

UNDERSTANDING THE CAPITAL STACK

LA PLATA COUNTY ECONOMIC ALLIANCE SUMMIT

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GREETINGS

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INTRO

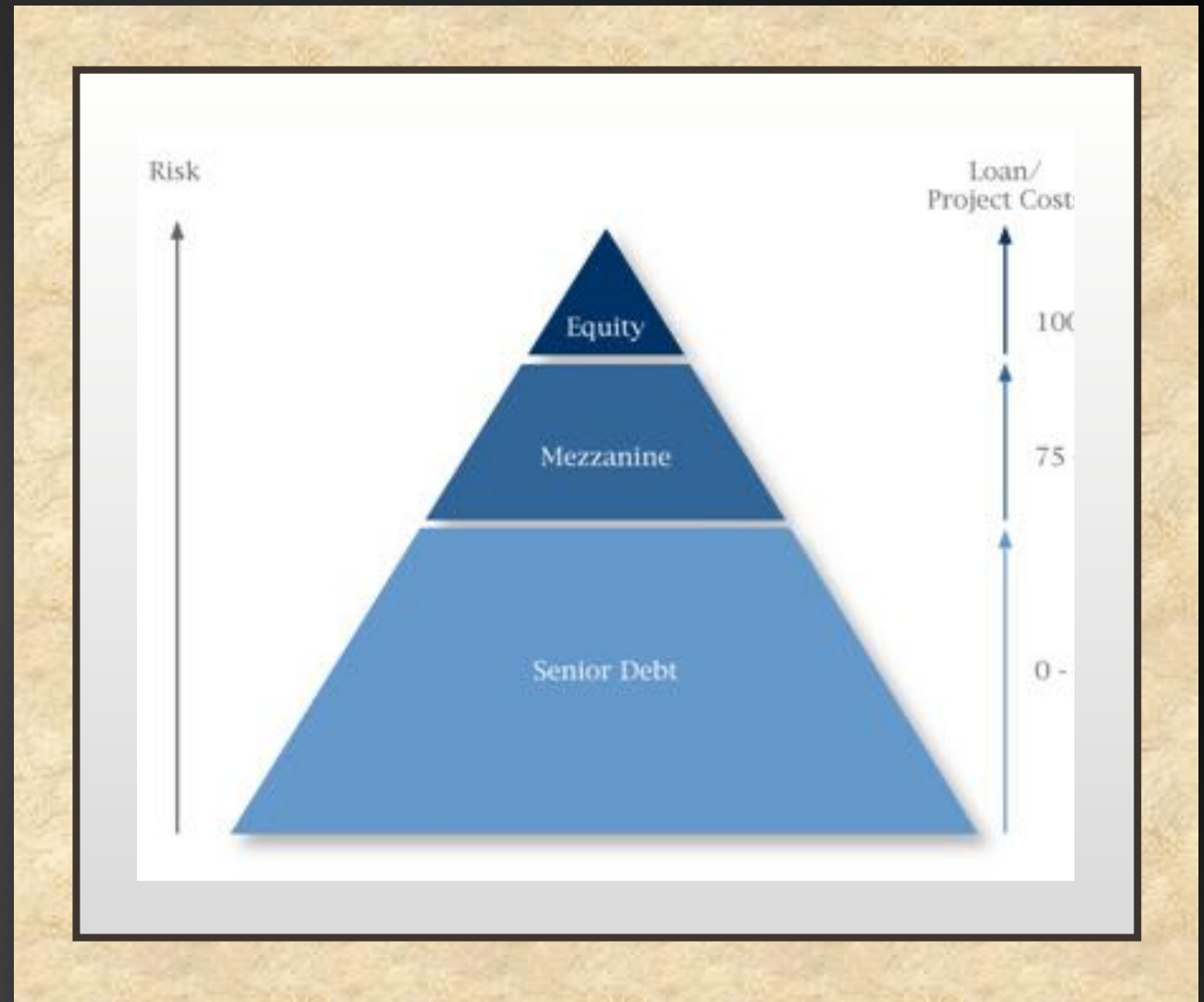
Capital Stack

Refers to the various levels of capital (money) that is needed to fund a particular “project”. Typically, the cash comes in 3 types:

Owner/company cash

Loans (one or multiple)

Investor Capital (one or multiple)



DEFINITIONS

Project

An individual or collaborative enterprise or undertaking that is carefully planned to achieve a particular aim.

Equity

Difference between the value of a company's assets and its debts.

