The Realities of Financing Rural Development Projects

Reg Clause,
Program Specialist
Value Added Agriculture Program,
rclause@iastate.edu

David Sengpiel
Senior Investment Manager
Iowa Farm Bureau
DSengpiel@ifbf.org

Entrepreneurial Report Card

Indicators to look at:

- # of venture capital investments
- # of manufacturing investments
- Short-term employment growth
- Long-term employment growth
- **New business creation**

Iowa as an example

In 2005, Iowa was:

- 41st in venture capital investments
- 43rd in manufacturing investments
- 49th in short-term employment growth
- 50th in long-term employment growth
- **50th in new business creation**

2005 Development Report Card for the United States

Business Models

- Food Processing
- Cold Storage
- Agri-Tourism
- Light MFG
- Bio-fuels
- High Tech Application

How Have Deals Changed?

It’s a People Business

- Networking: The Iowa VAAST model
- Cooperation and communication
  - Extension
  - USDA-RD
  - Iowa Farm Bureau
  - Iowa Department of Ag
  - Institute for Cooperatives
  - Iowa Area Development Group (REC’s)
  - Iowa Power Fund

Funding Source

- Angel
- Institutional
- VC
- Private Equity
- Bank
- Public incentive funds, grants, guarantees

The Investment Stages of a company

Right Place at the Right Time w/ the Right Request

Idea

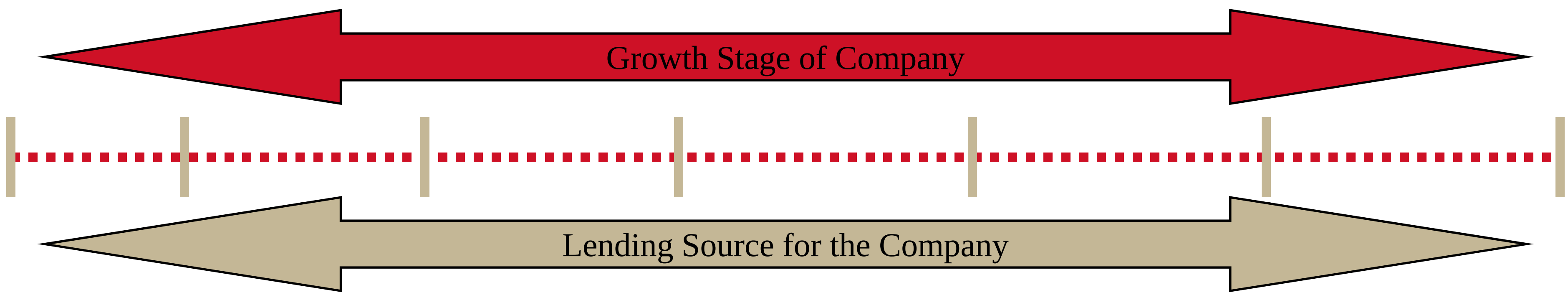
Prototype & Business Plan
- P.O.C.
- Validation
- Market size
- Comp. Analysis

Seed Stage

Develop. Stage

Growth Stage

Mezzanine



Friends & Family and/or Local Angel

Accelerator
- SBA
- IBGC
- USDA
- Tech. Assist.

- State Funding
- Accelerator
- Angel Funds
- Community Funds

- State Funding
- SBA / USDA
- Angel Funds
- Rural Devel. Fund
- Other

Same as Devel. Stage plus larger Regional Investors & Invest. Bankers

Strategic Part.
M & A
Regional Banker
IPO

The Vision / Goals

- Increase the number of successful target business start-ups.
- Improve the expansion rate of existing target businesses.
- Increase wealth creation for ongoing community reinvestment.
- Increase the employment talent pool.

The *"Classic"* Model

- Provide networking and educational opportunities:
  - Events for entrepreneurs to meet vendors, mentors, and investors
  - Opportunities for "road-show" presentations
  - Educational seminars to improve skills.
- Provide guided professional and business direction / hands-on consulting:
  - Diagnose needs.
  - Assemble necessary talent.
  - Provide ongoing support / mentoring.

What to look for?

Companies that have:

- A compelling idea that meets a need in a targeted marketplace.
- Need a detailed business plan and executive summary.
- Need Financial Proformas with realistic assumptions.
- Need to knock on a lot of doors.
  - Patience & Persistence.

V.C. – How do you get it?

- From the Iowa Farm Bureau Federation perspective we have six fundamental criterion that must be addressed in a business plan for any investment consideration.
- Probably a good template for other VC's as well.

V.C. – How do you get it?

1. Understanding the Business Concept
   - Is it Sustainable over time?
2. What is the product or service's *"Unique Selling Proposition"*
   - Defined as the "differentiator"
     - Preferably, not a commodity but if a commodity, why you?

V.C. – How do you get it?

3. Is there outside validation?
   - Customers.
   - Testimonials.
   - Strategic partners.
     - OEM strategy vs. self branded image.
   - Outside professional assessment.
     - Relating to patents, manufacturing, financial viability.

V.C. – How do you get it?

4. Management team?
   - Depth and experience.
   - Space knowledge.
   - Incentivized.
5. Predictable business model?
   - Grow to:
     - Cashflow (+) and,
     - Enable follow on financing at stepped up valuation.
     - Additional investors.
   - Create enterprise value.

V.C. – How do you get it?

6. Exit strategy
    - Sale?, IPO?
    - M and A financing
        - You acquire
        - You <u>are</u> acquired
    - Mezzanine financing
        - Additional equity
        - Exit for original investors
        - Why mezzanine
            - Relationships that can grow the business
            - Industry expertise
            - Strategic planning

V.C.- Do you really want it?

- Is not a right fit for every company.
  - Valuation of company is always an issue.
  - Liquidation Preference:
    - Preferred stock versus founder common stock
    - Anti-dilution ratchets.
    - Exercise rights to control board of directors.
  - Need an exit strategy with a minimum IRR of 25% to 35% minimum in 5 to 7 years.

An Example – Any Company USA

Amount requested	**$300,000**
Type of Investment	**17% Common Stock (post deal)**
Stage of Company	**Early - $100,000 Revenue**
5th year proforma assumptions:	
Revenue	**$8,000,000**
NIBT (8% of revenue)	**$640,000**
Enterprise Value (Ave. 1x Rev and 10xPE)	**$7,200,000**
Company Debt	**$3,500,000**
Adjusted Enterprise Value	**$3,700,000**
VC Redemption IRR %	**30%**
VC Redemption Payment	**$1,100,000**
Valuation needed to not dilute owners equity	**$10,100,000 ($1,100,000/.17 + debt)**

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