THE RUNDOWN

OBERON SECURITIES

Issue No. 3, June 2018

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WHAT'S NEW

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Raising Real Estate Capital Through Regulation A+

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Background

Regulation A+ is a relatively new alternative to a traditional IPO, which makes it easier for smaller companies to access capital. In 2012, Congress passed the Jumpstart Our Business (JOBS) Act, a law intended to support small-business growth and employment by lowering regulatory hurdles for companies trying to go public and allowing firms to have more private shareholders. In 2015, Title IV of the JOBS Act went into effect, allowing companies to raise money and offer shares to the general public and not just accredited investors.[1]

Through Regulation A+, a company can:

- Raise up to $50 million[2] in a 12-month period using a "public solicitation" of its shares and have the offering be exempt from SEC and state securities law registration[3]
- Confidentially submit its offering memorandum to the SEC;
- "Test the waters" with potential investors before pursuing a mini-IPO
- Take advantage of a streamlined, expedited review process where the company is required to make its offering memorandum public just 21 days before SEC qualification and the beginning of its roadshow
- Combine public funding (through Regulation A+) with private placements to create a larger round of fundraising[4]

In connection with offerings, companies need to comply with the rules applicable to listed companies, including filing periodic reports with the SEC. Regulation A+ provides for a versatile offering structure that can lead to listings on the NASDAQ, NYSE, or to the OTC markets.

Use of Regulation A+ by Real Estate Companies

Although both institutional and retail investors have been involved in Regulation A+ offerings, retail investors have been central to completed offerings. As such, companies and industries with business lines and products that are easily understood by retail investors have been most successful.[5] Real estate is at the forefront of this category. According to the SEC's whitepaper from November 2016, "Regulation A+: What Do We Know So Far?", real estate offerings, which were combined with those from the finance and insurance sectors for the SEC's analysis, accounted for approximately 37% of filings based on number and 50% of the aggregate offer size. A review of SEC filings reveals that since January 1, 2016, more than twenty real estate companies have filed documentation with the SEC to complete a Regulation A+ offering.

Some Practical Considerations for Conducting a Real Estate Regulation A+ Offering

To date, Oberon's Real Estate Investment Banking Team has advised two companies that have conducted a Regulation A+ offering. We are in discussions with several other platforms about this type of offering.

Time and Cost

Regulation A+ offerings were designed to be a less expensive way to go public than an IPO. Regulation A+ offerings take approximately 6 – 7 months and cost approximately $500,000 in fees and expenses (excluding bankers), while IPOs take approximately 9 – 18 months and cost approximately $1.5 – 3.0 million in fees and expenses (excluding bankers). These are, of course, estimates / rules of thumb. However, they explain in part the relative attractiveness of the offering structure.

(Below is an indicative timeline for a Regulation A+ offering.)

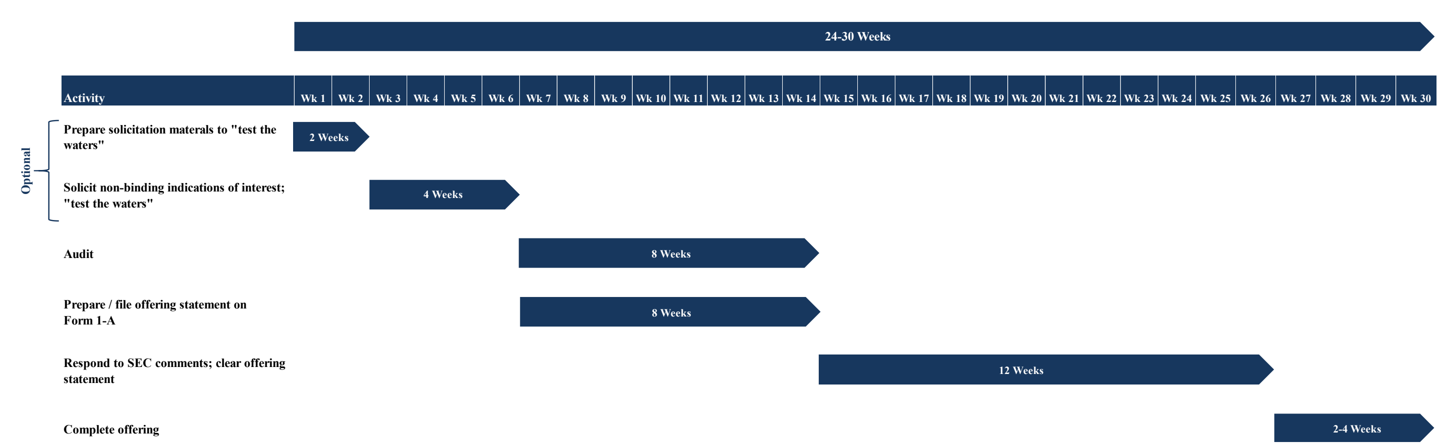
Other Practical Considerations

Initial Regulation A+ offerings tended to involve best-efforts, self-underwritten processes. These offerings were met with modest success and typically involved the issuer raising approximately $750,000 to $2,000,000 per month predominantly from retail investors. The offering conducted by MogulREIT I is an example of this type of offering. From August 15, 2016 through December 15, 2017, MogulREIT I raised approximately $29 million in gross offering proceeds and acquired assets totaling approximately $26 million.[6] This approach to Regulation A+ offerings seems best aligned with issuers looking to make small investments over an extended period of time or looking for working capital to support a broader real estate platform.

