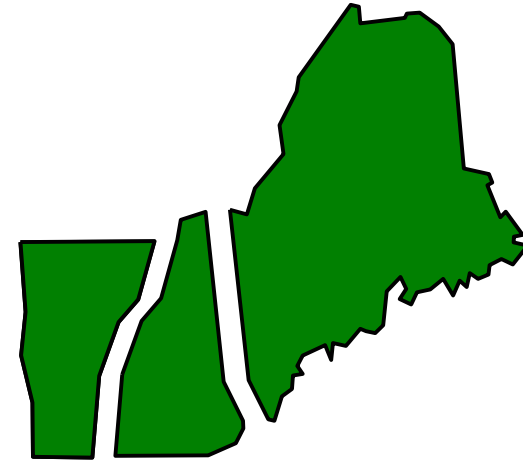


**Sponsored by:**



**BANK OF NEW HAMPSHIRE**

*A division of Banknorth, N.A.*



## **Financing Growth**

Keene, NH

June 16, 2004

# Agenda

- External Capital
  - Purposes and sources
  - Angels
  - Debt vs. Equity
- Government funding
  - SBIR Grants
- Near Equity
  - Vested for Growth
- Venture capital
  - Borealis Ventures
  - CEI Community Ventures

# Growth requires capital

## Operational capacity

- Management
- Sales and distribution
- Support and service
- Administration

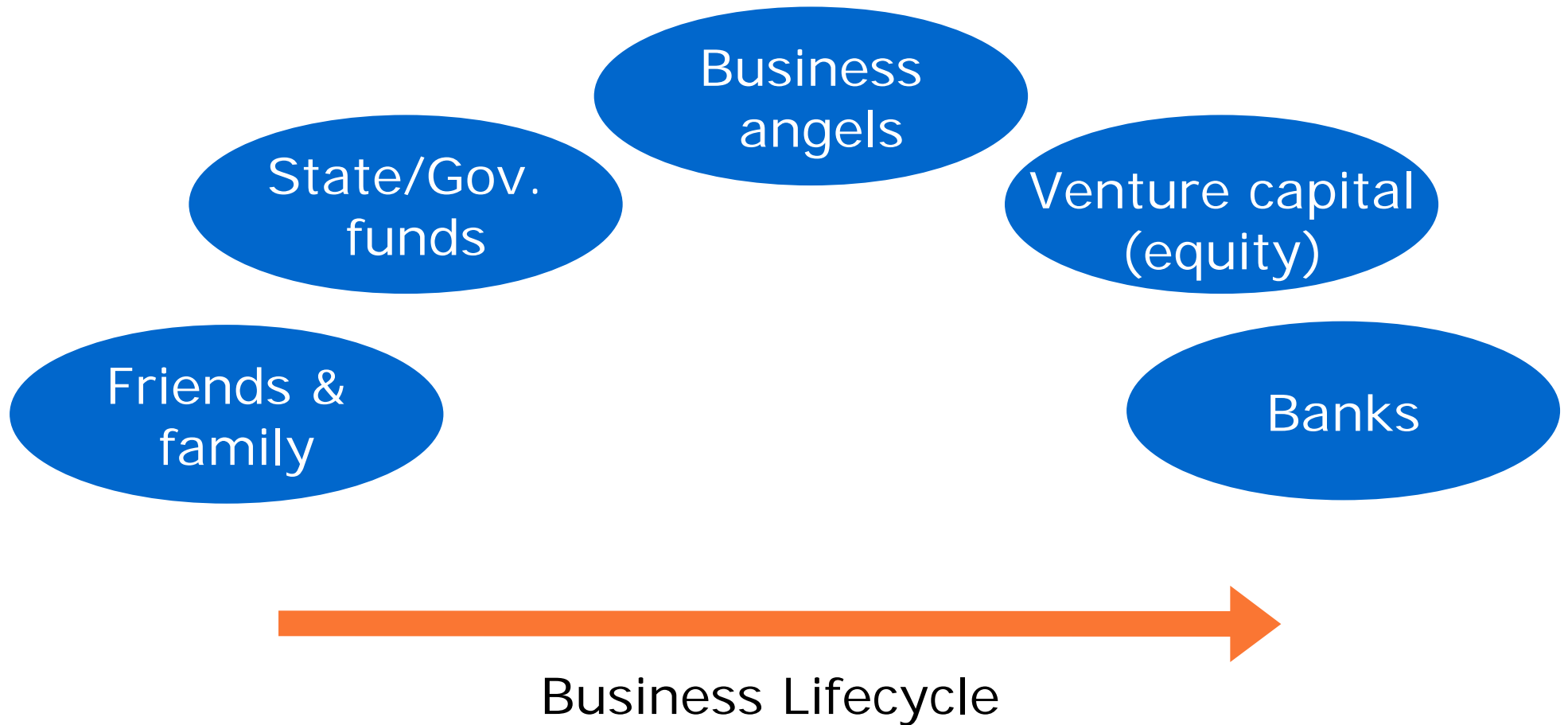
## Working capital needs

- Accounts receivables
- Inventory

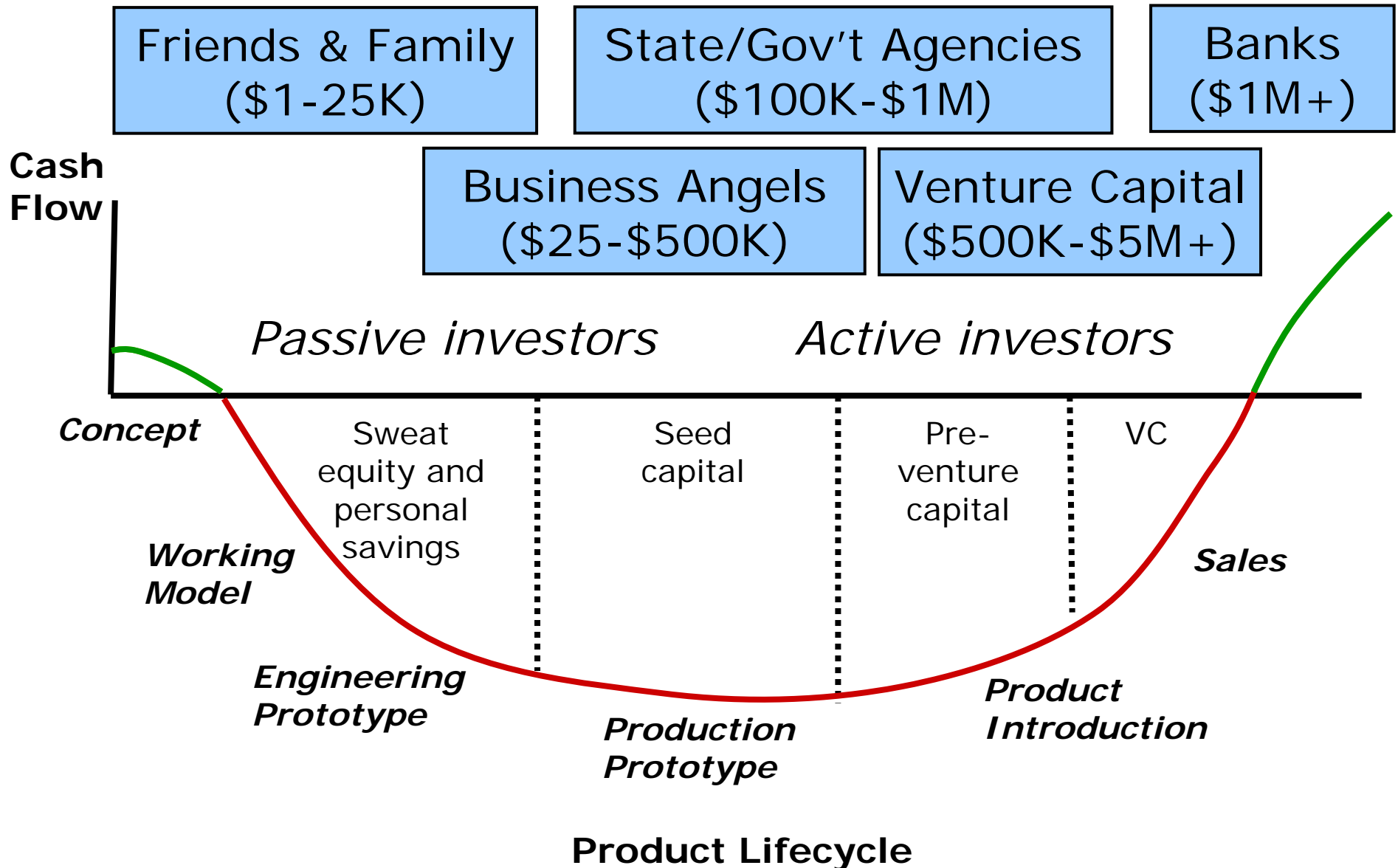
## Capital expansion

- Technology
- Equipment
- Leasehold improvements

# Sources of Funding



# Capital sources vary according to where you are in the "Valley of Death"



# Debt vs. equity: capital alternatives

## Debt

- Emphasis on collateral and cash flow to reduce risk
- Repayment starts after funding
- Return not based on company performance
- Lower risk for lender, higher for borrower
- Lower cost for borrower if business is successful
- No ownership dilution
- Supports short-medium-term expansion
- Monitoring relationship
- Boilerplate issues and documents

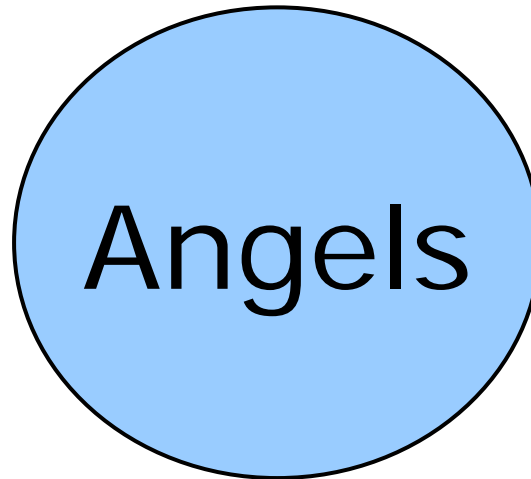
## Equity

- Emphasis on future opportunity and return on investment by assuming risk
- Deferred repayment
- Repayment dependent on company performance
- Higher risk for investor, lower risk for investee
- Higher cost if business is successful
- Ownership dilution
- Supports long term expansion
- Involved partner relationship
- Complex issues and documentation

