgan

Stanley Bank has been offered *(This may take a loan, and an investor to provide the money down)*.

- **Guarantor(s):** Beau Turner and other instruments

*(These are documents signed and financial portfolio's backing the deal like metal holdings, stocks on file, real estate in a collection, or other items)*.

- **Loan Amount:** \$2.4 million

- **Loan Term and Structure:** As represented below:

*(This is just an example, so this could change up and down, drastically depending on the deals offered).*

Loan Amount	<p>\$2.4 million (approximated and could be less)</p> <p><i>(That encompasses buying the present property, or a new one with additional equipment, and operating capital).</i></p>
Fixed Period	<p>20 to 25 years depending on if an SBA 504 status package is engaged in and Subject Matter Expert (SME) determination for a preferred term of 25 years.</p> <p><i>(Either an investor comes in and buys everything for you, or you could get an SBA loan under the 504 program up to 7 million. In that case, the lender is still going to require money down of up to 40%, or, in this example, about 1.68 million down. If that is obtained from an investor, then the 504 program protects everyone from unscrupulous rip-off statements, clauses, and fraud. It also will pay off the loan if you default).</i></p>
Interest Rate	<p>Pending final provision up to 9.99%, but most likely would qualify for 3% above prime.</p> <p><i>(The prime rate is published each day in the major papers, like the Wall Street Journal, and floats up and down according to the Federal Reserve actions and other factors. On February 23 of 2018, it was 4.5%, so most lenders add 3% to that in a contract approved only by the SBA. The SBA will protect you if they find they are doing anything wrong. So the total repayment percentage as of Feb 23, 2018, was 7.5%).</i></p>
Anticipated broker fee	<p>1% if needed and with a cap ceiling <i>(maximum allowed to be paid to any helper, broker, friend, agent)</i> to not exceed a specified amount of 42k. Most likely no broker will be needed. <i>(For this small of a deal a broker is most likely not required unless an investor would like to pay the fee themselves).</i></p>
Purchase price including new equipment and operating capital	<p>2.4 million including new equipment. <i>(It is estimated that the current owner of 75/25, LLC would again try to sell around \$2 to \$2.5M as it has been 11 years since the last listing and may have to drive down to the \$1.7M range again (Norfolk AIR, 2018)).</i></p>

<p>Operating capital for lift-off</p>	<p>Remaining liquidity (<i>Money left over after buying the building and before purchasing any additional equipment</i>) based on ultimate purchase price will be determined. Break-even (<i>how much money needs to be coming in before you can pay all of your bills and break even</i>) needs to be established in proforma (<i>a spreadsheet of projections into the next five years</i>) to determine where the investor wants to go.</p>
<p>Other offers of funding that could coordinate with loan or investment</p>	<p>A. Mercury Capital could offer a 30% down pledge by other securities instead of cash for 100% financing at 1.975% for ten years interest only converting to fully amortized for the next 15 years.</p> <p>B. Angel investment and private investment can offer a 15% down loan at 4.5% fixed rate for 30 years on the purchase of existing structures.</p> <p>C. An SBA 7a loan or 504 loan could be arranged for the purchase.</p>
<p>Tax bills and survey on hand for the property</p>	<p>Yes, but recommend further due diligence of hiring a planner, geodesic study, surveyor, architect and building inspector evaluations before contract smoothing (Norfolk AIR, 2018).</p>

- **Collateral:** 1<sup>st</sup> Deed of Trust on land, a building located onsite and other items may be needed.
- **Closing Costs:** Estimated closing and transaction costs include an origination fee, property & building appraisal fee, environmental report, loan packaging fee, and miscellaneous charges. The closing package does not cover costs for title insurance, lien searches, attorney fees, and other items.
- **Insurance:** All insurance (title, fire and theft, flood, extended coverage and liability and life) are the responsibility of Borrower. The Borrower will be responsible for maintaining in force property insurance with companies and in amounts and coverage's satisfactory with the lender.

