

Raising Money From Alternative Sources

Presentation to eNet

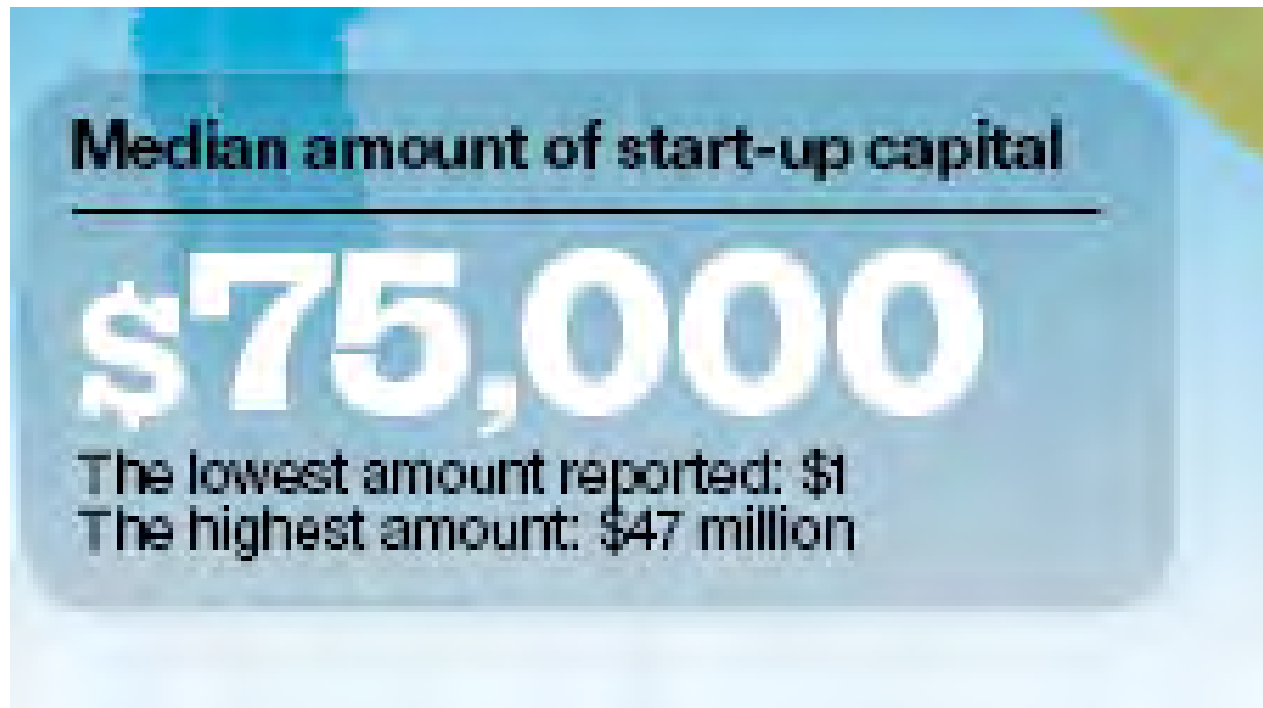
Alberto Haddad – Melcion Chassagne & Co

February 6, 2007

Did you say “Alternative”?

- Each year, *Inc.* magazine produces the Inc. 500, a list of the nation's **fastest-growing private companies**
- Only 7% of the 2006 crop received venture or private equity financing

How did the other 93% do it?



So you wonder why is this relevant for you?

Source: Inc. Magazine website

Not for your industry?



Source: Inc.
Magazine website

Not in the Boston area?

- **Cities with the most Inc. 500 companies***

- Washington, D.C. 43
- New York City 42
- Los Angeles 25
- **Boston 24**
- Atlanta 20
- San Francisco 19
- Phoenix 16
- Chicago 15
- **(tie)** Miami 13
- Philadelphia 13
- *Includes metro areas

- **Cities with the most Inc. 500 companies per million residents***

- Provo-Orem, Utah 13.27
- Washington, D.C. 8.97
- Trenton, N.J. 8.55
- Portland, Oreg. 8.2
- Austin 7.2
- Greenville, S.C. 7.14
- Raleigh, N.C. 6.27
- **Boston 5.47**
- Indianapolis 5.25
- Salt Lake City 5.16
- *Includes metro areas with more than three companies

- **States with the most Inc. 500 companies**

- California 66
- **(tie)** New York 34
- Virginia 34
- Texas 32
- **Massachusetts 28**
- Florida 25
- **(tie)** Georgia 21
- Maryland 21
- **(tie)** New Jersey 19
- Ohio 19

Financing choices start with strategy...