# Who are business angels?

- Difficult to locate

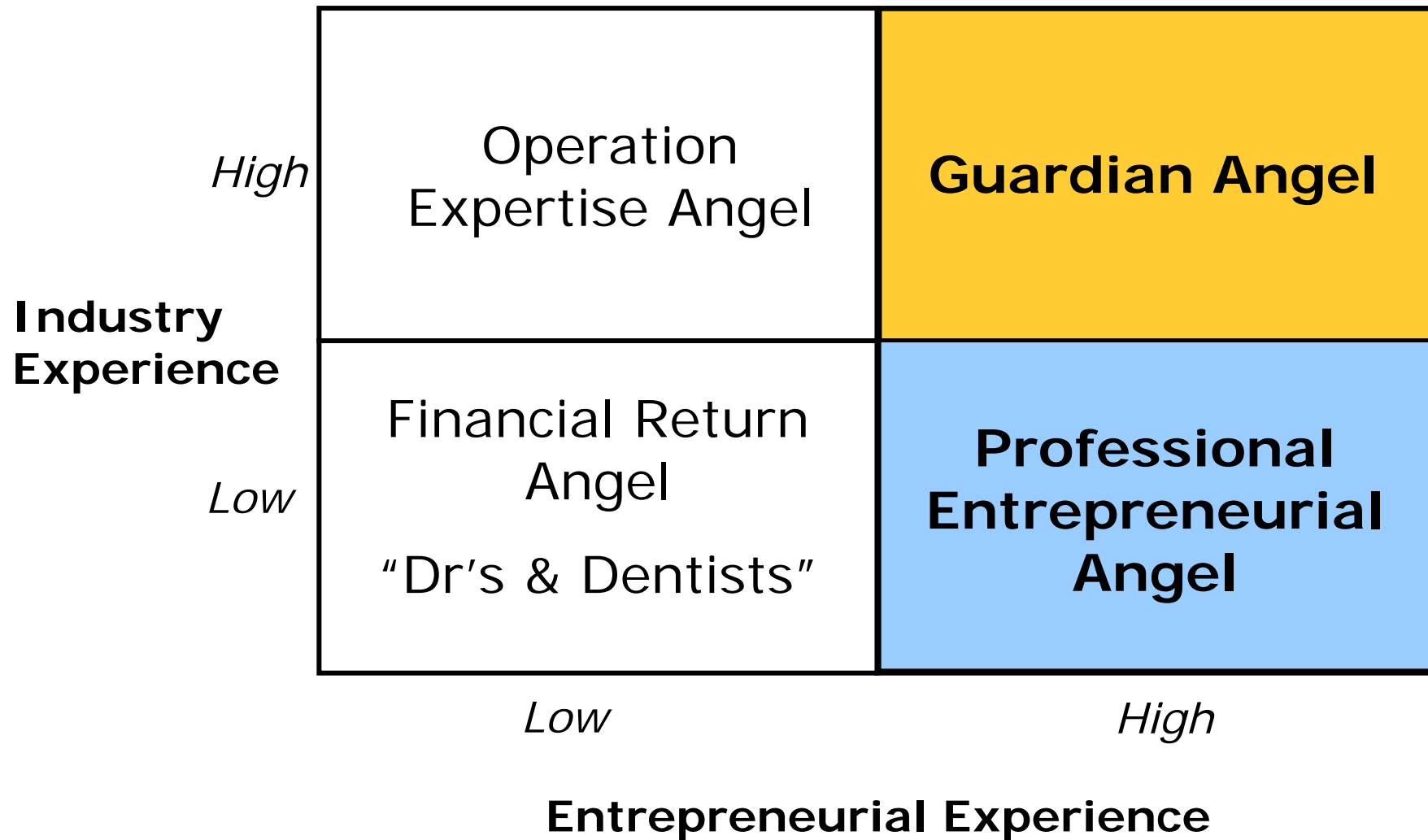
- Wealthy individuals and groups



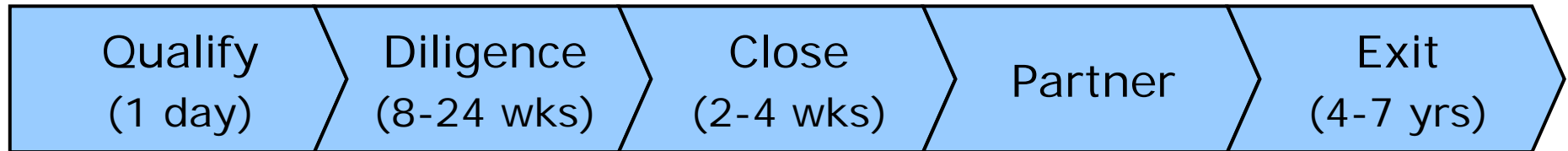
- Quality of support and advice varies

- Modest investments (\$10,000-100,000)

# Not all angels are the same



# The venture capital process and timeline



- Sector
- Story
- Management
- Margins
- Growth potential

- Management
- Market
- Competition
- Technology
- Strategy/plan

- Terms
- Legal/Acctg
- Drafting

- Active partnership
- Board of Directors

- Sale, merger or IPO

# Agenda

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# SBIR Support in New Hampshire



Mary E. Collins

Spring 2004

Small Business Development Center  
Whittemore School of Business &  
Economics

862-2200

[www.nhsbdc.org](http://www.nhsbdc.org)



# NH SBDC

A National Partnership Program

Hosted by UNH & the  
Whittemore School of Business  
and Economics

A cooperative venture: US SBA;  
State of NH; University System  
of NH and the Private Sector



**SBIR**

**Small Business Innovation Research**

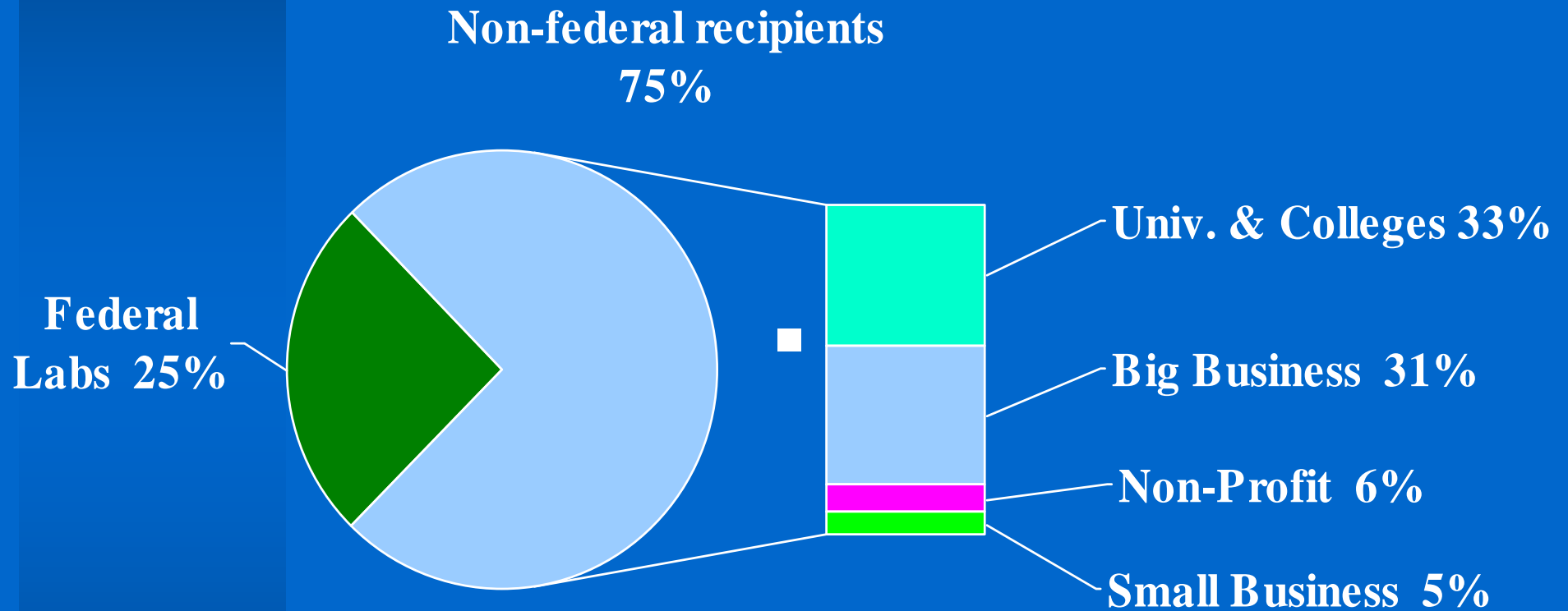
**NH F<sup>■</sup>AST**

**Federal and State Technology  
Partnership**

# Why SBIR/STTR Programs?

- **Federal Research & Development Needs can be met by:**
  - **Small Business**
  - **Academia, Federal Labs**
  - **Large Business**■
- **Small Business is a key contributor to the Economy of the Nation**
  - **Job Creation**
  - **Wealth Creation**
  - **Innovation**