· **Expiration:** This proposal shall expire on December 31, 2020.

· This Proposal constitutes only a general, non-binding expression of interest on the part of the parties. THIS PROPOSAL IS SUBJECT TO A CREDIT, LEGAL, AND INVESTMENT APPROVAL PROCESS AND IS NOT INTENDED TO AND DOES NOT CREATE A LEGALLY BINDING COMMITMENT OR OBLIGATION ON PART OF AN INVESTOR OR BANK. The creation of such a legally binding commitment or obligation is subject to, among other things, the completion of an in-depth investigation of the proposed investment, the results of which are deemed satisfactory and the negotiation, execution and delivery of definitive documents which are mutually agreed upon and no occurrence of a material adverse change in business, financial condition, or prospect of borrower or any guarantor. This proposal is provided solely for your benefit and shall not be reproduced, distributed, quoted, or otherwise made reference to except between the senior management, officers and legal counsel of the borrower.

**It is required that each party of investment have their CPA with membership in good standing with the AICPA, attorney, and financial advisor. Parties agree not to utilize each other's advisors. *(This helps to get honest opinions and NOT to be using their lawyer, their CPA, or advisors).***

- Post-money valuation can be calculated by adding the proposed loan amount to the pre-money valuation amount. (Pre-money valuation) + (loan amount of 2.4 million = (post-money valuation).
- Type of security will be the building, the potential SBA 504 protections and personal guarantees by Beau Turner, insurance policies that would pay the investor 100% of their money and security bonds. *(This protects and assures any investor of getting all of their money back).*
- Voting rights to encompass Mr. Turner having the full power to control and run the operation and management as he sees fit subject to Droit Moral,

Felony Conviction, and Malfeasance clauses. The clause would neutralize voting right concerns. Mr. Turner's rights in the matter would require a unanimous vote in the bylaws, to change it, on file with the Virginia State Corporation Commission. *(When you first sign and have notarized the contract and agreement with an investor in the attorney's office, that document is subject to be changed, typically, with a vote by the owners. This type of due diligence means talking about this clause because one hour after you sign if you do not have this clause in there, then they can come in and say we held a special meeting and voted you out as manager. This clause prevents that. When you get a notarized copy that day for your own safe, you then file that set of bylaws with the Virginia State Corporation Commission. The inclusion of this clause ultimately forces the prominent investor to get along with you, and should they desire you out they will have to offer a reasonable, massive buyout).*

- Information rights will include all access to Intuit Quickbooks with a login and password 24 hours per day by management and investors as well as CPA for state and federal filings.
- Social and environmental considerations for 757 are being driven by the capability to have no direction to space. Socially, it is encouraged to have people think what they might build, design, create, or craft. That can be done in an environmentally safe arena, considerate of the earth and utilizing sunlight, wind power, green electricity, recycling of batteries, lights, soap, plastics, metals, wood, pulp, and smart-car power stations.
- The option pool size is considered to be initially small for class A owners and would benefit significantly by having thousands of class B, non-voting owners. Future employees will be granted class A ownership equal to the amount initially offered to current employees.

*(Remember what we discussed (Beau Turner Recap, 2018) about having ten thousand fans out there with stock certificates anywhere from \$1.00 to higher driving business as owners, but not being able to enter a shareholders meeting and launch a take-over bid, act up, or other actions).*

- Warrants, Anti-dilution preferences, and conversion terms will be laid down in the bylaws filed with the state of Virginia. Mr. Turner's rights in the matter would require a unanimous vote in the bylaws, to change it, on file with the Virginia State Corporation Commission.

