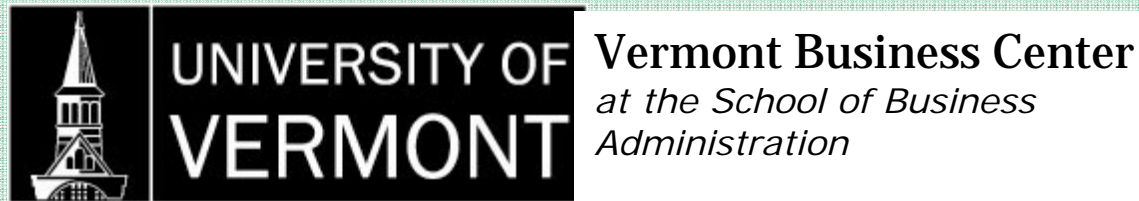


Sponsored by:



Financing Growth

Stowe, VT

November 2nd, 2005

Agenda

- External Capital
 - Purposes and sources
 - Debt v. Equity
 - Venture capital process
- Government funding
 - SBIR Grants
- Venture capital
 - Fresh Tracks Capital
 - CEI Community Ventures

Growth requires capital

Operational capacity

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

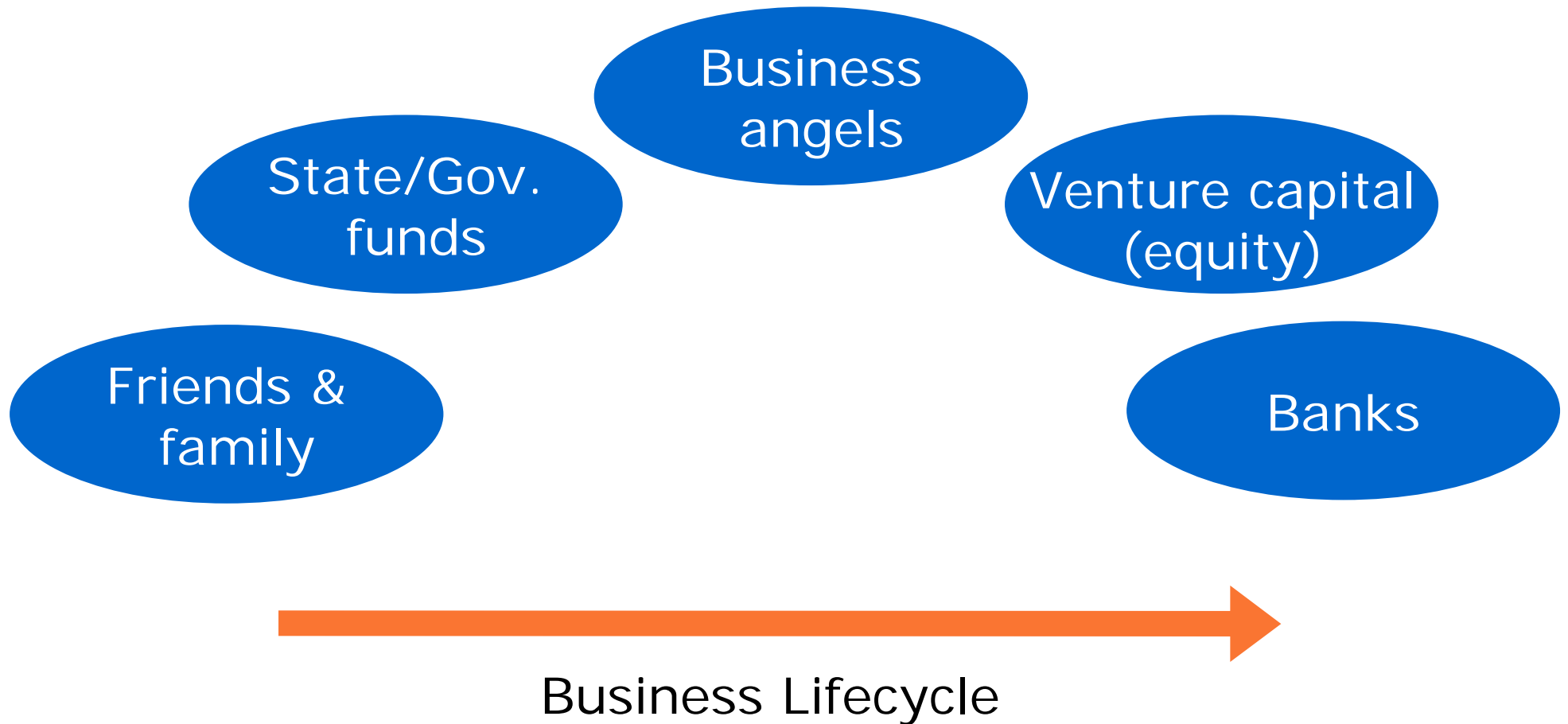
Working capital needs

- Accounts receivables
- Inventory

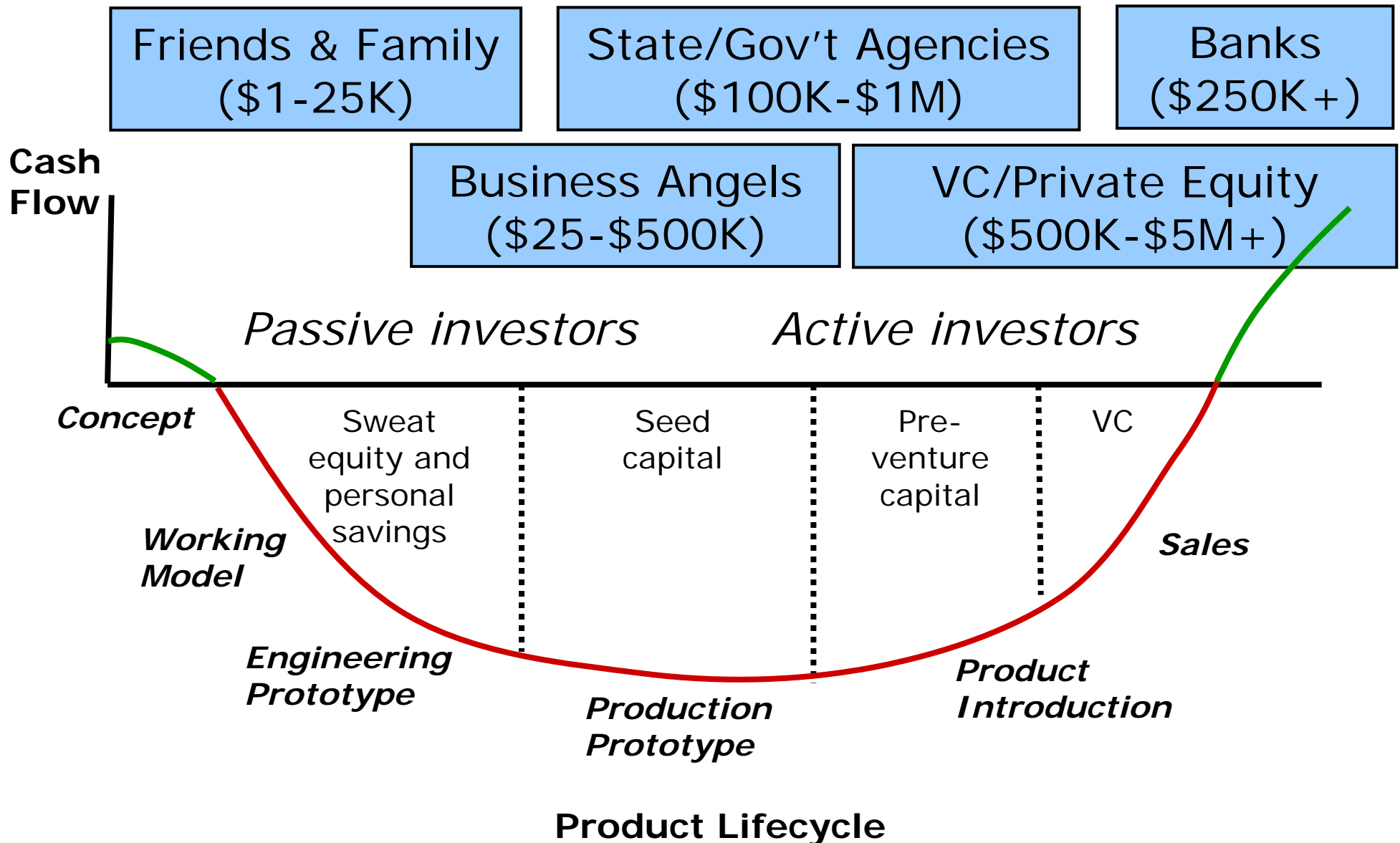
Capital expansion

- Technology
- Equipment
- Leasehold improvements

Think about the sources of funding across the life of your business



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



Debt vs. equity

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

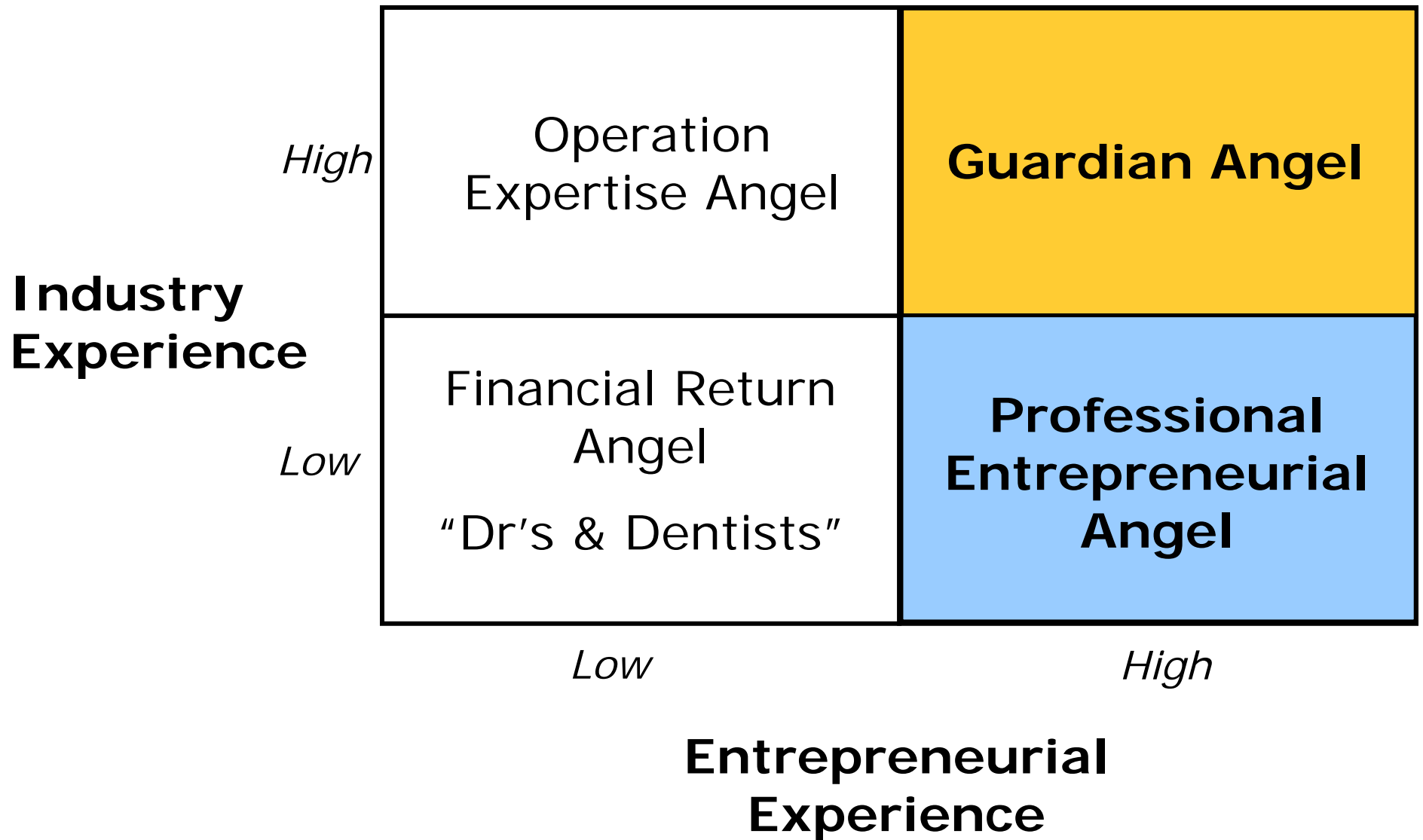
Equity

- 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

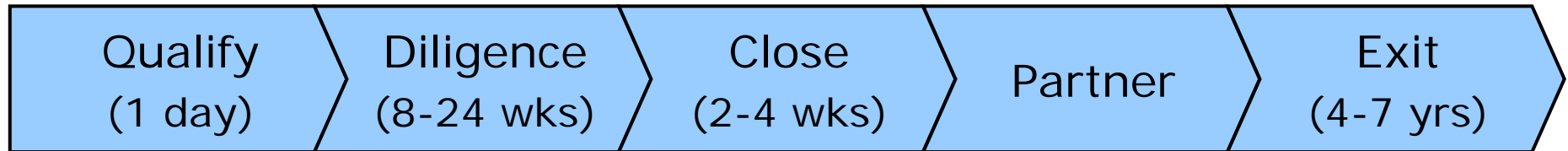
The front line of equity investors: business angels

