Inner City Capital Connections

New York
October 20, 2009

ICIC
Initiative for a Competitive Inner City

Bank of America

ICIC

INNER CITY CAPITAL CONNECTIONS

Bank of America

The Full Spectrum of Financial Options

Agenda

- Who is ICIC?
  - Defining Inner Cities
  - Inner City Capital Connections Program
- Financing Spectrum: Debt to Equity
- What is equity and how is it used?

Who is ICIC?

- ICIC is a national not-for-profit organization founded in 1994 by Harvard Business School professor Michael E. Porter.

ICIC Mission

- To promote business-led economic development in America's inner cities through private sector engagement that leads to jobs, income and wealth creation for inner city residents.

What is an Inner City?

- Inner cities are defined as concentrations of economic distress in urban areas, measured by poverty rates, income levels, and unemployment. Core urban areas that are economically distressed.

Access to Capital: Inner City Capital Connections

- Inner City Capital Connections (ICCC) is a free national program designed to drive the growth of inner city companies.

- Founded in 2005 by the Initiative for a Competitive Inner City (ICIC) and Bank of America.

- Competitive pre-screening selection process: 148 companies have been selected and participated.
  - These companies sought more than $892 million in capital and have been connected with over 60 equity funds.

- Participating companies have raised more than $335 million in capital

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Growth Requires Capital

Operational Capacity

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

Equity,

Tax Credits

Working Capital Needs

- **Accounts receivables**
- **Inventory**
- **Payables**

Debt, Lines of credit,

Factoring, Equity

Capital Expansion

- **Technology**
- **Equipment**
- **Leasehold improvements**

Debt, Equity, Tax

Credits, Grants

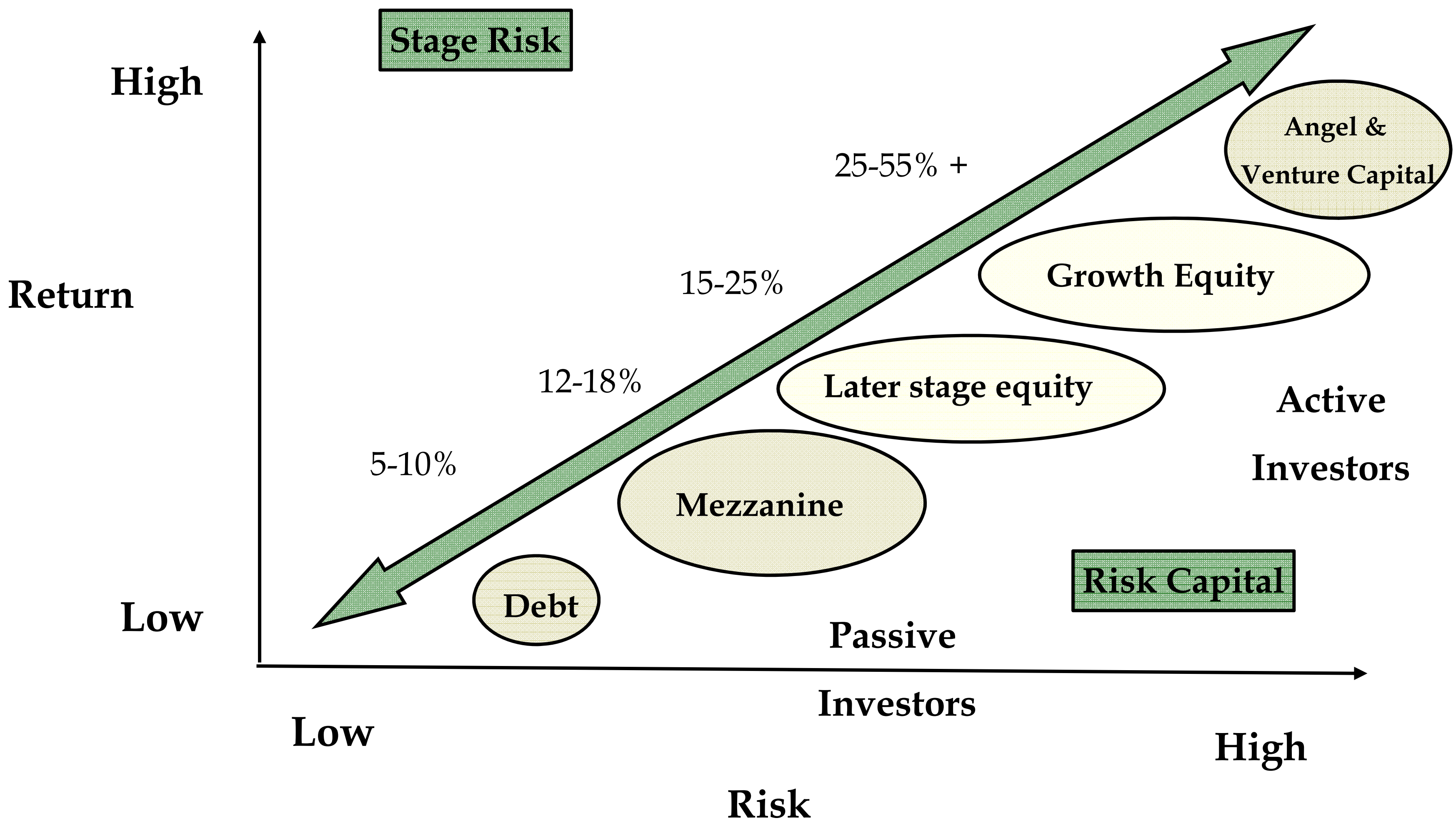
Debt vs. Equity Comparison

	Debt	Equity
Risk	• Emphasis on collateral and cash flow to reduce risk (higher for borrower)	• Emphasis on future opportunity and return on investment by assuming risk (higher for investor)
Repayment	• Repayment starts after funding	• Deferred repayment
Return	• Return for lender not based on company performance	• Return for investor dependent on company performance
Cost	• Lower cost for company if business is successful	• Higher cost for company if business is successful
Dilution	• No ownership dilution	• Ownership dilution
Relationship	• Monitoring relationship	• Involved partner relationship
Documents	• Standard issues and documents	• Complex issues and documentation