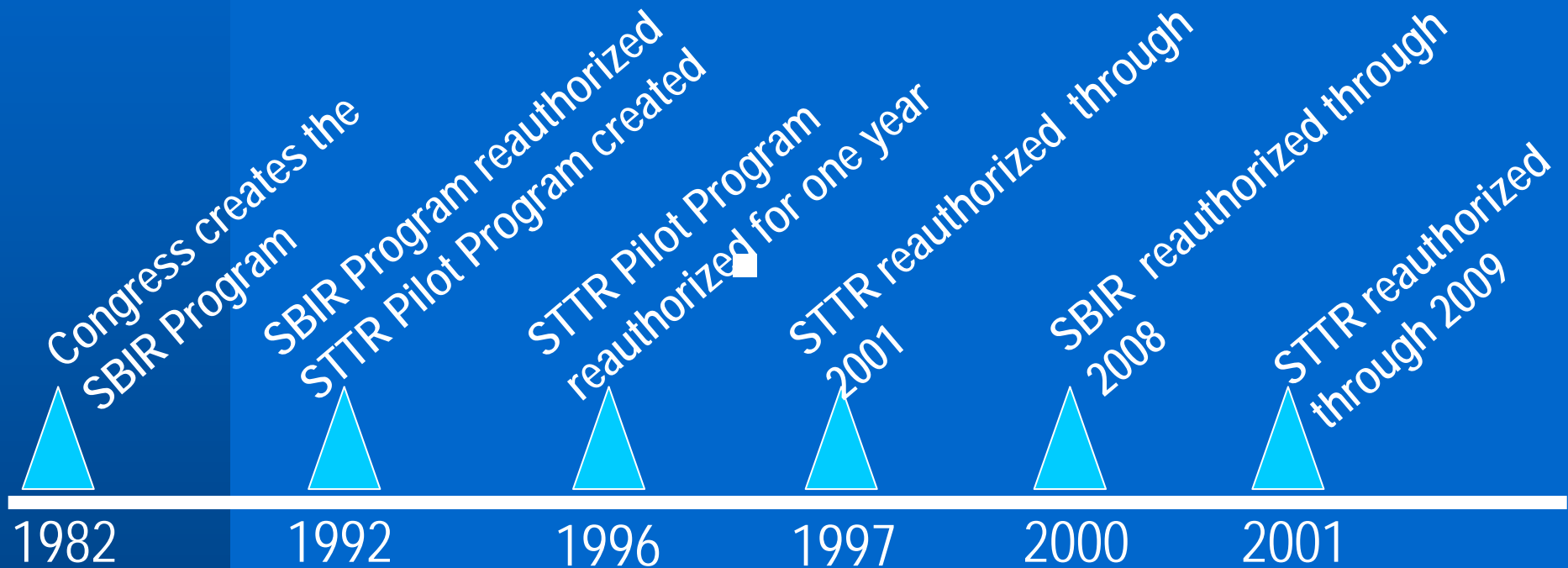
# Federal Research Expenditure



# What is the SBIR Program?

- A set-aside of federal research and development grant dollars targeted to small businesses
- Purpose: Help provide early stage R&D funding to small companies

# SBIR/STTR TimeLine



# Participating Agencies



**TOTAL ~ \$2.0B**

- DOD Defense
- HHS Health
- NASA Space
- DOE Energy
- NSF Science
- DHS HomeLand Security
- USDA Agriculture
- DOC Commerce
- EPA Environment
- DOT Transportation
- DoED Education