...or the art of
**deploying existing
resources** to establish
a favorable position

Case Study from History: Napoleon in Austerlitz

- 80,000 exhausted French soldiers
- December 2nd in Czech Republic: A really cold winter
- 180,000 Austro-Hungarians playing at home and Russians used to harsher climate
- What did Napoleon do?

Financing strategy is a function of 3 parameters

- Nature of the business (capital intensive vs service, etc...)
- Personal goals (lifestyle vs aggressive growth)
- Financing sources available given the above and their returns requirements

Funding sources by stage

Funding Source	COMPANY STAGE - <<<EARLIER – LATER>>>			
	Start-up \$0 to \$1.0M	Emerging Growth \$1M to \$10M	Lower Middle- Market \$10M to \$50M	Middle-Market \$50M to \$500M
Bootstrapping sources and techniques	Y	Y	P	
Individual Investors	Y	Y	P	
Angel Investors	Y	P		
Commercial Bank	P	Y	Y	Y
Asset-Based Lender	P	P	Y	Y
Commercial Finance		Y	Y	Y
Leasing Company	Y	Y	Y	Y
Private Equity (non buyout)		P	Y	Y
Venture Capital Fund	Y	Y	P	
Mezzanine Fund		P	Y	Y
Buyout Fund		P	Y	Y
Strategic or Industry investor	Y	Y	P	
Merchant Bank		P	P	Y
Micro-cap public companies	Y	Y	P	
Community Development Initiatives and Government Agencies	Y	Y	P	

Y = Yes, P = Possible depending on company characteristics and industry.

Source: "The Handbook of Financing Growth - Strategies and Capital Structure" P46