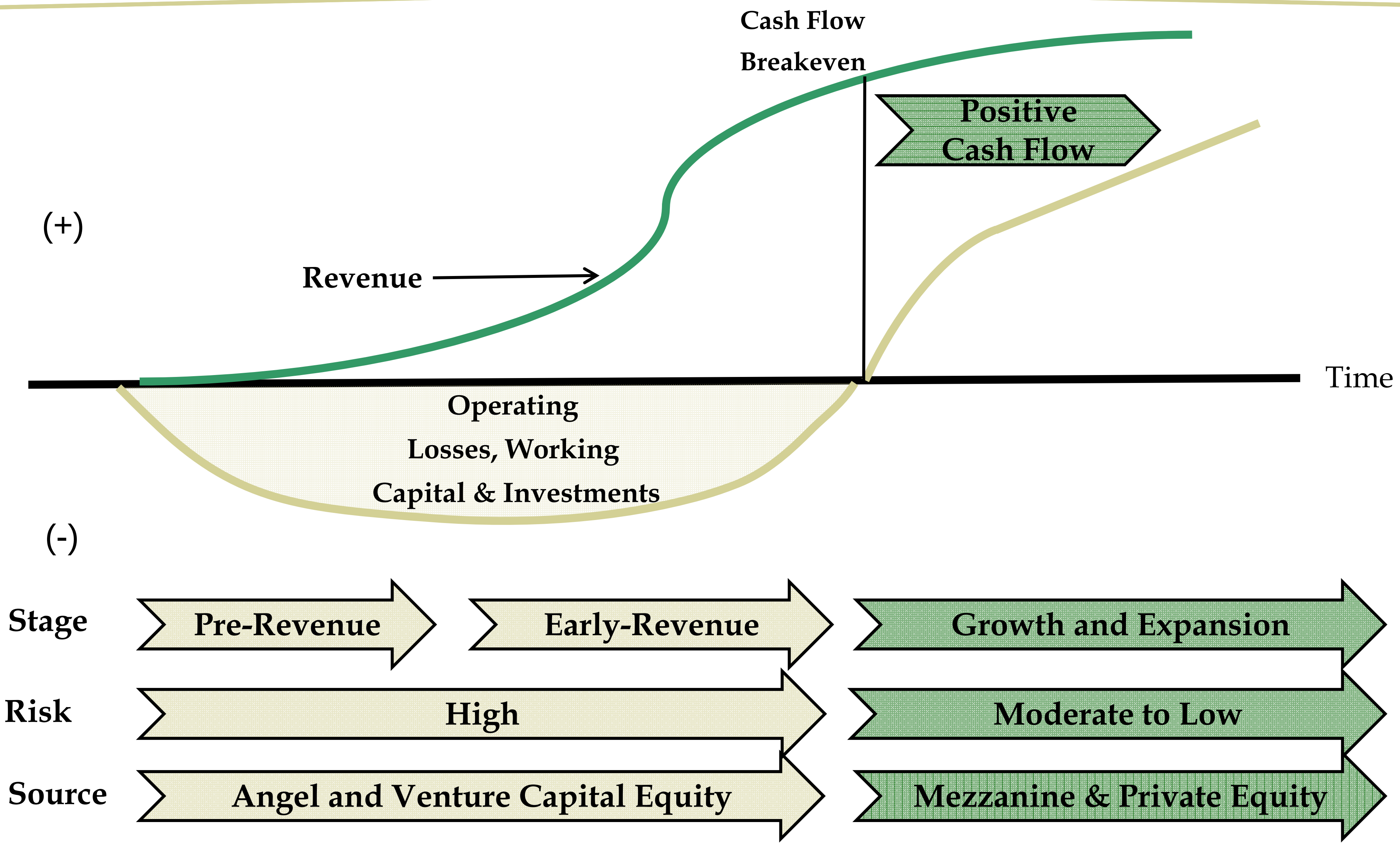
What are these Forms of Financing Typically Used For?

- **Bank debt**
  - For companies that are cash flow positive
  - Typically used for line of credit, working capital, real estate and other investments in capital equipment.
  - Generally requires collateral and operating history
- **Mezzanine debt**
  - For companies that are cash flow positive (need to support current interest payments)
  - Typically used in conjunction with bank debt and private equity to "fill the gap"
  - Unsecured high interest (e.g. 12-18%) debt often bundled with equity "kickers" known as warrants
  - Unsecured debt with limited collateral or guarantee (5-7 years interest only)
- **Early Venture Capital Funds (Includes Angel and Network Investors)**
  - For start-up companies searching for large amounts of capital ($20,000 - $3 MM)
  - Typically used for proof of concept or to test the business model and begin building out professional management team
  - Pre-revenue or early stage revenue companies (company revenues up to $ 1 MM)
- **Expansion Venture Capital Funds & Growth equity (Includes Mezz. Funds & Buy Out Funds)**
  - For companies seeking an infusion of capital to meet growth objectives ($1 MM- $20 MM+)
  - Typically after a company has a viable product or service and is seeking to scale the business (company revenues from $1 MM - $50 MM+)

The More Established Your Business, the Less Risk a Lender or Investor Takes On



Growth Companies Consume Less Expensive Capital over the Course of their Life Cycle



Source: Innovation to Invention: Commercialization of New Technology by Independent and Small Business Inventors, DOE, 1989)

The Venture Capital/ Angel Group Process Involves Several Distinct Stages

Qualify (1 day)	Diligence (8-24 wks)	Close (2-4 wks)	Partner	Exit (4-7 yrs)
• 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

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Typical Investment Size Varies By Stage of Company