*(A warrant is a security measure for the investor. It entitles them to purchase stock at a future date, typically at a higher price than the current market price.*

*It is an added incentive for the investor, making the investment all the more appealing [Warrant]. When you first sign and have notarized the contract and agreement with an investor in the attorney's office, that document is subject to be changed, regularly, with a vote by the owners. This type of due diligence means talking about this clause because one hour after you sign, if you don't have this clause in there then they can come in and say, "we held a special meeting and voted to dilute the company and do an IPO with 100 million shares as we now go franchise starting in Istanbul." Since the police are here, we want you out of the building as our attorney is waiting outside with the law enforcement officers. This clause prevents that. Moreover, when you get a notarized copy that day for your own safe, you then file that set of bylaws with the Virginia State Corporation Commission. The clause ultimately forces the prominent investor to get along with you, and should they desire you to dilute your value, issue more shares, IPO, or other actions. They will have to offer a reasonable, massive buyout).*

- Dividends or disbursements can be issued by the CPA of record, quarterly. *(When you have stock shares you can offer dividend payments from that quarter's profits, or if you have a private investor, they call those disbursements. It is the same thing. You still own your portion of the company but get free money sent to you each quarter on top of that).*

- Pre-money valuation to be conducted by hired, third-party expert. The pre-money valuation should be determined by means of a relative valuation and a discounted cash flow valuation.

*(It is best to have an expert in the area who has no connection or conflict of interest with any of the parties' attorneys, CPAs, or financial planners. If that proves to be impossible to find, then you can hire one from out of town. The relative valuation can be measured by comparing the current value of 757 Makerspace to the current values of competitors and other companies in the same industry. The discounted cash flow valuation is measured by providing an estimate of what 757 Makerspace will be worth in the future. This is measured by 757's projected income).*

- Legal fees will be assumed by each party on their own.

- Co-sale or right of first refusal is agreed upon in full. Mr. Turner's rights in the matter would require a unanimous vote in the bylaws, to change it, on file with the Virginia State Corporation Commission or subject to an arbitration agreement with the American Arbitration Association or a court of law.

- Board seats on all boards operate by Roberts Rules of Order newest edition (*Presently on the 11th edition, these tell a meeting how to work, how to vote, who gets to speak and for how long. One can either buy the book and carry it to meetings with them or use the online version*). 1. **A voting ownership board** will consist of Mr. Turner and single representatives from Class A investors. 2. **An advisory board of Class B stock owners** will be granted advisory voting privileges on items presented to them. Voting can be conducted on any platform offered by the class A owners. 3. **An advisory student and teachers board** made up of Norfolk Public School teachers and students will meet twice each year to advise Mr. Turner on current school makerspace needs. 10% of the Advisory student and teachers board must consist of children under the age of 12. 4. **A Family advisory board** consisting of 757 members will meet quarterly.

- Social impact by means of making and distributing hats, gloves, socks, etc. with 757 machines and materials is scheduled and assessed monthly. (*Here is where the intended social impact will be written. Once you have a measured social impact, this can be expanded upon. When seeking investment from an impact investor, or impact investment firm, this should be a well articulated point of the term sheet, clearly laying out the intended impact, and how you plan to accomplish it*).

- An environmental return on investment will be measured from the environmentally safe arena considerate of the earth and utilizing sunlight, wind power, green electricity, recycling of batteries, lights, soap, plastics, metals, wood, pulp, and smart-car power stations. (*This is the space to write out the intended energy return from the investment, giving clear expectations to both parties. Again, once you have a measured social impact, this will be easier to articulate*).

*Electronic signatures shall have the same legal effect as original signatures.*

**757 Makerspace, Inc.**

**Investor**

Signature \_\_\_\_\_

Signature \_\_\_\_\_

Print name \_\_\_\_\_

Print name \_\_\_\_\_

Print title \_\_\_\_\_

Print title \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_

*757 Makerspace Due Diligence Process and Funding Strategy with the Graduate School class of Lenoir Rhyne University students Gempe, Mongiello, Clayton, Tyner and Mainhart for Benjamin Beau Turner. 421 W. 22nd Street, Norfolk, VA. 23517 - 757.301.1118. SCC ID: 07649098 in Virginia - The students in Graduate School are not Certified Public Accountants or Attorneys, and this work product contains samples and examples based on relative, speculative information not verified in audited financial statements.*