Assets

Anything of value or a resource of value that can be converted into cash

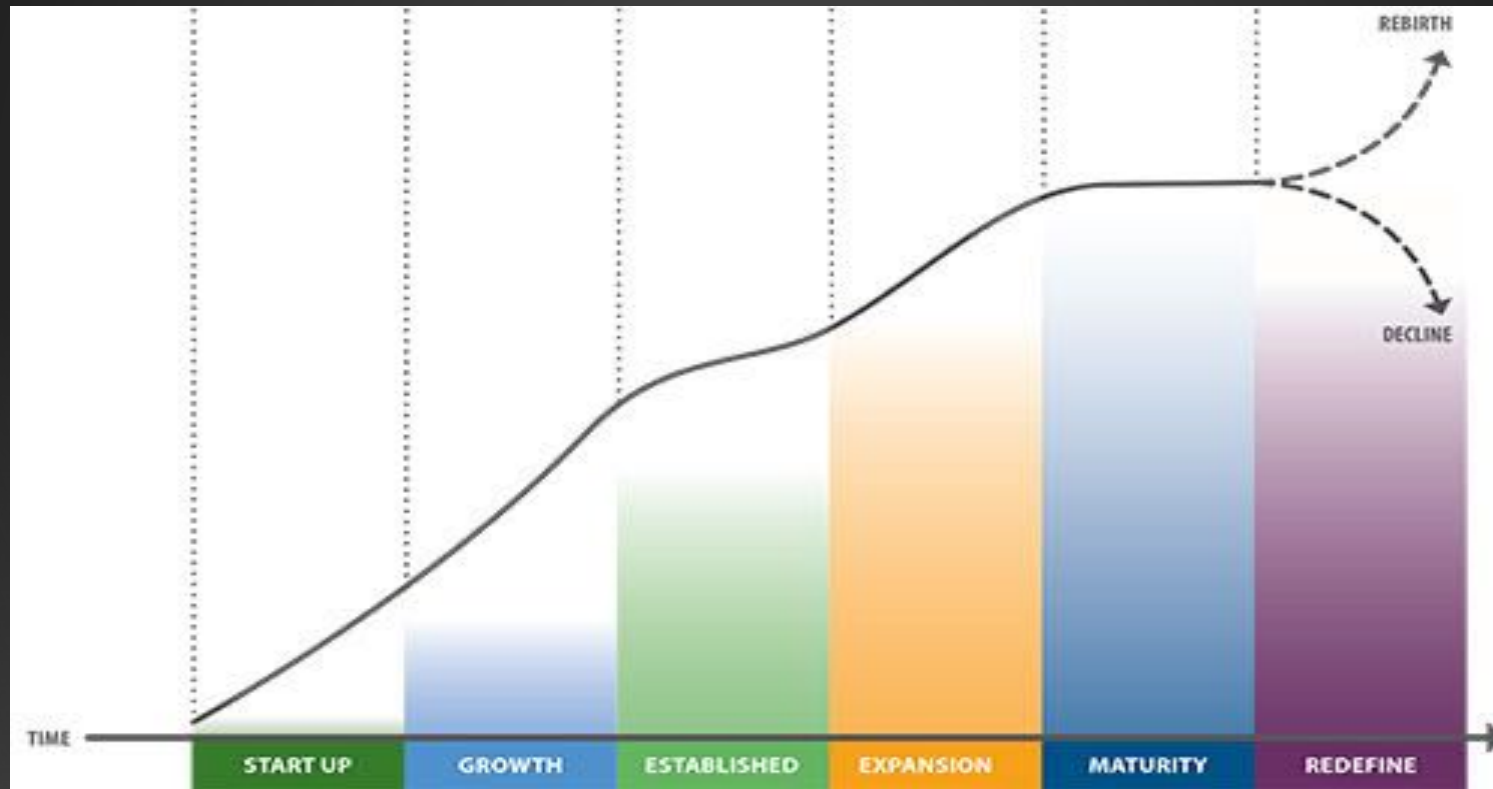
Liabilities

Something that a person or company owes to someone else; usually money

STEPS TOWARDS OBTAINING CAPITAL

Define where is your business at in its Life Cycle

Determines the appropriate players and expectations for your capital stack



BUSINESS STAGE & CAPITAL PROVIDERS

BUSINESS STAGE

- Start Up
- Growth
- Established
- Emerging
- Maturity



CAPITAL PARTICIPANT

- Friends, Family & Fools
- Publicly Assisted Financing (Reg 9), CDFI (First Southwest Bank)
- Regional/Community Banks
- Venture Capital/National Banks

STEP 2 IN OBTAINING CAPITAL

Define your “Project” that needs Capital

- What is your “ask”? How much? What Purpose? Repayment time frame?
- Equipment
- Real Estate
- Working Capital
- Include everything (installation costs, fees, shipping, fuel surcharges, taxes, payroll, etc.)

