By Tom Schuman

FINANCING THE ENTERPRISE

Wyatt Shares Experiences in Recovery Force Ride

EDITOR'S NOTE: Fifth of a six-part series throughout 2017 with Fishers-based Recovery Force. View the previous articles in the archives section of www.bizvoicemagazine.com

Taxes are one of the prime examples of a necessary evil – something you do not like but which you know must exist or happen. Some would put financing a business, or at least the part of asking others to invest in your operation, in that category.

Matt Wyatt, president and CEO of Recovery Force, admits, "It has been front of mind every single day. It's *a lot* (chuckling as he emphasizes the phrase) more mental bandwidth than I'd like to admit. I had the good fortune of having good people around me executing."

But the same enthusiasm and passion that have consumed Wyatt for the past five years have helped make the fundraising far from a necessary evil.

"I enjoy it way more than most," he admits. "Raising capital, asking people for money, there's probably not that many people that ever want to do it or maybe just couldn't do it. I think the reason I have probably enjoyed the process as much as anything is I so believe in what we are doing.

"The technology is so purposeful, I'm clearly very passionate about it and I believe that people are going to experience the prosperity from it. I think those three things keep me motivated. It probably shows when I'm having conversations with people."

We look at the venture capital world from a variety of perspectives in this issue. Here are the insights of one who has been through the battles.

Round by round

Recovery Force (see the 2017 archives at www.bizvoicemagazine.com for our previous stories on the company) is on the way to commercialization of its first product – a compression wrap worn on the back to enhance blood circulation among other benefits – before the end of the calendar year.

"This (Recovery Force) was the typical basement story. I worked on this almost a year and was self-funded," Wyatt shares. "I wasn't paying myself and I didn't have another job so it was a double whammy – not having an income and then spending our own money on this. I was blessed to be able to do that.

"I recognized there was intellectual property around this and a 51% chance that this might work. I raised some capital, about $120,000, formed a company and used those monies to buy some testing equipment and some more specific materials. That was in 2013."

Additional work in validating the technology and seeing potential commercialization led to a Series A round of funding in early 2014. The target of $1.8 million was exceeded (to the tune of $2.2 million), a trend that has continued through subsequent fundraising rounds.

"That gave us a lot of runway. We ran this thing for another year – the two of us (Wyatt and partner Brian Stasey). We recognized this had really converted from a single product application intended for medical use to a much broader platform. When we recognized that, we decided to raise an additional round of capital in 2015."

The Series B goal was $3 million. The eventual raise of $4.7 million resulted from several factors. One of the early investors in the round came back to Wyatt and asked if he would accept a higher level of investment – something Wyatt had not experienced. That led to a decision to keep the round open a little longer and secured additional funds from two groups comprised of teams of high net worth individuals who had pooled resources together.

Those funds were used to improve the quality system and for the ongoing intellectual property (IP) filing, as well as hiring "some very strategic engineers and research folks."

Wyatt points to some of the features of the wearable Titanium Back massage device that will be available before the end of 2017.

The Series C target of $5 million is expected to total $5.3 million with a lead investment of $3.3 million from an undisclosed strategic investment group. Some individual members of this entity have been engaged with Recovery Force since 2014.

“The reason we are raising money this time is for manufacturing scale and heavy, heavy marketing. We could have chosen not to raise money and limped into the marketplace and had a kind of slow trench warfare play of trying to get brand adoption and new technology adoption,” Wyatt observes.

“To launch a brand new technology is a really big ask – it’s tough to do one or the other, but to do both at the same is really tough. I wanted to be able to have enough financial resources and backing to do it aggressively in the right way with the right thought leaders and support network in place.”

Marketing efforts are picking up steam. Kevin Macadaeg, M.D., an advisor for Recovery Force, and Wyatt prepare for their part in some product videos.

Game plan

We know what Recovery Force has raised. The next question is how did Wyatt and partners do it.

Early on, it was a lot of one-on-one meetings with high net worth individuals. Wyatt then gathered those potential investors together for a meeting. He brought in a panel of experts from different vertical uses (medical, military, athletic recovery, etc.) and answered questions. He says the Series A round was closed pretty quickly after that.