- Angels: wealthy individuals who make equity investments in companies, typically early-stage
 - Difficult to locate
 - Modest investments (\$10-100K)
- Sometimes individuals organized in groups
 - Larger investments
 - Periodic meetings; opportunities to present
 - Vermont Angel resources
 - ▶ North Country Angels (Fred Wainwright at Tuck -- wainwright@northcountryangels.com)
 - ▶ Vermont Investors Forum
- Quality of support and advice can vary

Not all angels are the same



The venture capital process involves several distinct stages



- Sector
- Story
- Management
- Margins
- Growth potential
- Exit options

- Management
- Market
- Competition
- Technology/
Barrier to entry
- Strategy/
plan

- Terms
- Legal/
Accounting
- Investment

- Active partnership
- Board of Directors

- Sale/
merger or
IPO

VCs assess your business' situation against the ideal

Management

- Made money for investors
- Successful startup, ideally in same sector/space
- Complete team in core areas (sales, marketing, finance, etc)

Market

- Large, fast growing with few competitors

Product/ Tech.

- One-tenth cost or 10X performance of nearest competitors
- Proprietary position (barrier to entry such as established market position and/or intellectual property, patents)

Business Model

- Scalable: make once, sell many times
- Appropriate for venture capital financing--no real estate

Financial

- Sustainable gross margins > 50%
- Limited financing risk (future rounds likely)
- No financial liabilities that affect value or equity position

Legal

- No legal contracts that affect value or equity position
- No outstanding litigation around intellectual property or other assets

Stage risk overlays weighted business risk: Later = lowest risk



Lowest Risk = Highest Valuation

Not every risk carries equal weight

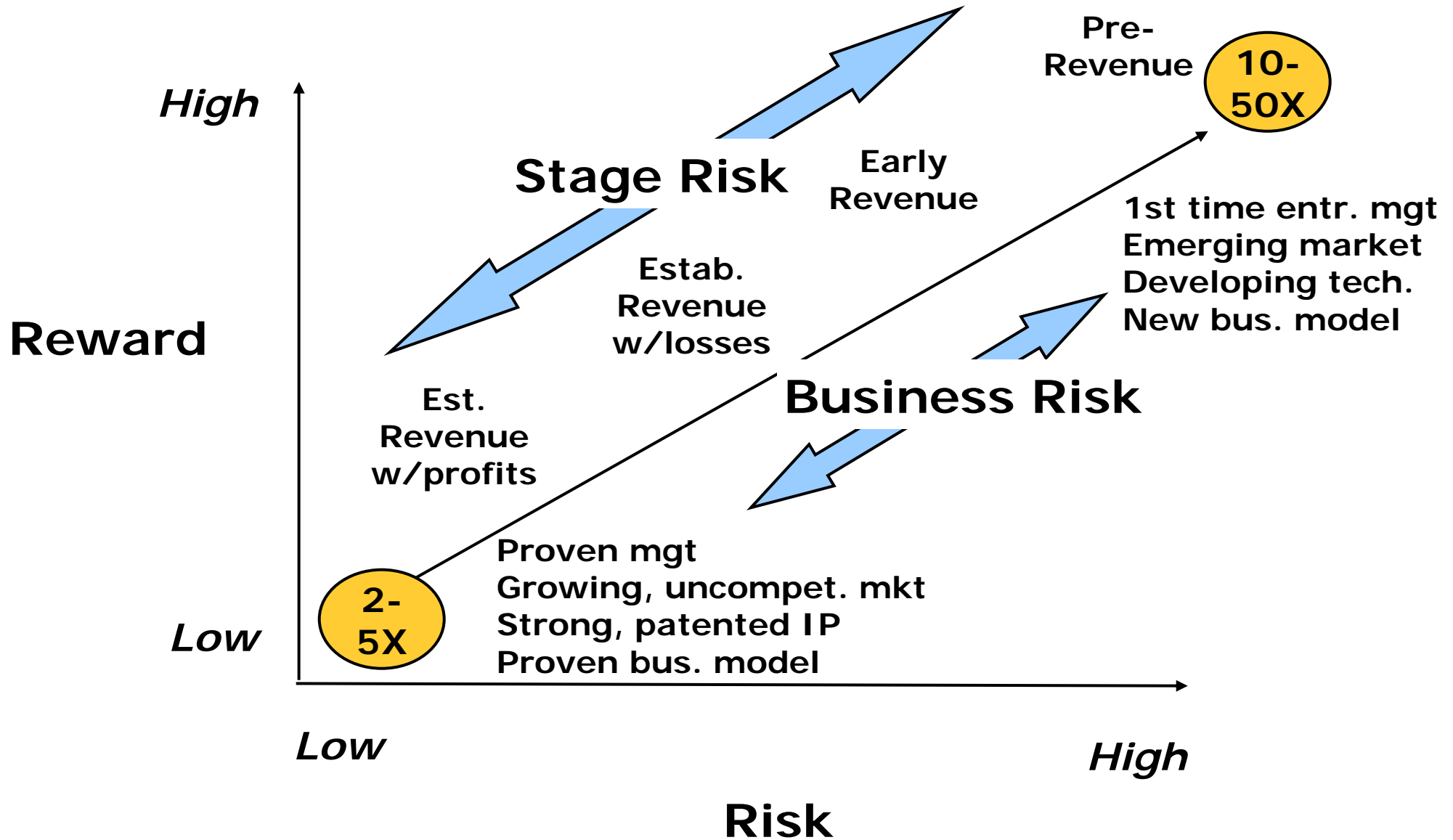
	Risk rating (1=low; 5=high)	Risk weighting	Weighted risk rating
Management	• 3	• 40%	• 1.2
Market	• 2	• 30%	• 0.8
Product/ Barrier to entry	• 3		
Business model	• 2	• 30%	• 0.8
Financial	• 3		
Legal	• <u>1</u>	• 0%	• =
Average	• 2.3		• 2.7