Amounts

- **Traditional Equity**
  - Seed stage: wealthy individuals, small VC funds → **$25-250K**
  - Early stage: angel groups, VC funds → **$500K-$3M**
  - Development stage: Growth equity → **$3M-10M**
  - Later stage: Private equity → **$10M-$1B**
- **Community Development Equity** → **$250K-$2M**
  - Double bottom line: financial returns AND job creation for underserved regions and/or underserved people

Equity Considerations/Trade-Offs

Pros

- Less owner risk
- Owner liquidity
- Financial partner
- Business partner

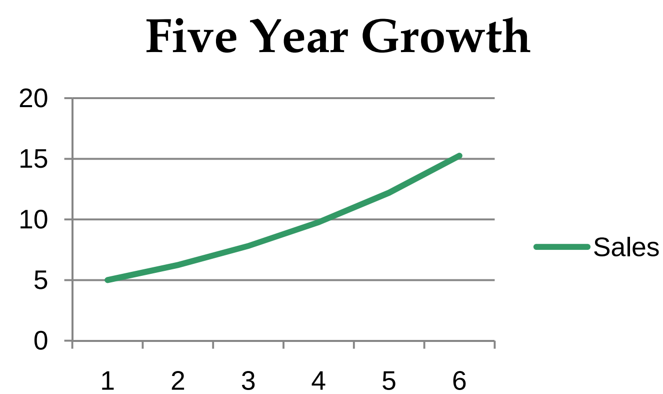
Cons

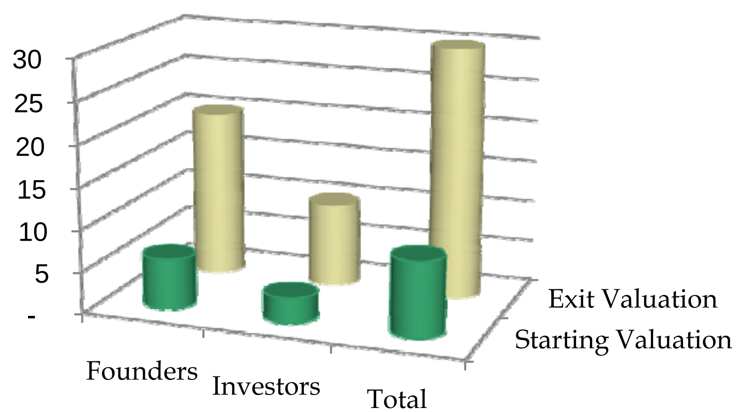
- Ownership dilution
- Reduced management control
- Cost of legal and other documentation

In a Successful Equity Investment, Founders and Investors Both Win

Company Profile

- $5M revenue, nearing breakeven
- Raised $3M of equity, selling 33% of company
- Valuation: $6 M "pre-money" plus $3M "new money = $9M "post-money





Growth & Value

- 20% per year for five years = $15.3M revenue
- Sell company for $30M to third party
- Owners get $19M, investors get $10M (3.3X original investment)

Questions

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Developing Strategy & Building Capacity

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Break-Out Session

Break Out Session Groups

Group 1

Sinu
Mainstreet Technologies Inc.
GTech Networks, LLC
Consultants 2 Go
SEW, Inc.

Group 2

Lori Bonn Design, Inc.
Worldwise Education, Inc.
Auction Systems Auctioneers & Appraisers, Inc.
Babette Inc

Group 3

GM Printing
Printing Methods, Inc.
Ignition and Fuel Systems, Corp
Sandbox Pack and Ship
Baptiste Group

Group 4

The FOG Group
Clinica la Luna y el Sol Medical Center, Inc.
Alterra Energy Services
Career Matching Services , Inc.

Group 5

Coalescence LLC
Diversified Chemical Technologies, Inc.
Reva, Inc.

Group 6

New York Amsterdam News
Hue-Man Bookstore
Harlem Vintage, Nectar Wine Bar
Miami To Go, Inc.
FM Office Express
Fox Travel & Tours Harlem Lanes
sweetriot

Group 7

FanGo Software Systems, LLC.
Pepperdash Technology Corp
iRealtyManager.com
Premier Fulfillment/ New Source Logistics
Avencia Incorporated