



## RESOURCES • banking & finance

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tion, terms and conditions than other forms of capital.

When it comes to bank financing, there is no equity dilution, the funding is provided at fixed, low-interest rates and there's limited involvement by bank funders. But early-stage (cash flow negative) companies are not ideal for bank financing, a bank requires collateral, assets and/or personal guarantees and repayment begins soon after borrowing. Payment also is required, regardless of company performance.

### Questions to ask

Each of these sources of capital is used at a different stage of a company's evolution:

- **Early stage (early- or pre-revenue):** Small Business Innovation Research (SBIR) and other grants tend to support companies that are still in research and/or development. Angel networks and certain venture capital funds support companies at very early stages of development.

- **Development stage (meaningful revenue with losses):** Angel, venture capital and near equity funds support this stage of development.

- **Later stage (significant revenue with profits; late-stage turnarounds; special situations, such as buyouts):** Some venture capital funds and private equity funds outside the N.H. region.

Questions you should ask yourself in considering capital include:

- **Do I have to pay it back?** Grants, particularly SBIR, do not generally require payback. Debt, of course, does. Venture capital tends to require a value-realization event (sale, merger, IPO) to realize value for all equity owners, including founders and management. If, however, a company — having taken equity — does not succeed and there is no value left in the business, the equity investor suffers the same fate as management (capital loss).

- **Do I have to give up ownership?** Equity is typically the only asset class that requires ownership for the investor, not so for grants and debt.

- **Do I have to put up guarantees?** Most often, banks require guarantees to securitize their loan. Equity and grant funders do not generally have this requirement.

- **Who is bearing the brunt of the risk?** In debt and near-equity situations, the borrower bears the brunt of the capital risk, in that payment must be made regardless of the company's capacity to pay. Equity investors, by contrast, assume the lion's share of risk (and demand a greater return) for assuming that greater risk.

- **Is there an "exit" requirement?** All venture capital and most angel investors require a commitment for the company to realize stock value increases through a company sale or IPO anytime between the third and eighth year of the investment. Near-equity, debt and grants do not have any such requirement.

- **What is your role in the company?** By contrast to grant, royalty and debt suppliers, equity funders are very vocal about the quality, experience and composition of the management team. Often, venture capital investors will require augmentation to the management team and/or replacement or reassignment of certain senior founders of the company. If you are uncomfortable in considering this possibility, then you might consider passing on equity funding. **NBR**

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## Capital sources in New Hampshire

New Hampshire has an unusually rich and diverse set of capital sources in all of these categories. The state's universities and companies have a strong track record in securing SBIR, which fund pre-commercialization development. The USDA also offers business grants to companies focused on value-added agricultural products.

New Hampshire also has an unusually large number of organized angel investment groups, including Granite State Angels ([granitestateangels.com](http://granitestateangels.com)), First Run Angels ([firstrunangels.com](http://firstrunangels.com)), Nashua Breakfast Club, Northeast Angel Investment Group and eCoast Angels ([ecoastangels.com](http://ecoastangels.com)).

Vested for Growth, a royalty-based near-equity fund, is a program of the New Hampshire Community Loan Fund.

The venture capital community focused on New Hampshire includes early-stage technology investor Borealis Ventures and multi-stage, multi-sector investor CEI Community Ventures. Each fund has a slightly different focus and investment preference, but all have a clear mandate to fund New Hampshire growth businesses. — **MG**

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