# Who's Eligible?



**For- profit U.S. business**



**At least 51% U.S.- owned**



**Small Business located in the U.S.**



**P.I.'s primary employment with small business during project**



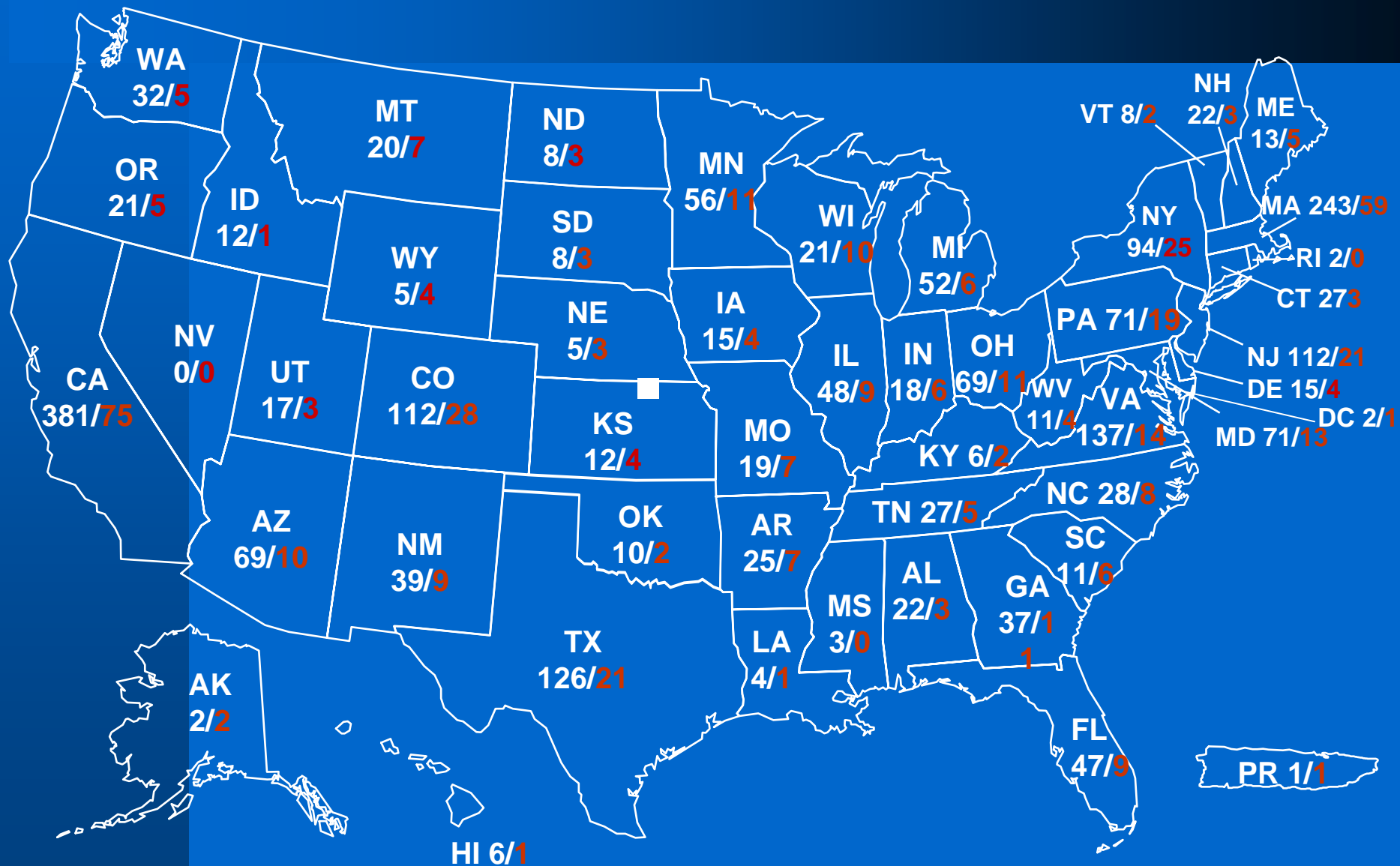
**500 employees or fewer**

# Where's the money?

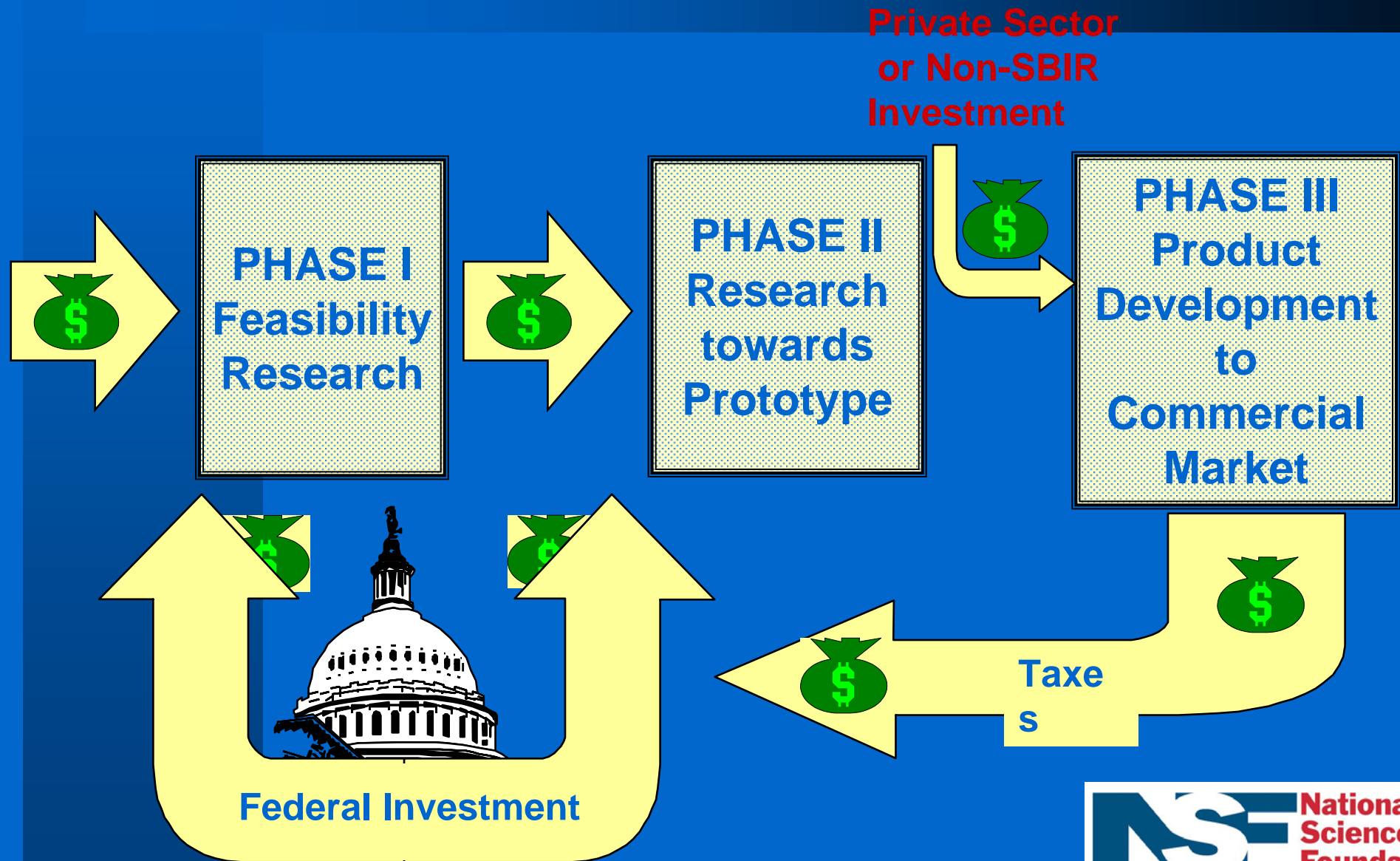
- **Phase I Feasibility Research**
  - SBIR – 6 months – up to \$100,000
  - STTR – 12 months – up to \$100,000
  -
- **Phase II – Concept Development –**
  - SBIR/STTR – 24 months up to \$500,000
- **Phase III – Commercial Application Private Funding**