Increasingly, however, issuers have retained investment banks to assist in larger offerings conducted over a shorter period of time. For example, on January 24, 2018, Aspen REIT, Inc. announced that its offering circular to raise $33.5 million to acquire the St. Regis Aspen Resort in Aspen, Colorado had been qualified by the SEC.[7] In connection with advising one company, Oberon investment bankers had the opportunity to conduct a survey of selected broker-dealers on the "best practices" for structuring this type of offering. Selected takeaways from this survey include:

- Clients should retain an investment bank open to assembling a syndicate of five to ten broker-dealers, thereby ensuring access to a network of institutional and retail investors sufficient to complete an offering of this type
- The investment bank should work to secure an anchor institutional investor or two for the offering; these institutional anchor investors will allow retail investors to feel more comfortable with the issuer and the offering
- Based on current market conditions, investors will likely target a 7-9% dividend yield
- Investors prefer offerings focused on acquiring or recapitalizing discrete, identified assets rather than blind pool offerings; identifying the subject

Timeline for a Regulation A+ Offering



assets provides investors more confidence in the specific investment thesis and associated yields and returns

Conclusions

Although a relatively new structure, Regulation A+ offerings have garnered considerable interest and momentum among real estate issuers and investors. Regulation A+ provides investors with a relatively quick, inexpensive, and flexible structure to raise up to $50 million. To optimize the probability of a successful execution, investors should consider retaining a sophisticated investment bank well-versed in the unique considerations associated with this offering type. Oberon's experienced Real Estate Investment Banking Team is available to advise real estate platforms on this and numerous other avenues for raising public and private capital.

Sources/Notes:

[1]https://www.nyse.com/regulation-a

[2]Legislation was recently introduced to increase this limit to $75 million. The Regulation A+ Improvement Act of 2017 (the Act) was introduced on November 7, 2017 by Republican Thomas MacArthur and recently passed in the House of Representatives. https://www.congress.gov/bill/115th-congress/house-bill/4263/text

[3]Regulation A has two offering tiers: Tier 1, for offerings of up to $20 million in a 12-month period; and Tier 2, for offerings of up to $50 million in a 12-month period. The requirements for each are referenced on the SEC's website: https://www.sec.gov/smallbusiness/exemptofferings/rega

[4]https://www.nyse.com/regulation-a

[5]Forbes, "Raising Capital Or IPO: Regulation A+ Works Best For These 14 Company Types", May 23, 2017

[6]MogulREIT I Form 1-U, dated February 8, 2018.

[7]Aspen REIT, Inc. press release dated January 24, 2018.

About Oberon's Real Estate Investment Banking Team

Oberon's real estate professionals have closed over $30 billion in real estate transactions across equity, mezzanine, and debt capital raises and mergers and acquisitions. Oberon's team has extensive experience in advising real estate companies through all stages of public and private capital raising processes. The real estate team includes investment bankers from Goldman Sachs, Citigroup, and Deutsche Bank.

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Company News

New Team Members

Randolph Conone, Managing Director

Randy brings over 25 years of experience as a finance and legal professional on corporate transactions and in asset management. His background includes the execution of equity and debt underwritings, mergers & acquisitions, and related corporate structure and corporate strategy counseling as an investment banker, hedge fund manager and corporate attorney. Randy has successfully consummated transactions in the healthcare industry for medical device, medical services, pharmaceutical, hospital and other issuers in the healthcare industry, as well as for issuers in the consumer products, restaurant, business services, technology, and financials industries. Prior to joining Oberon, Randy worked in managerial and leadership roles on transactions, in asset management and in corporate positions. He was a portfolio manager for the Occasio Fund, a U.S. long/short equity hedge fund, an investment banker in the healthcare group at Bear, Stearns & Co. Inc., an officer and corporate attorney at Fortune 50 firm International Paper Company, and worked in private practice as a corporate attorney on underwriting, M&A, lending and real estate transactions. Randy earned his M.B.A. in finance from the University of Chicago Booth School of Business with Dean's List distinction, his J.D. from the University of Virginia, and his B.S.B.A. in finance from The Ohio State University, *summa cum laude*. He is also an active member of the Illinois Bar.

Len LaPorta, Managing Director

Len brings over 30 years of diverse experience within cross-border M&A, manufacturing and operations. Prior to joining Oberon, Len worked at Capstone Headwaters and was based in their Greenwich, Connecticut office. At Capstone Headwaters, Len spearheaded M&A advisory efforts in Capital Equipment, HVAC, Machine Tools, basic Industrial and Manufacturing, Advanced Materials and Non-Woven Fabric. In 2015, Len was the lead banker on a deal recognized by M&A Advisor as the Corporate/Strategic Acquisition of the Year; and by M&A Atlas Awards as Cross Border Deal of the Year for European Middle Markets. The complex transaction involving a company with manufacturing operations in 3 continents created one the largest machine tool manufacturing firms in the lapping, polishing & grinding sectors. Prior to becoming an investment banker, Len owned and operated a precision contract manufacturer that focused on highly engineered components for the aerospace and medical device industries. He personally acquired 2 manufacturing firms and executed a hands-on strategy turning around the entire manufacturing process, supply chain and quality control. Prior to selling the firm in 2006, Len's firm was selected by CR Bard as global supplier of precision components for Bard's Salute Laproscopic Suturing Device. Len earned his M.B.A. from Boston College and his B.S. from the U.S. Naval Academy, and he served as a surface warfare officer in the U.S. Navy.

Company News

Recent Representative Transactions

Nanotech Energy, Crossroads Hospice, Apollonia

March 2018

Nanotech Energy, Inc.

$3,400,000

Convertible Note

April 2018

Crossroads Hospice

Term Loan & Revolving Line of Credit

May 2018

Apollonia, LLC

Apollonia, LLC

Fairness Opinion

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