FINANCING GROWTH - RAISING MONEY FROM ALTERNATIVE SOURCES

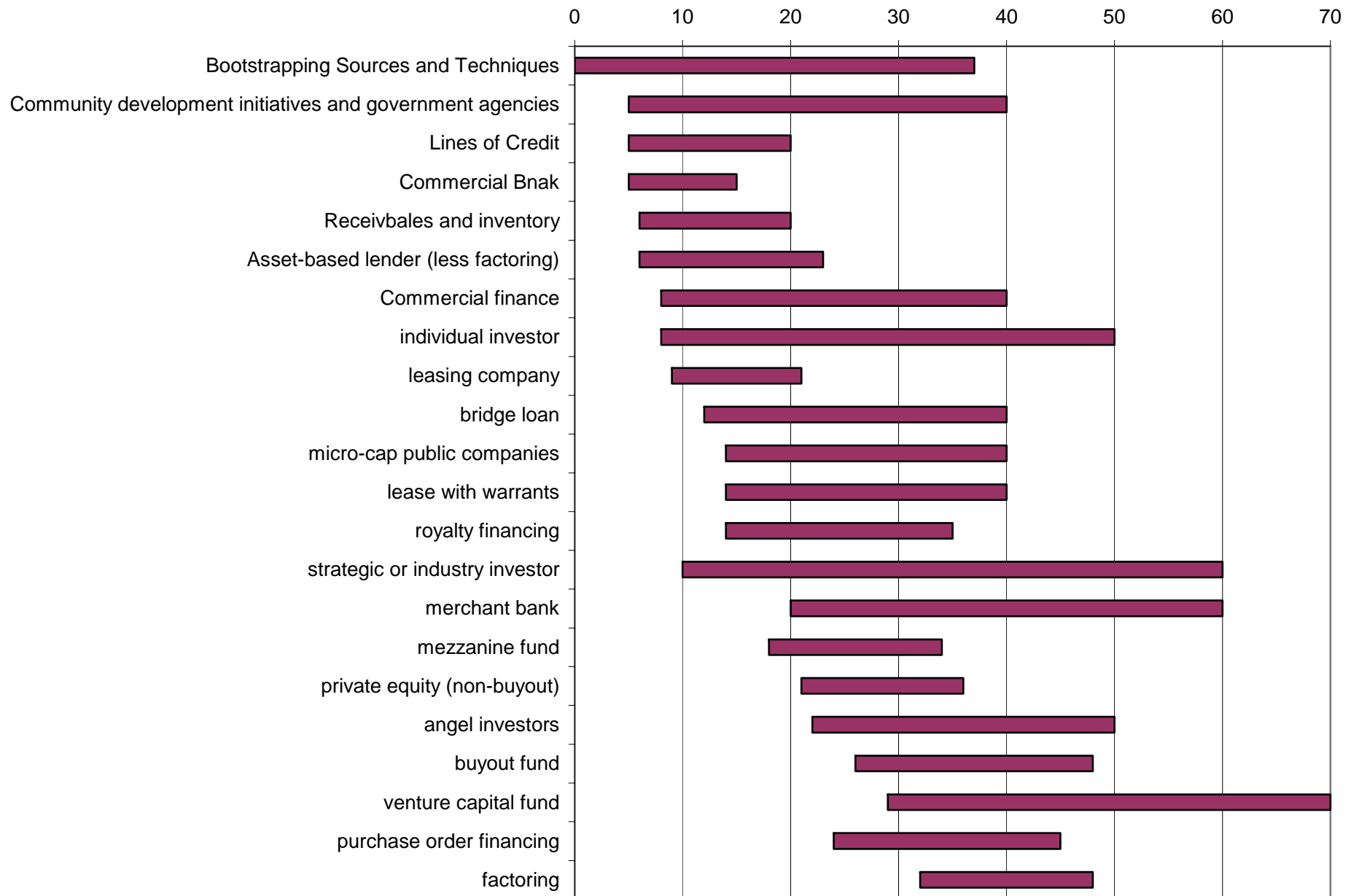
Funding sources by stage II

Funding Source	COMPANY STAGE - <<<EARLIER – LATER>>>			
	Start-up \$0 to \$1.0M	Emerging Growth \$1M to \$10M	Lower Middle- Market \$10M to \$50M	Middle-Market \$50M to \$500M
Commercial Paper				P/Y
Private placement senior notes and senior unsecured debt			P	Y
Senior debt	Y	Y	Y	Y
Junior debt			P	Y
Subordinated debt		P	P	Y
Private Equity	Y	Y	Y	P
Public Equity				P/Y
Alliances/Partnering/M&A	Y	Y	Y	Y

Y = Yes, P = Possible depending on company characteristics and industry.

Source: "The Handbook of Financing Growth - Strategies and Capital Structure" P46

Range of expected annual rate of returns



Source: "The Handbook of Financing Growth - Strategies and Capital Structure" p45

Bootstrapping

- Pros:
 1. Effective way to discipline management
 2. Minimizes capital inflow
- Cons:
 1. Cash Flow decisions take precedence over Business decisions → long term value building?
 2. Effort and persistence potential distraction from daily management

Keys to successful bootstrapping

- Accurate forecasting
- Accurate cash flow management
- Solid credit history
- Credible credit references
- Honored commitments

Borrow one drop a time: Friends, Families and...Fools



Use bank loans...



...but read the fine prints carefully!

Get home equity loans...

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NOW I KNOW THIS ONE'S EXPENSIVE, BUT JUST THINK HOW MUCH NEGATIVE EQUITY YOU'LL HAVE TO BRAG ABOUT WHEN THE MARKET FINALLY CRASHES.

...but understand
the risk at hand
and get your
family's buy-in

Explore Asset-based Lending



"Frankly, Mr Clause, we don't understand - two days ago you had assets worth billions - today, nothing..."

Asset Based Lending provides revolving credit collateralized by Accounts Receivable, Inventory and Fixed Assets

Asset-based lending soup menu

- Term/Bridge Loans for Equipment and Real Estate
- Purchase Order Financing
- Mobilization Funding
- Letters of Credit
- Trade Financing
- Factoring – accelerates and stabilizes cash-flow
- Etc...