# NSF FY-03 Phase I

(2,272 submissions and 476 awards)



# SBIR “Innovation” Model



# NH FAST Program

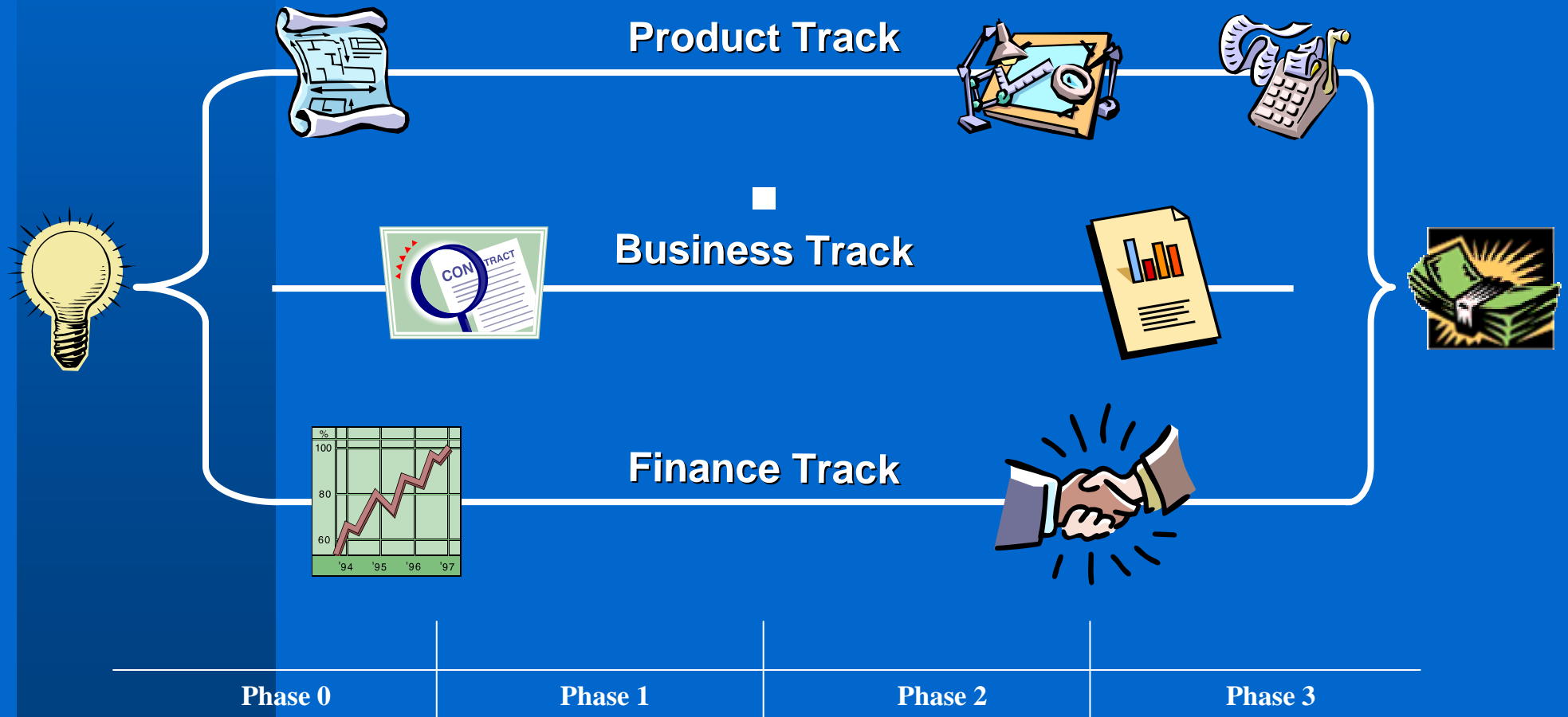
**Program  
Emphasis.....**



**.....Commercialization**

# Commercialization Model

## *From Idea to Invoice*



# Questions to Consider

- Is there a need for the technology?
- Has the necessary team for a successful program been assembled?
- Who will benefit from this technology?
- Who are the customers and who will invest?
- Has ownership of intellectual property been addressed?