THINKING THROUGH “THE ASK”

Equipment Purchase Price	\$200,000.00
Delivery Fee	\$5,000.00
Taxes (4.9%)	\$9,800.00
Set Up Fee	\$5,000.00
Electrician- Hook Up	\$8,000.00
Wages (1 month x 3 people)	\$7,200.00
<u>Raw Materials</u>	<u>\$5,000.00</u>
Total	\$240,000.00
Difference	\$40,000.00

STEP 3- PREPARING TO ENGAGE YOUR CAPITAL PARTNERS

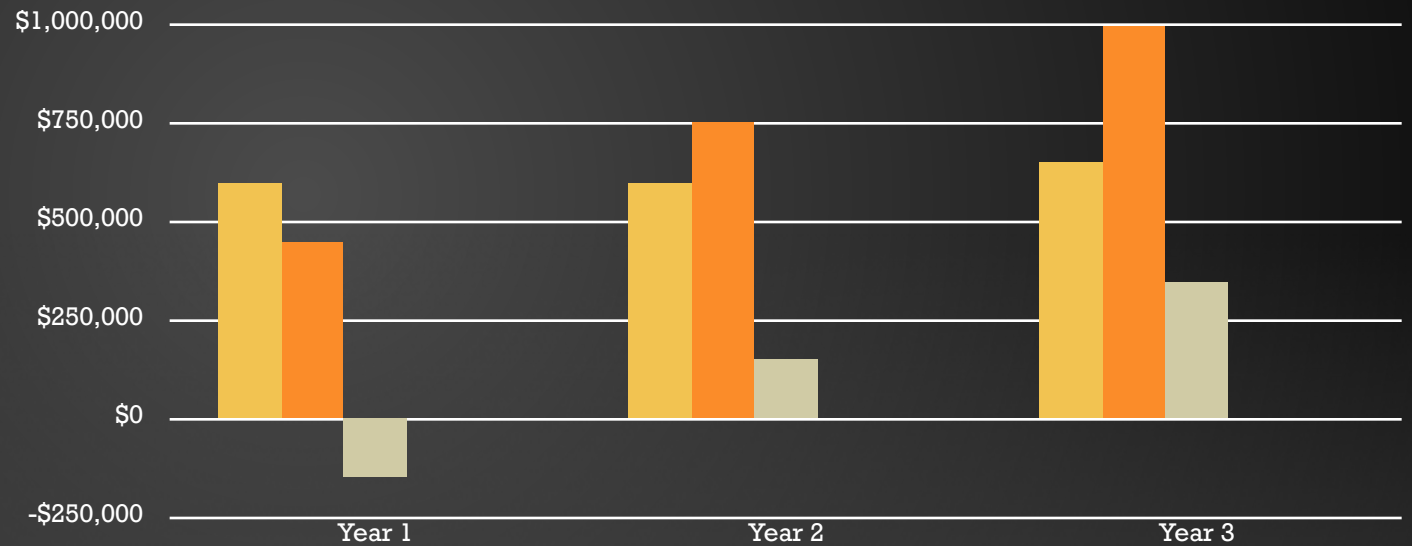
- Write a Business Plan or Prospectus to tell the story of your project and where it will take your business.
- Have financial information ready- this all about money and cash flow!
- 5 **C's** of Lending- **C**apacity for Repayment, **C**apital, **C**ollateral (loans), **C**onditions, **C**haracter (Management)



CAPACITY:

ABILITY TO
REPAY THE
LOAN OR
INVESTMENT

Company A- Income Projections	Year 1	Year 2	Year 3
Revenue	\$450,000	\$750,000	\$1,000,000
Expenses	\$600,000	\$600,000	\$650,000
Net Income	-\$150,000	\$150,000	\$350,000



CAPITAL:

Is the overall pool of assets under the business name that could help maintain the operations of the organization and help repay the loan in the event of unforeseen circumstances.