Use Quasi-public Agencies

- **The Massachusetts Office of Business Development** provides one-stop assistance to companies including site selection, financing, permitting, workforce training and tax incentives. www.mass.gov
- **Community Development Finance Corporation** provides financing to small businesses in MA to which private capital is not readily available, with the purpose of creating or preserving jobs and promoting economic development. www.mcdfc.com

Use Quasi-public Agencies II

- **BDC New England** provides loans and investment capital to growing companies in Massachusetts.
www.bdcnewengland.com
- **New England Certified Development Companies** (CDC's) are regional economic development organizations that are licensed by the U.S. Small Business Administration (SBA). CDC's make loans under the SBA 504 loan program to assist small business
<http://www.newengland504.com/>

Loan Guidelines

- Loans from \$100,000 to \$500,000
- Revolving Line of Credit:
 - ☐ Purpose: Accounts receivable and inventory
 - ☐ Interest Rate: Variable - Prime plus 3% with floor of 10% and a ceiling of 15%
 - ☐ Financing Fee: 2% commitment fee plus 1% annual fee
 - ☐ Maturity: 12 months, with renewal option
 - ☐ Attorney and Transaction Costs: Paid by borrower in addition to financing fee.
- Term Loans:
 - ☐ Purpose: equipment purchase and working capital
 - ☐ Interest Rate: Fixed -Prime plus 3% with floor of 10% and a ceiling of 15%
 - ☐ Fees: 2% commitment fee
 - ☐ Maturity: Up to 5 years based on the useful life of equipment, if applicable. Loan amortization is equal to loan term.
 - ☐ Attorney and Transaction Costs: Paid by borrower in addition to financing fee.
- Contractor Bond Guarantee:
 - ☐ Annual Fee: 2% of Letter of Credit (LOC) amount
 - ☐ Collateral for Guarantee: 90% from CDFC, 10% from contractor
 - ☐ Attorney and Transaction Costs: Paid by borrower in addition to financing fee

Case Study 1: Alternate Revenue

Thing Magic:

- 2000: Founded in a garage in Somerville, MA by 5 MIT PhDs who didn't want external funding and focused on customer problems - profitable since day one.
- 2001: created the RFID reader of the future for MIT's Auto-ID center
- 2003: Licensed manufacturing rights to their next generation device, and announced a [collaboration](#) with Intel to develop RFID readers.
- 2004: One of the first profitable RFID companies in the world. Second manufacturing partnership with [Omron](#) of Japan
- 2005: Selected by [UK Retailer Tesco](#) for largest RFID reader orders ever.
- Took its first [round of investment](#), \$21m from investors including Strategic partners and Financial Investors

Case study 2: Pre-Payments

- 2005: Acme Engineering needed many million dollars to finance a very large order
- 2006: Obtained millions of dollars in advance payment from distributors keen on securing distribution rights for select countries



Appendix



MA Office of Business Development

- Equipment Financing
- Grants and assistance
- Real Estate Financing
- Low interest loans
- Working Capital Loans

Equipment Financing

- [Emerging Technology Fund \(ETF\)](#)
 - Supports innovation and growth in Massachusetts by providing loans and guarantees for technology-based manufacturing facilities and equipment.
 - [Equipment Financing](#)
 - Below market-rate financing of \$50,000 to \$500,000 for new equipment.
 - [Tax-Exempt Equipment Lease/Purchase Program](#)
 - MassDevelopment provides manufacturers, nonprofit institutions, and environmental enterprises with a low-cost alternative for financing \$300,000 or more in new equipment needs.
 - [Citizens Job Bank](#)
 - A low interest loan program in partnership with Citizens Bank.
 - [Tax-Exempt Financing for Manufacturers](#)
 - For funds used to purchase, renovate, or construct facilities and to finance equipment purchases. Bondholders pay no federal or state taxes on interest earned, resulting in lower interest rates and longer terms.
 - [New England Certified Development Corporation \(NEC\) Loans](#)
 - Offers the SBA 504 program to businesses for owner-occupied property as well as machinery and equipment.
 - [Coastal Community Capital](#)
 - Provide loan capital to Cape and Islanders who create businesses and jobs.
 - [SEED Corporation](#)
 - Focuses on job creation by financing small businesses in southeastern Massachusetts.
 - [CircleLending](#)
 - Loan amounts and terms are decided between the borrower and lender, though CircleLending specialists can help you understand your options. We will document your loan with a promissory note, and then manage repayment using electronic fund transfers, online accounts, email reminders and year-end reports. Loans managed by CircleLending experience a significantly lower rate of default than informal agreements, reducing both the financial and relationship risk traditionally associated with informal lending.
- E-Net of 2007 - Raising Money From Alternative Sources