Stage risk overlays weighted business risk

- **Early stage:** Pre-revenue; early revenue with losses
- **Development stage:** Established revenue with losses
- **Later stage:** Established revenue with profits

Stage	Risk	Return multiple
• Early	• Highest	• 7 + X
• Development	• Medium	• 4-7X
• Later	• Lowest	• 2.5-4X

Reward follows risk



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Innovation Soup: SBIR

Growth Financing Workshop

15

Mark Blanchard
Technology Development Advisor
VT Small Business Development Center



A Rich Alphabet Soup

SBA

VDED

UVM

GMAC

EPSCoR

SBIR

DoD

DOE

DHS

NIH/HHS

USDA

ED

NSF

DOT

NIST

NASA

NOAA

DOC

EPA

and ... VtSBDC

A Partnership of Government, Education and
Business with a mission

To strengthen existing business entities and
assist start-ups through high quality, no cost
counseling, and high quality, affordable
training programs.

VtSBDC Gateway to Business Assistance

- State HQ at Vermont Technical College
 - Administration & Environmental Program
 - VT Tech Enterprise Center (Incubator)
- Business Advisors housed at RDCs around Vermont
- Technology Development & Commercialization
 - Statewide Advisor working out of White River Jct.
 - Assists firms with SBIR process, business strategy and locating resources

SBIR: Helping make rich stock

Tried & True recipe from the Feds.

To fortify your Innovation, try SBIR. Mix it in

- Early
- Mid-way
- Late, or
- Repeatedly

So what is this ingredient???

SBIR – No Ordinary Acronym...

- **S** – Set aside for **Small** business
 - 60% have < 25 employees, most common is 2 to 9 people
 - 50% have annual sales < \$500,000
- **B** – Grantee must be a for-profit **Business**
- **I** – Funds high risk **Innovation** R&D projects
- **R** – Funds over \$2.2 Billion in FY 2005 for **Research**

SMALL BUSINESS INNOVATION RESEARCH

Cooking up Money

- **Research** is the transformation of money into knowledge
- **Innovation** is the transformation of knowledge into **money!**

Geoffrey Nicholson, 3M retired

Three Layer Cake, Sort Of

- Phase I – Proof of Concept Study
 - \$70,000 - \$100,000
 - 6 months
- Phase II – Substantive R&D
 - Up to \$750,000
 - 2 years
- Phase III – Commercialization
 - You're on your own! Typically private or non-SBIR government sources to get to market.

For the Birds ... Early Birds

- SBIR funds early-stage proof of concept
- You have to know your stuff, but
- You don't need a prototype

-
- SBIR does not fund existing products
 - SBIR is not for marketing

Two Flavors

- SBIR
 - 2.5% of federal agency R&D budgets set aside specifically for small business.
 - 14 federal agencies participate.
- STTR
 - Smaller program - 0.3% of federal agency R&D budgets and 5 agencies.
 - Requires small business collaboration with research institution.

SBIR / STTR Solicitations

- DOD SBIR/STTR
- NIH SBIR/STTR
- NSF SBIR/STTR



- NASA SBIR/STTR
- DOE SBIR/STTR
- USDA SBIR
- DOC SBIR
- EPA SBIR
- DOT SBIR
- ED SBIR
- DHS SBIR
- HUD SBIR

**TOTAL ~ \$2.2 B
FY 2004**

Vt Smorgasbord of Winners

- From 1984, 55 Vermont businesses won 164 Phase I & 65 Phase II grants worth \$42 million.
 - They come in all shapes & sizes
 - ConceptsNREC – Rocket Fuel Turbo Pumps
 - Beeken & Parsons, - Character Wood Furniture
 - Microstrain Inc. – Remote Communication with embedded sensors
 - Biomosaics – Test for HTLV-1 Mediated in vivo t-cell expansion
- ... and they come from all around the State.

May You Partake?

- For profit business (or at least trying to be!)
- At least 51% U.S. owned & independently operated.
- Must be physically located in U.S.
- Principal Investigator's (PI) primary employment must be 51% with the small business.
- 500 or fewer employees, including affiliates.
- STTR – PI employment can be with research institution.