# NH SBDC

## Professional Assistance Network

Intellectual Property Law

Business Law

Government Contracting

Accounting and Finance

Human Resources

Strategic Planning/Financing

Market Research

SBIR program-specific mentoring

# NH Small Business Development Center

603-862-2200

[www.nhsbdc.org](http://www.nhsbdc.org)

[www.zyn.com/sbir/](http://www.zyn.com/sbir/)

[www.sba.gov/sbir](http://www.sba.gov/sbir)



[www.acq.osd.mil/sadbu/sbir/othersites/index.htm](http://www.acq.osd.mil/sadbu/sbir/othersites/index.htm)

[www.ssti.org/Digest/digest.htm](http://www.ssti.org/Digest/digest.htm)

[www.sbirworld.com](http://www.sbirworld.com)

# EPSCOR in NH.....UNH

**Partnerships with universities, industry and government.**

- Experimental Program to Stimulate Competitive Research (EPSCOR)
- Goal: Maximize potential in state's Science & Tech resources - - - use as a foundation for economic growth.

# Agenda

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# ***Vested for Growth***

**Capital for Business Development**

*Long-Term Growth Strategies Based on People and Quality*

## VfG Intro

- Vision
  - Expand quality jobs in NH; and
  - Grow profitable businesses
- Process
  - Home-grown NH solution
  - Start from borrower not investor needs
- Market Opportunity
  - Fill the space between bank and VC



## First Deal

- Bortech Inc., Keene NH
  - Portable arc-welding machine (patented)
  - 10 yr old business to be sold
  - High quality jobs for non-degreed people



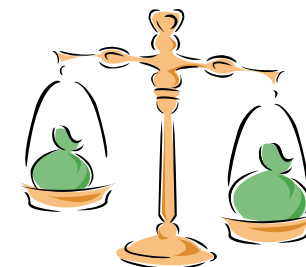
## First Deal

- Interested buyer
  - Local buyer with a \$500K capital gap
  - Not bankable, but did not want venture capital
  - Seeking win-win relationships

# New Solution



- Debt with revenue participation (Royalty)
  - Priced to reflect risk/reward balance
  - 9% from debt - \$500,000 at 9% for 10 years
  - Balance from % gross sales



# Debt with Revenue Participation

- Ownership is not diluted
- Exit does not require “cash-out” event
- Upside beyond debt is based on how well the company does
- Sub-chapter S corporations qualify

# Why entrepreneurs value VfG

- Risk tolerant
  - “Banker gone wild...”
- Patient partner and no ownership required
  - “Kinder, gentler venture capital”
- Not government program
  - Flexible resource
  - Hybrid b/t debt and equity



# What is VfG looking for?



- Entrepreneur with strong character
- Business with a strong growth proposition
- Shared belief in key business principles

# Ideal Prospect Company

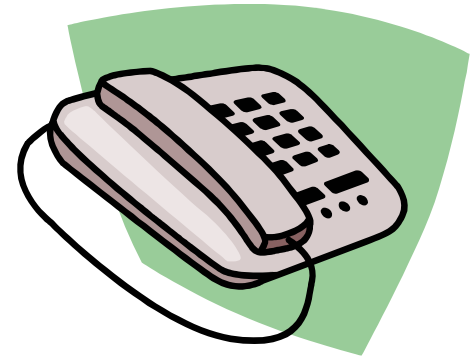


- Sells a solution, not a commodity
  - Customers buy based on relationship, not price
- Invests in R & D
  - Stays early in the product development lifecycle
- Generates or disrupts a market
  - Doesn't follow the market



## Latest Deal

- Design Mentor Inc., Pelham NH
  - Design engineering services
  - Clients: Medical device companies developing “next generation” technology
  - Expansion capital
    - Increase operational capacities
    - Develop “in-house” technology
  - 1/3 jobs = technicians



## What to refer to VfG?

- NH Business
- Capital needs \$100k-\$500k
- Stage: Start-up; Growth; Acquisition; and Employee buy-out
- Sectors:
  - Manufacturing
  - Service
  - Not retail and not contractors

## To share ideas or referrals ...

- Contact John Hamilton...

Phone: 224-6669 ext 239

Email: [jhamilton@vestedforgrowth.com](mailto:jhamilton@vestedforgrowth.com)

Visit VfG website: [www.vestedforgrowth.com](http://www.vestedforgrowth.com)

# Agenda

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# THE BOREALIS FUND

*Venture Capital Uniquely Focused  
on Northern New England  
- Building the Next Generation of Great  
NNE Companies*

Financing Growth

June 16, 2004

# Investment Focus

*Geography:* Northern New England

*Sectors:* Information Technology, Life Sciences, Communications, Physical Sciences, Other High-Growth Businesses

*Stage:* Seed-Early Stage

*Investment Size:* Up to \$1.5M per company over life of investment (usually \$250k-\$750k initially)

*Role:* Lead investor (but will follow quality lead investor in deals requiring specialized expertise or greater capital)

# Requirements

- TEAM
  - relevant industry, passion, execution.
- MARKET
  - large, timing, customer behavior.
- PRODUCT/SERVICE
  - painkiller, product growth, proof points.
- BUSINESS MODEL – make money?
- DEAL - good for all?

# Portfolio Overview

<i>Portfolio Company</i>	<i>Sector</i>	<i>Stage</i>	<i>Borealis Role</i>
<b>GlycoFi</b> <i>(April 2002; Dec. 2003)</i>	Biotech	Early	Co-invest
<b>ThermalVision</b> <i>(Jan. 2003; April 2003)</i>	Medical Device	Seed	Lead
<b>Scribe</b> <i>(Jan. 2003; Oct. 2003)</i>	Software	Early	Lead
<b>Magenta Medical</b> <i>(April 2003; March 2004)</i>	Medical Device	Seed	Co-Lead
<b>Medical Media Systems</b> <i>(Aug. 2003)</i>	Medical software & services	Early	Lead
<b>AEC1/Newforma</b> <i>(Dec.2003) (May 5<sup>th</sup>)</i>	Software	Seed Series A-5m	Founder NBVP-Kodiak



# The Borealis Fund

FORWARD PLANS TO

[info@borealisventures.com](mailto:info@borealisventures.com)

## **CONCORD, NH**

114 N. Main Street  
Concord, NH 03301

(603) 226-4480

[jdevitte@borealisventures.com](mailto:jdevitte@borealisventures.com)