1. Cash
2. Accounts Receivable
3. Inventory
4. Equipment/Real Estate

CONDITIONS

:

1. Economic Conditions- state/national
2. Product life cycle (gas vs electric)
3. Market Acceptance (pre/post revenue)
4. Time to profitability
5. Management Team/Owner Experience
6. Pandemics/Drought/Fires/Avalanches
7. Available workforce
8. Distance to Market

TYPICAL LENDING TERMS



Working Capital	1-5 years (50% or less of asset)
Equipment	3-15 years (50-75% of cost)
Comm Real Estate	up to 25 years (max 70-90% of cost)

VENTURE CAPITAL

- **Venture Capital**

- Form of Private Equity
- Ownership is shared between business founders and investors (20-50% target)
- Angel Investor- high net worth individual
- Looking for high growth opportunities
- High returns expected- the average VC return is 25% (National Bureau of Economic Research)
- Exit strategies Sell out or buyout of equity
- Seed Capital- money raised to develop an idea or product
- Incubators vs. Accelerators

LOAN VS. VENTURE CAPITAL

Loan

Retain ownership

High level of Control

Defined rate/term

Interest is deductible

*Analyze Debt Coverage
(ROI) or
“exit”*

Venture Capital

Dilutes/shares ownership

Shared Management (at some level)

Undefined period (typically 1-10 years)

Higher expectation of rate of return

*Analyze annual rate of return
returns based on the*

DEBT COVERAGE RATIO

Debt Coverage Ratio = Biz Cash flow/Annual debt requirement

Company A- Income Projections	Year 1	Year 2	Year 3
Revenue	\$450,000	\$750,000	\$1,000,000
Expenses	\$600,000	\$600,000	\$650,000
Net Income	-\$150,000	\$150,000	\$350,000
Annual Debt (\$4k/mo.)	\$48,000	\$48,000	\$48,000
DCR	-3.13	3.13	7.29

DCR VS ROI CALCULATION

Return on Investment = Amount of Return (benefit)/initial investment

- Scenario A (Annual)

Initial Investment	\$100,000.00
Profit/Distributions from Investment	\$18,000.00
ROI	18%

- Scenario B (life of Investment)

Initial Investment	\$100,000.00
Investor's Sale of Ownership/Stock	\$275,000.00
Gain	\$175,000.00
ROI on Investment	175%
Time to Realize Gains (years)	10
Average Annual ROI	18%

DECIDING TO BORROW OR USE CASH

- Leveraging a project allows you to retain some of your capital for a cushion.
- Do you have enough capital to fund the project?
- Will the project help improve business revenues or decrease expenses .
 - Real estate loan might be cheaper than rent
 - New production equipment expands capacity
 - New forklift increases efficiency and reduces manual labor hours
- Interest can be expensive: \$200,000 loan @ 6% for 15 years
Total Payments until payoff will be \$303,788 (\$103,788 in interest)

- “Banks aren’t lending.”
- “I hear there are grants to start my business.”
- “My credit is bad.”
- “All rates and terms on loans are the same.”
- “All lenders are the same.”
- “Debt is bad for my business.”
- “Diluting my ownership will hurt me in the end.”
- “All of the resources of the State go to the Front Range.”

DEBUNKING SOME MYTHS & HALF TRUTHS

RESOURCES

- **Business Plan development and technical assistance:**

Small Business Development Center- Ft Lewis <https://sbdcfortlewis.org/>

Region 9 Economic Development District www.region9edd.org

Numerous private consultants in the region

- **State of CO Resources**

Office of Economic Development and International Trade
www.choosecolorado.com

CO Dept of Public Health & Environment www.cdphe.Colorado.gov

CO PTAC – government contracting assistance <https://www.coloradoptac.org/>

RESOURCES (CONTINUED)

- **Federal Sources for Business Support**

USDA- rural focused, not just agriculture

SBA- Small Business Administration

- **CO Incubators and Accelerators**

Techstars

MergeLane (women-led startups)

Moosejaw Outdoor Industry Accelerator (ICELab in Gunnison)

Greater CO Venture Fund

SCAPE- Southwest CO Accelerator Program for Entrepreneurs

ENTERPRISE ZONE- COLORADO

The screenshot shows a web browser window with several tabs open. The active tab is titled "Enterprise Zone Program - Color...". The browser's address bar shows a URL starting with "colorado.gov". The page content includes a privacy notice at the top, followed by a map of Colorado. The map displays various colored regions, with a cyan outline highlighting a specific area in the north-central part of the state. Below the map, there is a text box that says "Wait! The Colorado Information Partnership for enterprise zone map results." and a blue button labeled "Community eligibility". The browser's taskbar at the bottom shows the Windows logo, several application icons, and the system tray with the time 12:00 PM and date 8/26/2011.

QUESTIONS & DISCUSSIONS

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