Not for those of little appetite!

- Highly competitive process, requires major time investment.
- Do your homework – look for fit between agency needs and your expertise.
- Talk to the program managers!
- Project should fit comfortably into biz plan.
- Time frame must be appropriate for company and market.

For a good helping...

1. Innovative concept with real world use
2. Know your stuff and state of the art
3. Great team
4. Read carefully, follow the solicitation rules
5. Creative content, not proposal format
6. Write well: be Succinct & Clear
7. Viable Business Plan

Don't forget the Buffet

- Remember the other 97.2% of the R&D \$
- Remember sales of interim products to the Feds or others
- Kollaboration is King

Once you get a taste

- Layer SBIRs from the same or different Agencies
- Use them to fund your core R&D
- Entice partners
- Intellectual Property is yours

Top 10 Desserts

10. Over \$2 Billion available.
9. Not a loan – no repayment.
8. Gives you recognition, verification & visibility.
7. Leveraging tool for attracting risk capital.
6. Fosters partnerships (corp., academic).
5. Seed money to fund high risk projects.

Top 10 (cont.)

4. Creates jobs and generates tax revenue.
3. You typically keep IP rights.
2. Gets you involved in the federal procurement process.
1. Where else are you going to find this kind of risk money?

*Credits for top 10 list: J. Hennessey, NSF, J. Goodnight, NIH, L. Eiden, DoEd

Get Cookin' with VT EPSCoR SBIR Phase 0

- Pre-seed grant program for prelim. data
- Up to \$10,000
- Solicitation for 2005 closed 3/17. Try next year.
- Since 1992, 120 awards worth \$900,000
- www.uvm.edu/EPSCoR

Piqued your appetite? There's help in the kitchen...

- VT SBIR Outreach Program will help!
 - Mark Blanchard, SBDC Tech Advisor
 - mblancha@vtsbdc.org (802) 295-3710
 - Paul Hale, Ph.D., VT Technology Council
 - Paul.hale@uvm.edu
 - GMAC at Thinkvermont.com
- SBIRWORLD.com, ZYN.com & Agency Websites

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FreshTracks Capital, L.P.

Stowe Presentation
November 3, 2005

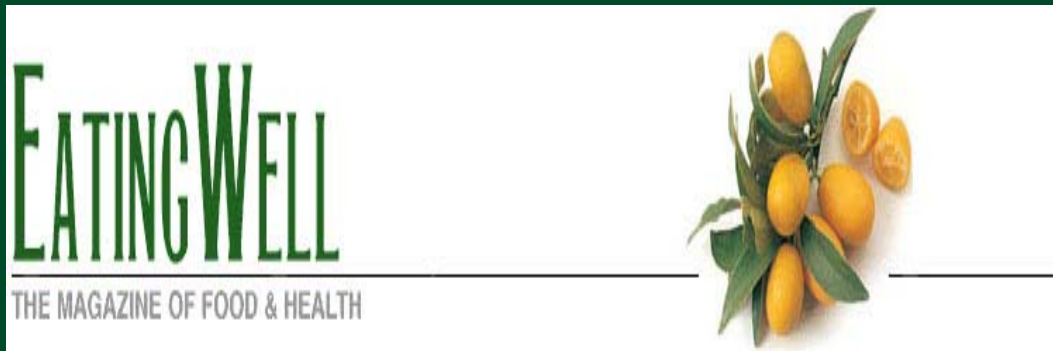
Background

- Formed in 2001.
- \$11 million venture fund with 50+ LPs.
- Co-investment partnership with Village Ventures adds another \$4 million.
- Market focus is Vermont, New Hampshire counties bordering Connecticut River, New York Counties to west of Lake Champlain. (so called “core geography”)
- Some investing through “syndicated” transactions outside of core geography.

Investment Activity

- Invested \$5.5 MM in 11 portfolio companies
- 1 exit in core geography
- 5 remaining “core market”
- 5 syndicated transactions
- 80% of dollars to date invested in “core market”
- Size range \$250 thousand to \$1.5 million in any “core market” investment and up to \$350 thousand in any “non-core market” investment.

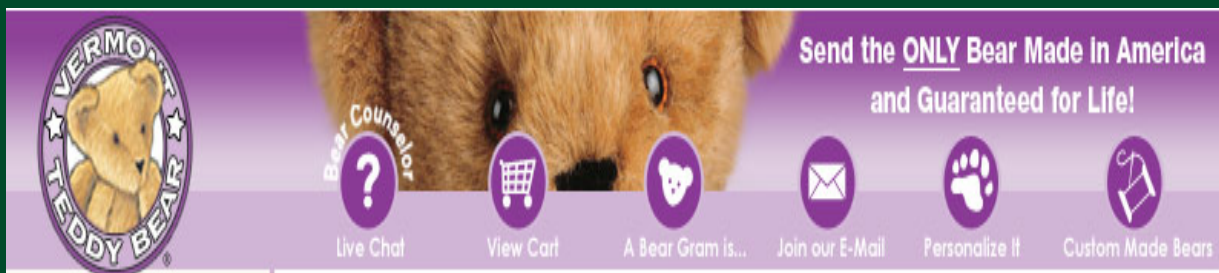
Portfolio Companies



Relaunch. Grown to largest investment to-date



Water bottler Randolph Vermont (& 5 other locations)



Took private along with Mustang Group as co-investor

Requirements

- Strong Mgt Team with Domain Experience
- Large Growing Market
- Proprietary Technology/Innovative Defensible Product/Service
- Reasonable business model
- Scalability to \$25 million in sales

- Avoid
 - Retail/ restaurant/ real estate
 - “Turn-arounds”, propping up old line manufacturing
 - Low margin businesses



Stowe, VT

November 2, 2005

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

Coastal Enterprises Inc.

CEI Ventures, Inc.

