

Financial Report

Business Fund Raising

BY MICHAEL GURAU

As a Maine-based investor focused on financing early stage ventures in Vermont, I meet a great many people who move to this region for the quality of life and then set out to make a living. While most choose businesses that can be built and grown from personal resources, an increasing number choose a business and growth path that requires more capital than their own resources allow.

It's one thing to pursue outside capital if you live in an urban environment (such as Boston or San Francisco), but it's quite another to find such funding sources in rural markets like we have in northern New England.

Ranking near the bottom of venture capital investment received, Vermont may never be (nor likely does it want to be) a Silicon Valley in terms of business concentration and capital availability. That said, the state does have a growing base of entrepreneurs seeking to build their companies with OPM (other people's money). So where's the money and how do you get it?

First, it's important to say that there are a variety of capital sources that can support growth. Each capital source has its own unique needs and trade-offs.

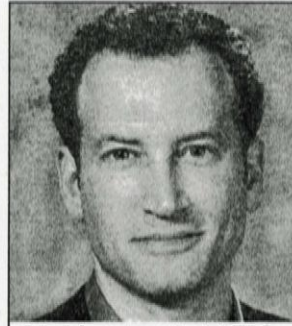
Friends and family (F&F). Generally, this capital is easiest to get but the hardest to deal with (emotionally) if things don't work out. F&F tend to invest amounts in the thousands or tens of thousands. F&F often will not be focused on maximizing return and investment structure; they are helping because (presumably) they have some affection for you.

Grant capital. Both federal and state grant funds are available to companies targeting certain sectors and/or technologies. The Small Business Innovation Research (SBIR) program provides significant capital (hundreds of thousands of dollars) if you are developing a technology of interest to any one of dozens of federal departments (such as the Department of Defense, Department of Health). While a complex and time-consuming process to acquire, SBIR grant monies have the advantage of not having to repay the grant, whether things work out with your venture or not.

Individual investors. Wealthy individuals, acting as individuals or organized into a group, are known as angel investors. Angel investors come in all shapes and sizes: individuals from family/inherited wealth, successful business people, and doctors and dentists. As you might imagine with this array of backgrounds, their interests and ability to understand your business will be similarly varied. The most accessible angels are those that form groups (such as North Country Angels in Vermont) and promote their activities on a Website.

Venture capital (VC) investors. Venture capital investors are professional money managers, though managing money is only one small part of what a good VC fund can do for you. Venture capital funds are pools of capital (from \$10 million up) which are raised from institutional investors (e.g. pension funds) to invest in high-risk, typically early-stage ventures with hopes of realizing outsized gains as compensation for the risk.

Like stock picking, venture capital investment involves a great deal of upfront research on the market, the opportunity and the team. Unlike stock picking, however, venture investment involves trading capital for a significant minority (15-40 percent) ownership position coupled (typically) with a role for the investor on the company's board of directors. VC investors consider themselves to be active partners with company founders/management and tend



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to be engaged in key strategic, management and financial decision making.

So, how should you think of these various forms of capital? First, they are not mutually exclusive.

More commonly, these sources sit on a continuum based on stages of development. I.e. first, one raises capital from F&F, then seeks grant capital, then individual investment. Taking capital from one group does not (necessarily) preclude taking capital from another.

Second, these capital sources have different time horizons and return requirements. At one end, F&F might expect their capital back "whenever you can get it" to the sources of that capital. Grants, as noted, may not require any payback at all. Individual and venture capital investors both require a path to a financial return; however, individual investors may have more discretion as to that timing.

VC investors, by contrast, are far more constrained, having raised capital from their investors (pension funds, etc.) with a promise to return the capital (with profit!) within 10 years.

On average, then, VC investors expect an investment holding period that can range from three to eight years. By contrast to all investors/grantors, VC investors are by far the most engaged, involved and opinionated (hopefully in a positive, constructive way). As professional managers, they need to be.

The final capital source, most familiar to anyone with a home or car, is lenders. Lenders typically come in after a company has shaken out most of the critical business risk issues, is generating cash flow and is prepared to offer up collateral or guarantees.

With this background, then you have grounding in the world of OPM. Vermont is fortunate to have active sources of grants and capital in each of these key sources.

Three venture capital funds have emerged within the last six years and have an emerging track record of funding technology opportunities (the most common type of VC investment in urban markets) but also consumer products businesses. Fresh Tracks Capital and CEI Community Ventures, in particular, have shown some commitment to early-stage consumer businesses ranging from magazines (*Eating Well* in Charlotte) to women's apparel (Juno Rising in Burlington) to teddy bears (Vermont Teddy Bear in Shelburne) to all-natural frozen filled pasta (Putney Pasta in Brattleboro). Vermont-focused funds recognize that the opportunities in Vermont must reflect the business of Vermont; with luck, these businesses will prove successful for all parties, attracting more capital sources and spawning entrepreneurs to build jobs and lives in this great state. □