## **HANOVER, NH**

10 Allen Street  
Hanover, NH 03755

(603) 643-1500

[pferneau@borealisventures.com](mailto:pferneau@borealisventures.com)



# **Venture Capital at Coastal Enterprises, Inc. (CEI)**

CEI Community Ventures

CEI Ventures

CEI is a Maine-based non-profit CDFI with two for-profit VC subsidiaries

**Coastal Enterprises Inc.**

```
graph TD; CEI[Coastal Enterprises Inc.] --- CVI[CEI Ventures (CVI)]; CEI --- CCVI[CEI Community Ventures (CCVI)];
```

**CEI Ventures (CVI)**

- Founded in 1994
- Investing second fund (\$20M)

**CEI Community Ventures (CCVI)**

- Founded in 2001
- Completing first fund (\$10M)
- \$3M OA

Contact: Michael Gurau  
([mhg@ceicommunityventures.com](mailto:mhg@ceicommunityventures.com))

# Venture Capital at CEI: Fund comparison

	<b>CEI Ventures (CVI)</b>	<b>CEI Community Ventures (CCVI)</b>
<b>Fund size</b>	<ul style="list-style-type: none"><li>• \$20M</li></ul>	<ul style="list-style-type: none"><li>• \$10M</li></ul>
<b>Avg. investment</b>	<ul style="list-style-type: none"><li>• \$1M</li></ul>	<ul style="list-style-type: none"><li>• \$500K</li></ul>
<b>Geographic focus</b>	<ul style="list-style-type: none"><li>• New England</li></ul>	<ul style="list-style-type: none"><li>• ME, NH and VT with geographic and size constraints</li></ul>
<b>Operational since</b>	<ul style="list-style-type: none"><li>• 1994</li></ul>	<ul style="list-style-type: none"><li>• SBA licensed as of April 2003</li></ul>
<b>Contact info</b>	<ul style="list-style-type: none"><li>• Nat Henshaw (<a href="mailto:nvh@ceimaine.org">nvh@ceimaine.org</a>)</li></ul>	<ul style="list-style-type: none"><li>• Michael Gurau (<a href="mailto:mhg@ceicommunityventures.com">mhg@ceicommunityventures.com</a>)</li></ul>

