For the majority of business owners, the last two years have been the most challenging times we have experienced since the great depression. For those of us that have survived we continually face the daunting reality of a "New Economy" coupled with significant changes to the supply and the structure of our capital sources.

Clearly we all need to reengineer our operating models and fundamentally change our businesses to accommodate the capital sources, and the "New Economy" dynamics.

Businesses that that have changed and are economically efficient and profitable (*and are backed by a strong management team with lean operations and have both a unique business model and defined business plan*) have multiple financing options available to them as the following indicates.

Sources of Funds

Whether a business owner is preparing for retirement or seeking capital to grow the business; capital is available for enterprises that have unique business models and a future of recurring cash flow or net income.

The financing options for viable business models include:

Private Equity has approximately $400B in capital that is "sitting on the sidelines and looking for a home."

- Investment Timeline: 3 to 6 years
- Investment Stage: Growth or Mature
- Target: $1M+ EBITDA with IRR potential > 30%
- Ownership: Both majority and minority ownership, requires board

Useful Capital Investing

Savvy business owners are looking for investor's that provide "Useful Capital"; i.e. the investors provide relationships, industry specific knowledge, and bring real operating experience and expertise versus academic or only portfolio management experience.

"Useful Capital" providers illustrate the following capabilities:

1. Advisors that provide more than simple board seat occupancy and financial controls; they provide domain guidance and operating expertise
2. Have previously invested in the specific business sector before i.e. they know the players, customers, partners, and key performance indicators intuitively
3. Understand what is needed to create wealth in the specific sector, not theoretical or unproven ideas

Additionally, "Useful Capital" has had success or has access to Operating Partners in your industry that have achieved the following:

1. Created a "Franchise Effect" and Effectively Positioned a Brand as #1
2. Built distribution and sales forces that are more cost-efficient than the competition
3. Created scalable operating processes with measurements that exceed industry benchmarks: i.e. greater than $200k of revenue and 30% field level EBITDA per employee
4. Implemented product portfolio strategies and tiered service levels
5. Created Channel and Strategic Alliances that generate at least a third of new sales
6. Utilized outsourcing techniques to create and implement "best of breed" processes.

seat(s)
- Notable attributes: Focus is on IRR (internal rate of return) and is generally a combination of debt-equity financing. The success of the investment often depends upon whether the incoming capital is “Useful Money”, and the effectiveness of the chosen members of the Board of Directors.

Venture Capital

Annually there are approximately 5,000 transactions representing $5 to $7B in annual investment.

- Investment Timeline: 3 to 5 years
- Investment Stage: Early Stage (Beyond startup)
- Target: No Revenue Minimum but at least 10 referenceable clients per product/target market plus proprietary technology and/or revenues based on a recurring revenue model
- Ownership: Majority ownership, requires board seat(s)
- Notable: Focus is on IRR and uses little to no financial leverage

Debt Capital: Senior Debt & Mezzanine Debt

Debt capital is funds borrowed by a business that must be repaid over a period of time with interest. The lender does not gain an ownership interest in the business and debt obligations are typically limited to repaying the loan with interest. Loans are often secured by some or all of the assets of the company.

With Senior Debt financial loans can be amortized over 3 to 7 years (versus working lines of credit that are interest only, reviewed annually and based on combination of AP, assets, guarantees, and debt-equity ratios. This is one of the most flexible sources of capital.

With Mezzanine Debt, in addition to the traditional interest a separate PIK (paid-in-kind) interest rate is accrued over the life of the loan, which allows the companies to conserve working capital and cash flow.

Family Office Groups and Family Funds

A family office is a private company that manages investments and trusts for a single wealthy family

- Investment Timeline: 3 to 8 years
- Company Maturity Stage: Growth and Mature
- Target: $.5M+ EBITDA or better than 30% IRR
- Ownership: Minority ownership, requires board seat(s)
- Notable attribute: viable source of capital for “non-conforming” investments outside of the charters of the Private Equity or Venture Funds.

> ***“Hope is not a strategy - without a financing strategy: the entity will not be capitalized effectively.”***

Angel Groups or Angel Investors

High net-worth individuals who fund early stage ventures. It is estimated that one-seventh of the growth firms in the US receive funding from angel investors. This translates into over $20 billion of investment in approximately 50,000 deals each year. Typically start-ups or very early stage companies are the focus of these investments.

Utilization of Funds

When should a business consider growth capital?

1. To fulfill a market opportunity *(capitalize on the market opportunity to create wealth for founders, investors, and key employees)*
2. M&A
   a. Corporate development to acquire books of business and/or distressed assets
   b. Acquisition to acquire technology or additional product or markets
3. Protect the business from changing market dynamics: structural changes to the business model
4. Establish a wall against competition
5. Position the business against external threats and substitutes
6. Reward and motivate employees

Growth capital is most commonly used in the following scenarios:

1. To acquire market share
2. To create a franchise effect
3. To expand geographic footprint *(creating mass and density inside a defined target area impedes competitors and external threats)*
4. To penetrate new markets, for new products or services development and market development
5. To expand partnering and strategic alliances

Conclusion

Even in this “New Economy” there remains an overabundance of capital available when compared to the number of investable businesses. By focusing on creating unique business models and excellent operational effectiveness the probability of obtaining appropriate and supporting investment capital is quite high.

Did you enjoy this article? Drop us a line and let us know your thoughts on solving the value equation at ephor@ephorgroup.com.

“Capital is available for emerging enterprises that have unique business models.”

About Ephor Group

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