Grants and assistance

Workforce Training Fund (WTF) General Program

- To provide resources to Massachusetts businesses and workers to train current and newly hired employees.
- Workforce Training Fund (WTF) Applicant Assistance Program
- Provides impartial technical assistance to companies to help them assess their most pressing training needs, design effective training programs, set quantifiable measures of success, and link with training providers if they do not have the internal expertise.
- Workforce Training Fund (WTF) Express
- To quickly and simply provide training for employees. The program utilizes existing training courses where a pricing structure already exists. Grants are limited to \$15,000 annually.
- Hiring Incentive Training Grant
- Open to all employers. It provides training grants of up to \$2,000 per employee and up to \$30,000 a year per company. This program assists in paying training costs for newly hired employees who have been unemployed over a year and those that do not have a call back date from their last employer.
- Building Essential Skills through Training - (BEST)
- BEST is a collaborative relationship with multiple education and training agencies to streamline funding and leverage expertise to provide employers ways to improve their productivity and skills of their workers.
- Building Essential Skills through Training Older Youth (BEST Older Youth)
- Similar to the BEST program, this program trains individuals, 18-24 years old, to improve basic academic skills, develop occupational skills, and become employed in successful jobs.
- Transitional Assistance For Business
- The Rapid Response program helps businesses who are in transition mode, whether they are expanding or downsizing.

Real Estate Financing

- **MassDevelopment - Real Estate Loans**
- Real estate Loans up to \$3 million for facility acquisition, renovation, construction, and permanent financing.
- **MassDevelopment - Real Estate Guarantees**
- To secure a portion of a private real estate loan, providing lenders with incentives to extend credit.
- **MassDevelopment - Taxable Bonds**
- Provides borrowers access to capital markets for industrial and commercial real estate projects.
- **Massachusetts Community Development Finance Corporation (CDFC) -The Real Estate Fund**
- The Massachusetts Community Development Finance Corporation offers flexible, short- to medium-term financing for CDFC-developed residential, commercial and industrial real estate projects.
- **Citizens Job Bank**
- A low interest loan program in partnership with Citizens Bank.

Low Interest Loans

- [The Massachusetts Banking Partners Small Business Loan Program](#)
- This is a new small business loan program designed to improve access to financing by very small businesses that are receiving one-on-one assistance and training from small business assistance providers.
- [Citizens Job Bank](#)
- A low interest loan program in partnership with Citizens Bank.
- [Massachusetts Business Development Corporation](#)
- Massachusetts Business Development Corporation's mission has always been to provide loans and investment capital to growing companies in Massachusetts.
- [MassDevelopment - Low Interest Loans](#)
- Whether you are a manufacturer, nonprofit entity, small business or real estate developer, MassDevelopment can structure a financing package that suits your needs utilizing a wide range of financing tools, such as development funds, tax-exempt bonds and a variety of loan and guarantee programs.
- [US Small Business Administration \(SBA\)](#)
- The SBA offers numerous loan programs to assist small businesses, however, the SBA is primarily a guarantor of loans made by private and other institutions.

Working Capital Loans

- **The Economic Stabilization Trust (EST)**
- The Trust offers term loans, lines of credit, and in some instances guarantees for working capital financing. The Trust will participate on a senior or subordinated basis, providing viable financing options for a variety of situations.
- **MassDevelopment - Term Working Capital**
- If growing your operation is a goal, you can benefit from a loan or guarantee from MassDevelopment, the state's financing authority. Their low rates and flexible terms will help you stay competitive in your field.
- **Massachusetts Business Development Corporation**
- Massachusetts Business Development Corporation's mission has always been to provide loans and investment capital to growing companies in Massachusetts.
- **Massachusetts Community Development Finance Corporation**
- CDFC seeks to provide financing for firms unable to meet their capital requirements in the traditional markets. Providing both term debt and line of credit financing to established businesses to enable them to expand or retain employment for local residents.