Community Development Venture Capital

(CVI)

- Founded in 1994



**COMMUNITY
VENTURES**



(CCVI)

- Founded in 2001; SBA licensed as of 2003

Venture capital at CEI: Common threads



Financial and
social returns

Multi-
sector,
multi-
stage

New
England
focus

Venture Capital at CEI: Fund comparison



Fund size	<ul style="list-style-type: none">• \$20M	<ul style="list-style-type: none">• \$10M
Avg. investment	<ul style="list-style-type: none">• \$1M	<ul style="list-style-type: none">• \$500-750K
Geographic focus	<ul style="list-style-type: none">• Eastern Seaboard (Primarily New England)	<ul style="list-style-type: none">• ME, NH and VT (with geographic and size constraints)
Contact info	<ul style="list-style-type: none">• Nat Henshaw (nvh@ceimaine.org)• Mark Kaplan (mdk@ceimaine.org)	<ul style="list-style-type: none">• Michael Gurau (mhg@ceicommunityventures.com)• Michael Burgmaier (mcb@ceicommunityventures.com)



**COMMUNITY
VENTURES**



Equity plus...

**Private
Investors**

e.g, Banknorth,
Ford Foundation,
VT Community
Foundation

\$5M

SBA

\$5M

**OA Funders
Cash,
In-kind**

e.g, UVM, Chittenden
Bank, Yale-Goldman
Sachs

\$1.5M

\$1.5M

**\$10M Equity
Fund**

**\$3M Operational
Assistance Pool**



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



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Washington County Barre, VT

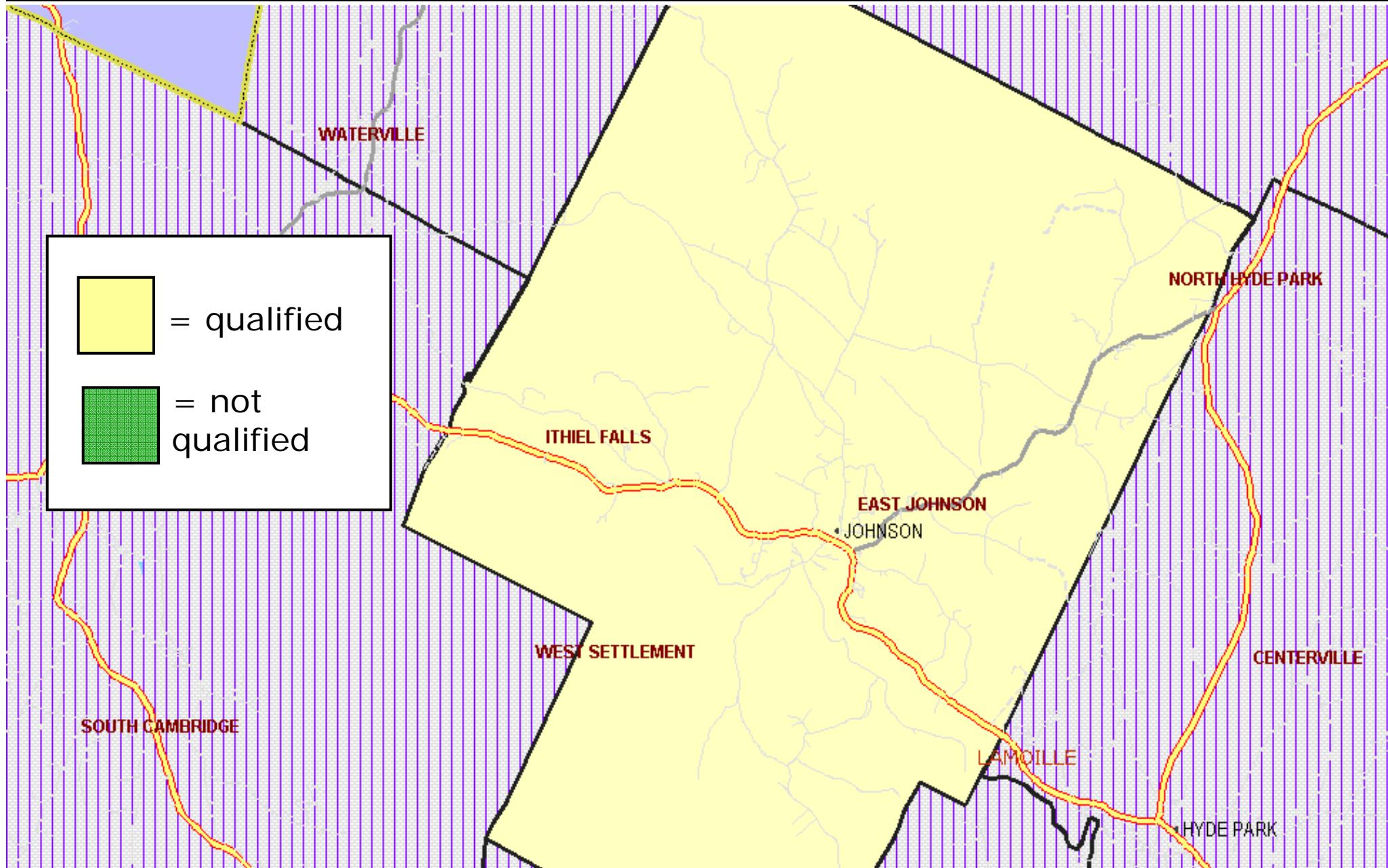




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Lamoille County Johnson, VT

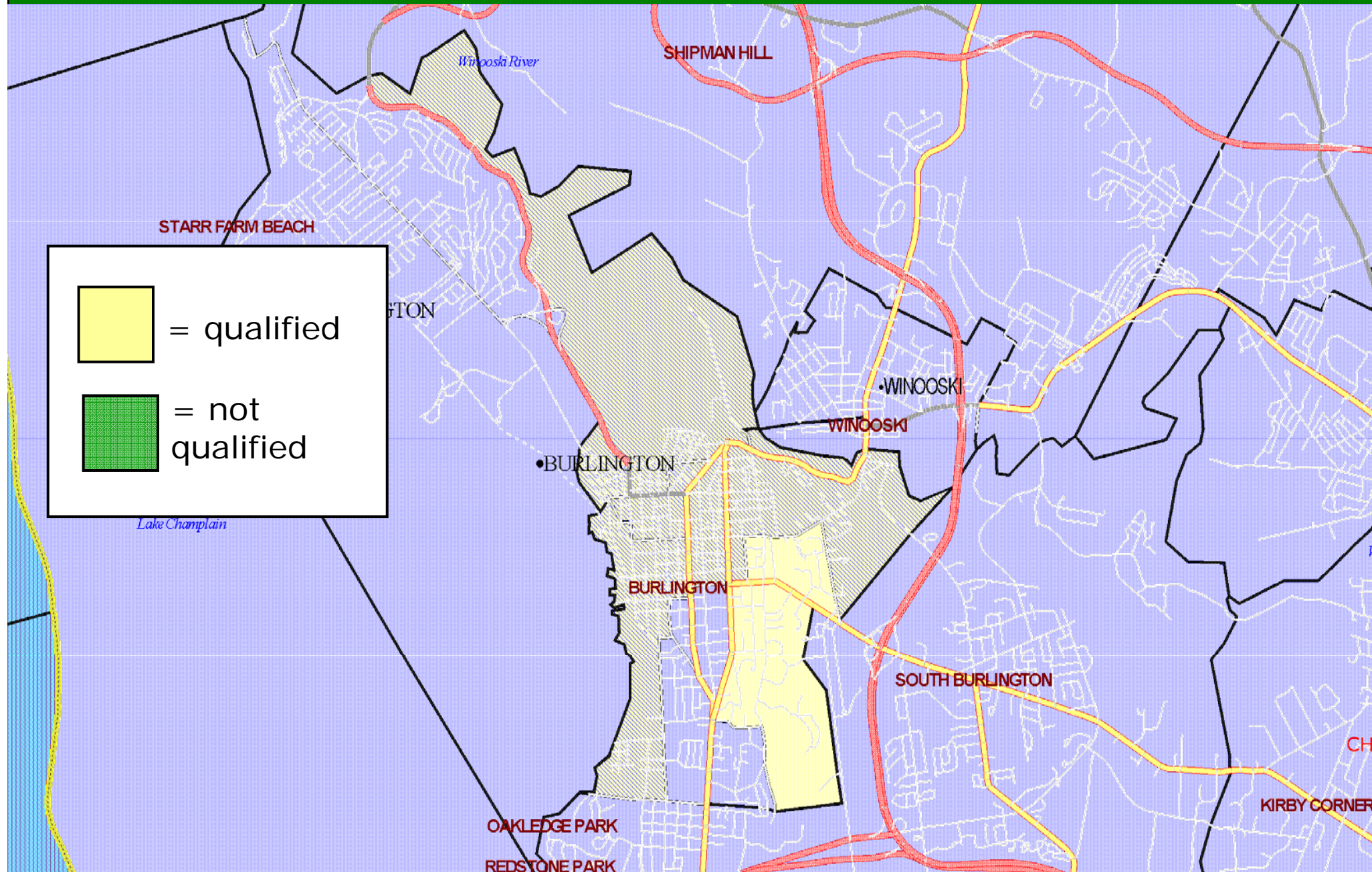




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Chittenden County Burlington, VT