As far as those individual meetings: “My personal strategy is to always be transparent, explain the risks and also explain the de-risking process as well to prospective investors.” Asked about the length of the presentation, he admits, “That’s probably an Achilles heel of mine. I probably spend too much time, probably too transparent about what’s going on when I could probably deliver the message in 15 to 20 minutes instead of 60.

“Because the technology is broad with these five different fields of use, you don’t know which one will appeal to a particular investor so I feel obligated to lay them all out there. Sometimes people get all five of them. I feel obligated to share that vision. I see all five as a de-risking for the company.”

In later rounds, Wyatt was always the lead but sometimes accompanied by others.

“The more capital you raise, the more raises you do, the questions get more and more technical and comprehensive,” he discloses. “Based on the individual investors’ need for information, I would insert the proper person – capital (expert), engineer, researcher. I was always on point. We never did outsource – didn’t have to pay anybody to raise the money, which was good for the company.”

It’s not surprising for some early investors to continue on in later rounds – if they see progress and continued strong potential.

Wyatt: “I am humbled beyond words that the participation from the A round to the B round and those participating in the C round – it is over 75%. This is not their first time to make an investment in an early stage innovation company. It’s a sophisticated group of high net worth individuals. For them to continue to want to follow this on, that is another validation of what we’re doing.”

Timing is everything

The next two questions for Wyatt: When is the right time to raise additional funds and at which stage is the process more difficult?

“When I raised money the first time, I naively thought we might not need to raise any more money. I subconsciously recognized this probably would not get us there. I was super cautious of cash flow. If there was anything I managed on almost a daily basis, it was cash flow, cash burn,” he explains.

“I wanted to stay way ahead of our cash burn and raise money when we didn’t really need to raise money. What I have learned is if you have the mindset of raising money when you actually don’t need the capital, by the time you ultimately raise the capital you will definitely need it. That’s because it always takes longer than you expect.”

While the process of raising funds might not change a great deal, there are some intricacies involved at the various stages. For Wyatt, it’s clear which time frame was most difficult.

“The Series A round was probably the toughest for me. This was risky. I knew it was risky, I disclosed it was risky. I was up early and going to bed late, pedaling as fast as I could to de-risk this thing. That was hard. I knew how risky this was and the investors knew that.

“The B round, I felt a little more comfortable with – there was a clear pathway to IP, clear pathway to regulatory, NIH (National Institutes of Health) validation," he continues. "We were beginning to have some early stage conversations with contract manufacturers that they could actually make this.

"On this particular round, the C round, in many respects the story is just so much easier. We have some significant milestones. We now have issued patents, we now have FDA clearance, we now have an NIH award, we now have a contract manufacturer agreement that can scale all our future products. Though we haven't sold our first devices, there have been a lot more eyes on the outside looking in that are very objective.

"I have a fully functioning workable product that I'm not trying to get someone to visualize how this is going to look or feel or function. They can put it on and make their objective decision. That makes it *a lot* (once again emphasizing the term) easier for an individual or a group to make a decision."

Up next

While Wyatt and team have experienced many more good days than bad, there are experiences one would rather forget. And that includes in the funding part of the equation.

"What I was probably a little naïve too is when sophisticated investors realize what a company's technology might be, they can lead you down some rabbit holes that eat up a lot of time. There were some instances where there was a lot of big talk and some loose promises that I probably fell for a little bit," he discloses.

"That's an exhausting process to vet that out. I try to take people's word at face value. It's disappointing to find out their intentions were not aligned with the company's intentions."

No matter what lies ahead for Recovery Force – we'll take a look at just that in November-December in our final installment of this series – the next round of capital will almost assuredly require a different approach.

"As I peek over the next wall, I would tend to agree with that assumption (that the money will come from outside Indiana – in comparison to nearly all of the investors thus far being from within the state)."

Wyatt has already received a request for due diligence from a West Coast firm for potential Series D growth capital.

"I wish the Silicon Valley Banks (helping fund start-ups for more than 30 years) of the world were in our backyard, but for a multitude of reasons they are not. My suspicion is that our growth capital is going to come from the coasts. It is what it is, I guess.

"I can predict we likely won't raise any more money from high net worth investors. It will be growth capital – venture money, mezzanine money, convertible debt. The structures of those deals will involve a CFO, myself, a board. It won't be just me. This will be the last time that happens."

RESOURCE: Matt Wyatt, Recovery Force, at www.recoveryforceusa.com