SBIR/STTR

SBIR (Small Business Innovation Research) Program

- Involves Small Technical Companies (under 500 employees)

STTR (Small Business Technology Transfer) Program

- Involves Small Technical Companies under 500 employees collaborating with non-profit research institutions, contractor-operated federally funded research and development centers, or universities

Small Business Qualifications for SBIR/STTR Programs

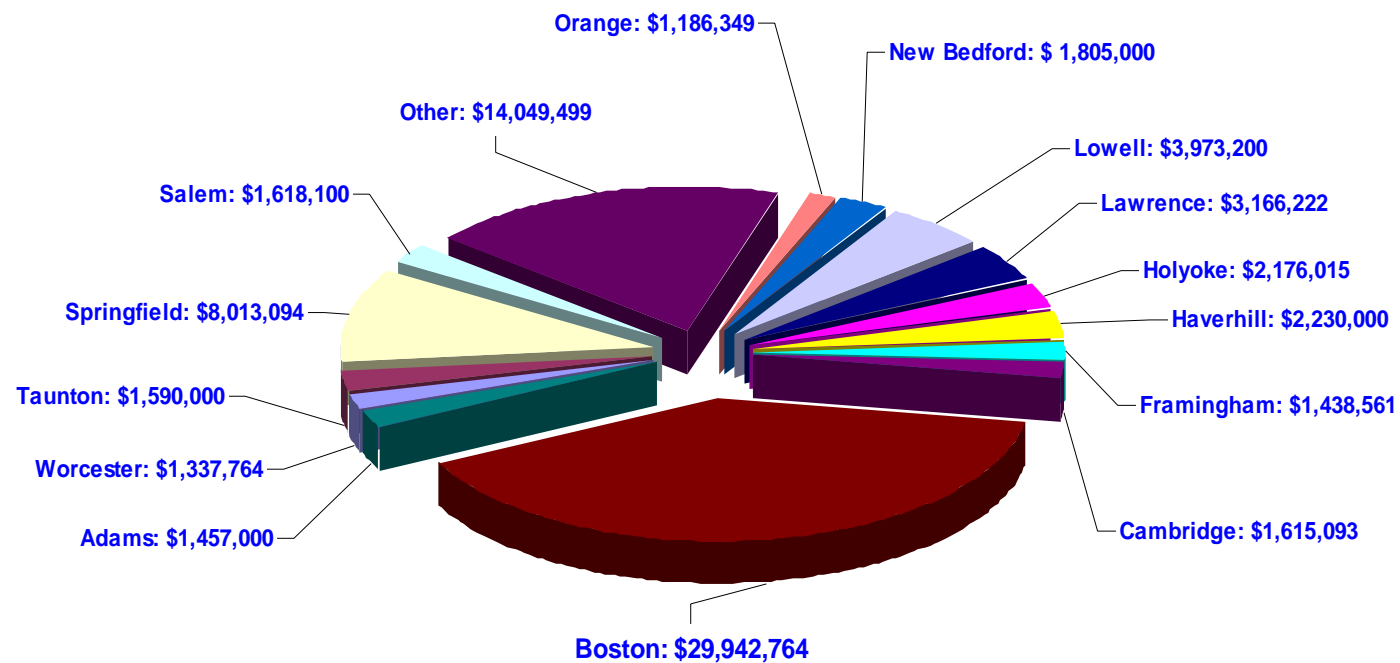
- **Independently owned and operated**
- **Principal place of business located in U.S.**
- **At least 51% owned (or if publicly traded, 51% of voting stock owned) by U.S.**
- **citizens or permanent resident aliens**
- **For profit**
- **Company size limited to 500 employees**
- **Principal researcher employed by small business**

Contacting CDFC

- Web www.mcdfc.com
- Address: CDFC
155 Federal St.
Suite 202
Boston, MA 02110
- Telephone: (617) 523-6262
- Fax: (617) 523-7676
- E-mail: MALoans@mcdfc.com

CDFC Investment by Community

*Total Investments exceed \$75,000,000**



•Graf