# Venture capital at CEI: Common threads

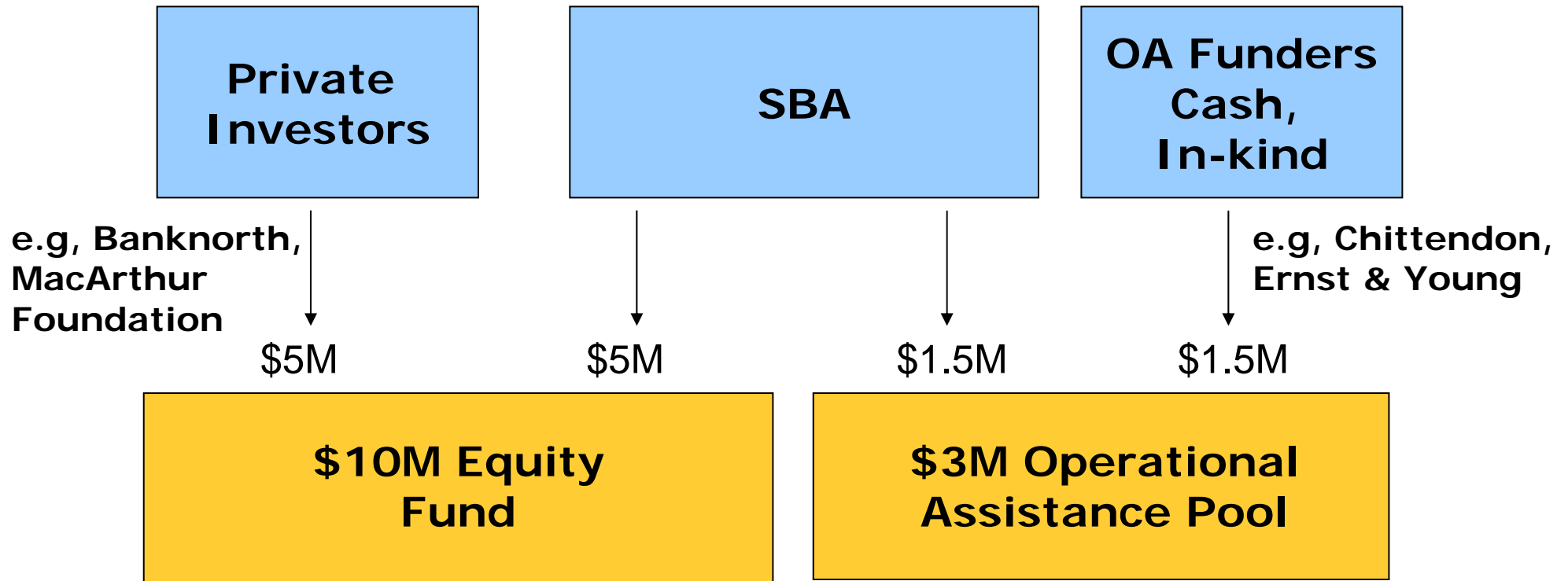


Financial and  
social returns

Multi-  
sector,  
multi-  
stage

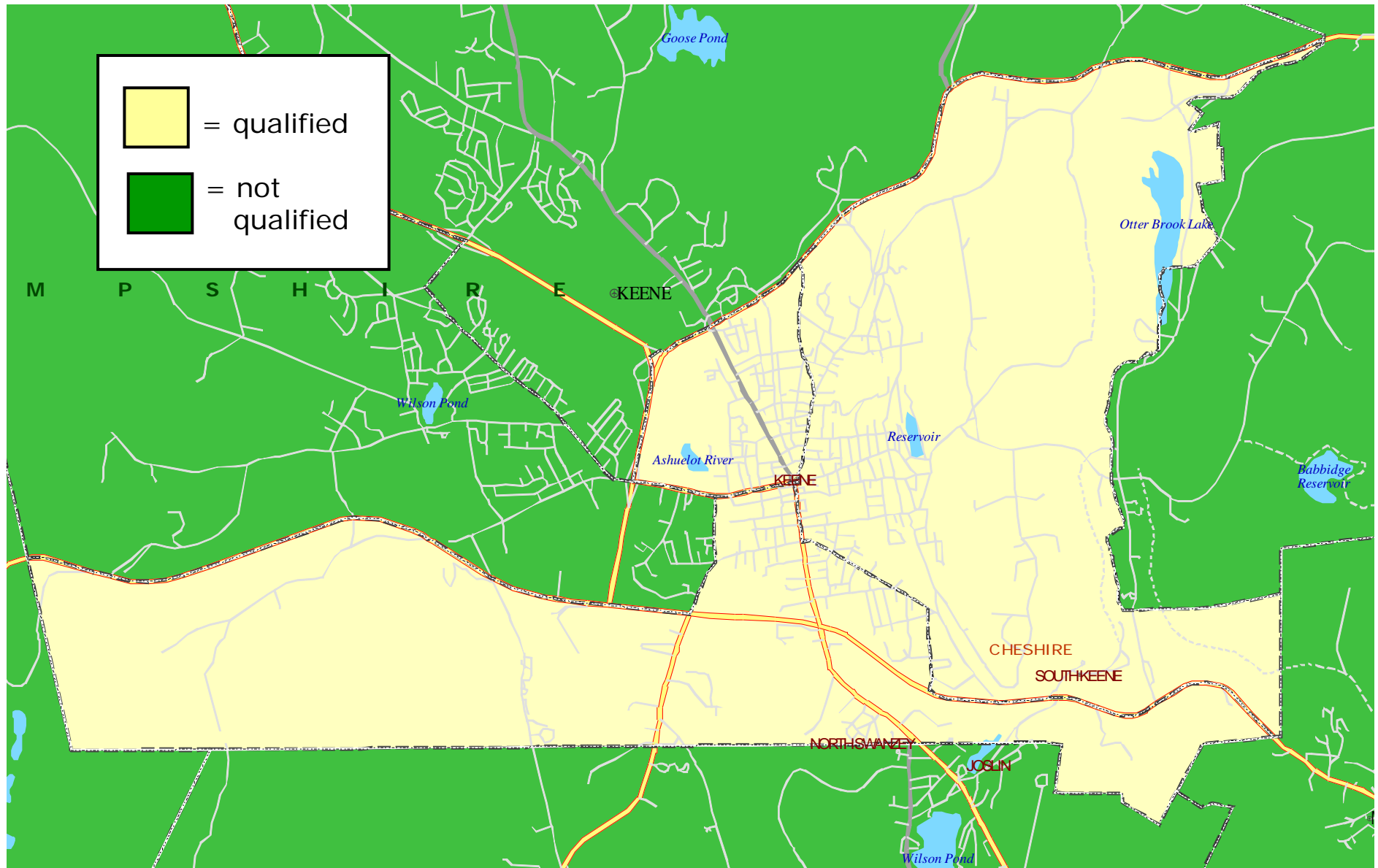
New  
England  
focus

# CEI Community Ventures points of difference



**Investments focused in distressed communities (HUB, EC/EZ Zones, low-income areas)**

# Qualified Keene Tracts



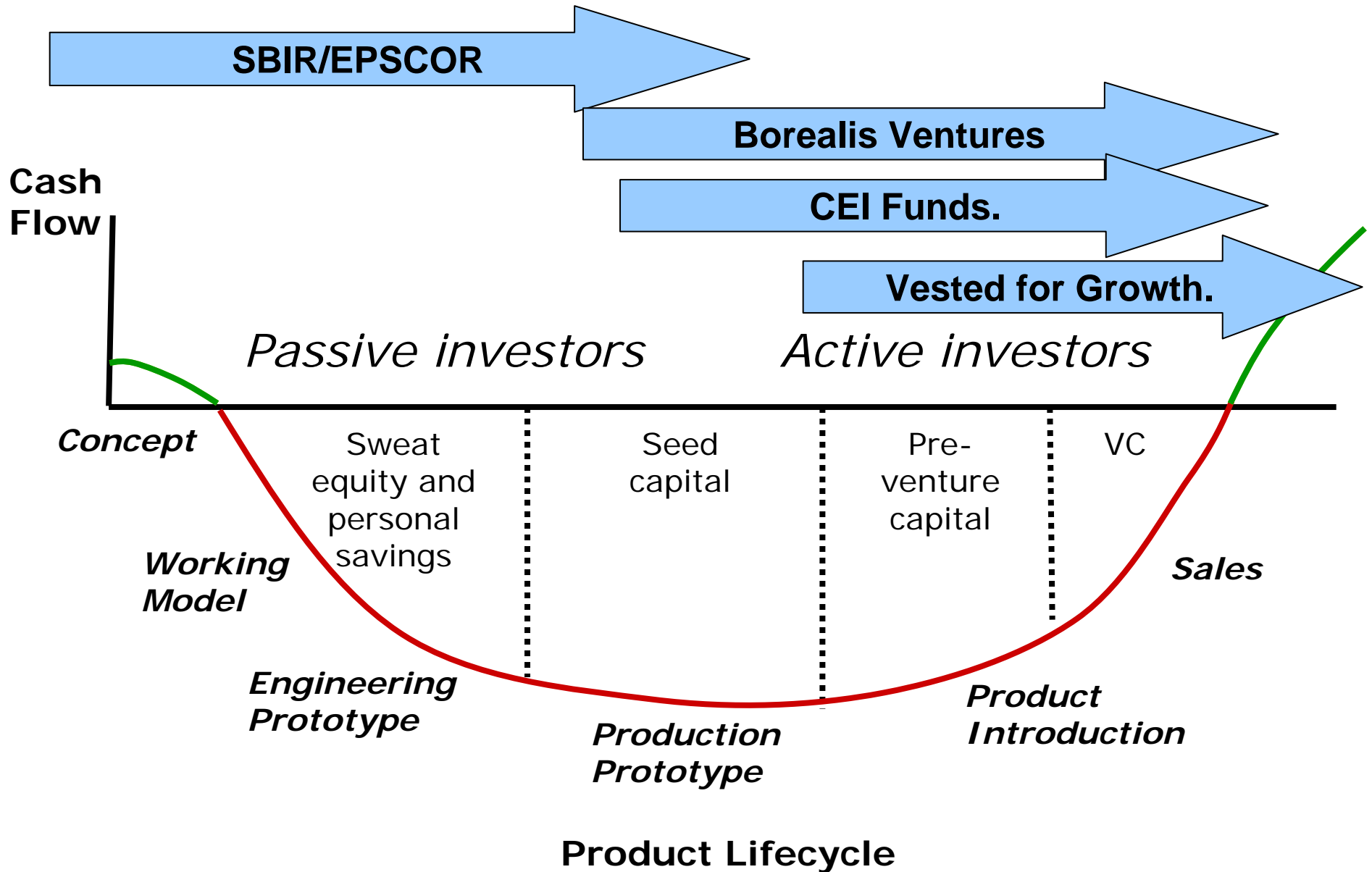
# Seeking venture capital – considerations

- Personal ambition
  - Role in company over time
  - Issues around exit: lifestyle vs. the next Microsoft
- Your odds of securing funding
- Stage of development
  - Business planning
  - Pre-commercialization
  - Commercialization
  - Growth

# Summary

- This list is not exhaustive
  - Other types of financing and/or support resources exist
    - Local and regional economic development entities
    - SBA and SBDCs
- Consider your objectives when evaluating financing sources
  - Personal
  - Professional
  - Financial

# Where the funds fit on the Valley of Death



Thank you

**Sponsor:**



**BANK OF NEW HAMPSHIRE**

*A division of Banknorth, N.A.*