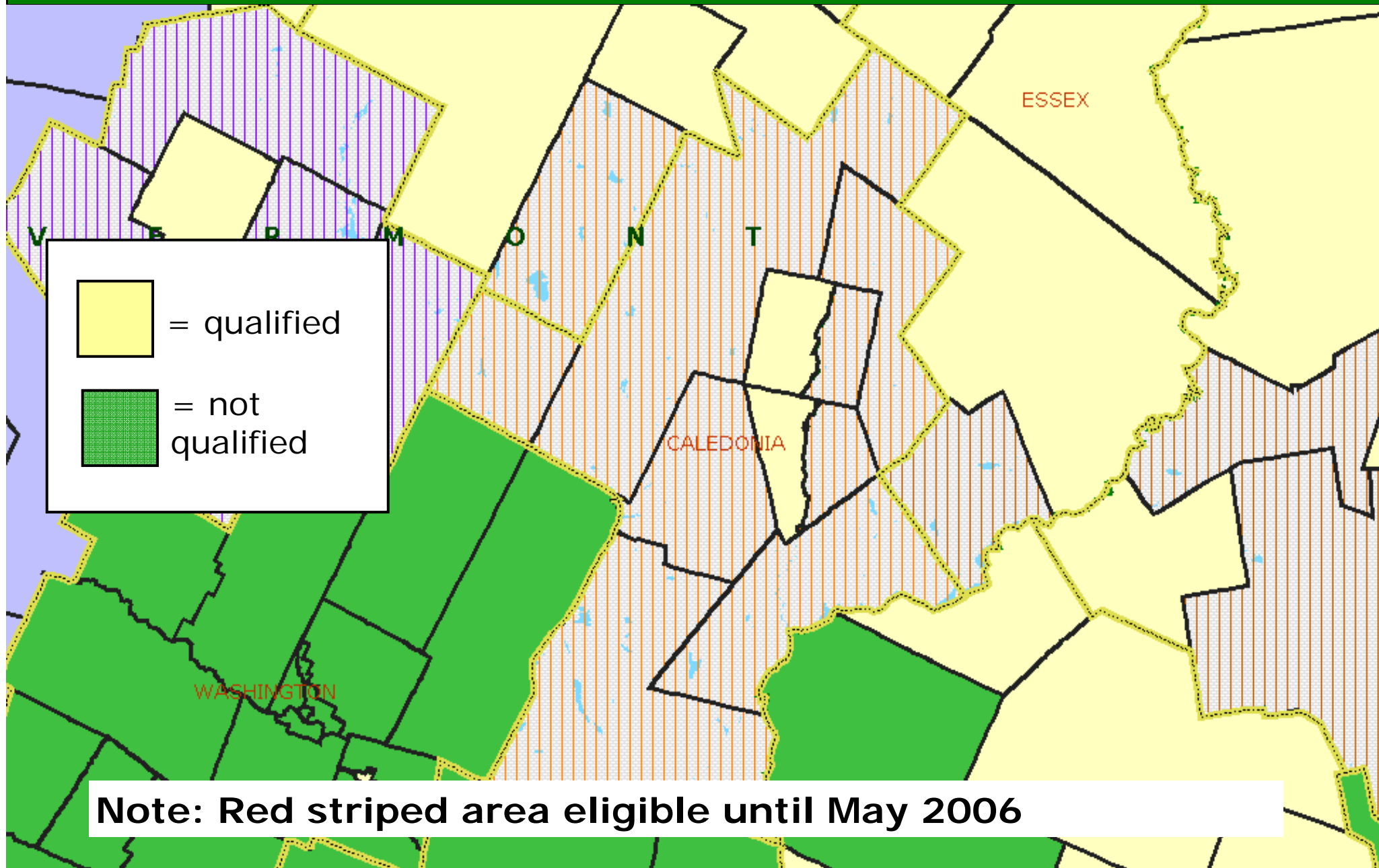




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Caledonia County St. Johnsbury, VT



Note: Red striped area eligible until May 2006

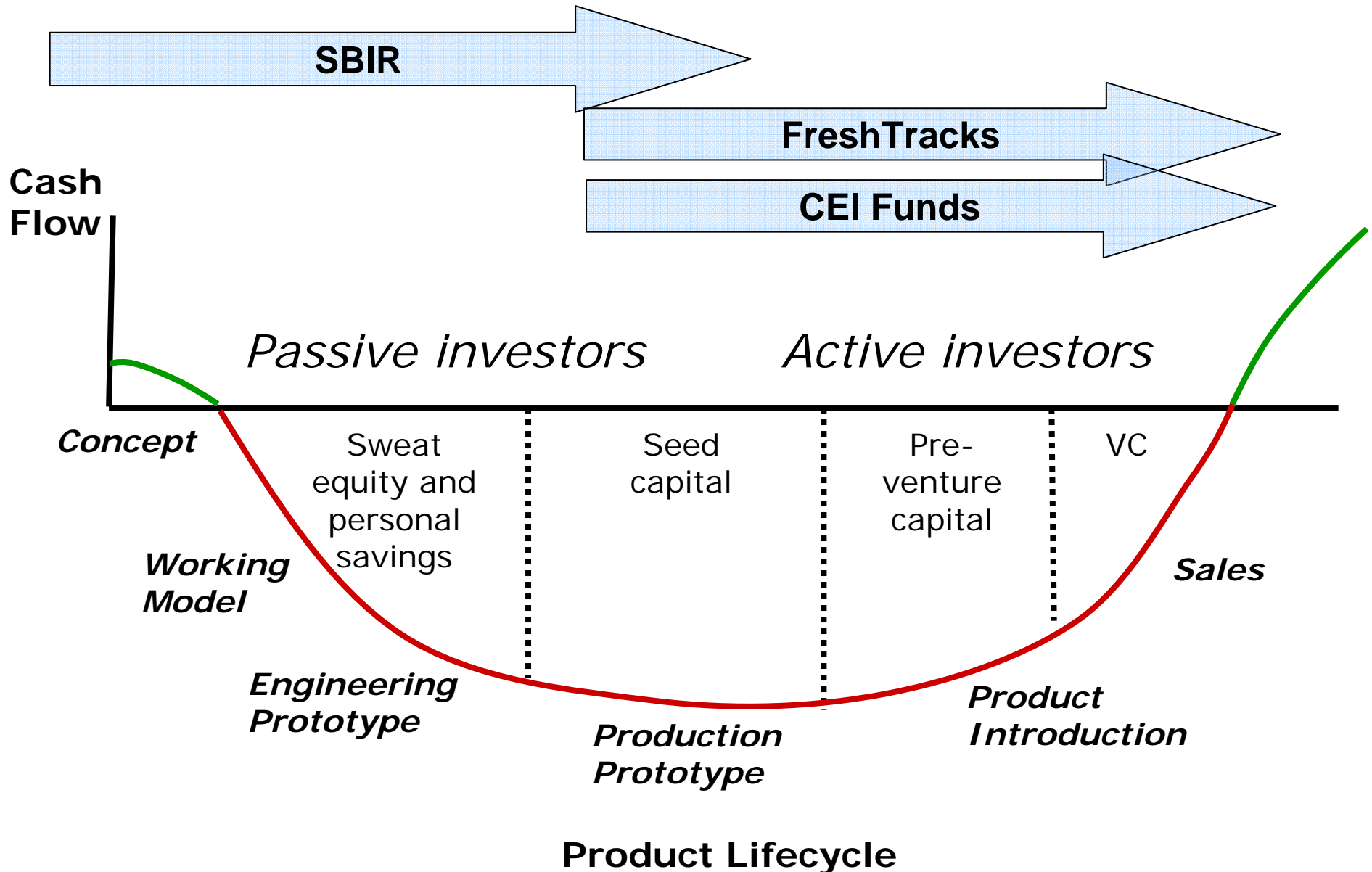
Seeking venture capital – considerations

- 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
 - Loans (Banks, State/Local economic development groups – e.g., VEDA)
 - SBA and SBDCs
 - Tax credits
 - State grants (Community Development Block Grants)
- Consider your objectives when evaluating financing sources
 - Personal
 - Professional
 - Financial

Where the funds fit on the Valley of Death



Thank you

Sponsors:



Banknorth



UNIVERSITY OF
VERMONT

Vermont Business Center
*at the School of Business
Administration*

