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Jim Freedman is a Founding Partner and Chairman of Intrepid Investment Bankers, a specialty investment bank that provides M&A, capital raising and strategic advisory services to middle-market companies across various industry sectors. He has more than 30 years of investment banking and corporate finance experience and is an expert on the financial aspects of corporate strategy. **Jonathan Zucker** is the Head of the Capital Markets Group at Intrepid. Mr. Zucker's transactional record includes capital raises for companies across a diverse set of industries, including digital media, SaaS, consumer electronics, nutritional supplements, apparel, and household products.

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| RAISING CAPITAL |

Fifty Shades of Capital

Finding the right financing partner

Plenty of Fish in a Sea of Capital

Searching for the right capital provider, in many ways, is like searching for a perfect mate. It can be highly emotional and confusing, and turn into a second full-time job. With interest rates at historical lows, banks and investment funds sitting on excess liquidity, and an ever-expanding universe of alternative capital providers, business owners face constant solicitation from equity investors and lenders who need to deploy their capital. While such interest is flattering, the endless funding choices available to companies can be, at times, overwhelming and almost always distracting.

In the U.S. alone, there are more than 5,000 commercial banks[1] and 3,000 private equity and venture capital firms[2] vying for the entrepreneur's attention. In addition to these traditional providers, other capital sources include insurance companies and hedge funds, as well as online platforms like crowdfunding and peer lending sites. Each investor and lender has its own unique expertise, investment criteria and return expectations. Generally, venture capitalists invest in technology-driven, game-changing companies—often early stage and unprofitable—that address a large market opportunity and have the potential to return many times their investment. Traditional private equity (PE) funds and most lenders, on the other hand, look for established, stable businesses with predictable earnings.

Financing options range from equity and bank loans to a plethora of senior and subordinated debt alternatives. On the equity side, earlier-stage businesses that may not have access to conventional venture capital can now turn to crowdfunding platforms like Crowdfunder and SeedInvest. Such sites have blossomed as a result of Title II of the JOBS Act, passed in September 2013, which allows general solicitation of investments from accredited investors. A recent success story is Santa Monica-based GoCoin, a Bitcoin payment platform that raised nearly $2 million on Crowdfunder. Crowdfunding investments may be ideal for owners who want passive capital at favorable terms; though it is important to look out for potential legal issues and structures that could lead to conflicts in subsequent

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fundraising rounds. More mature businesses can raise equity from PE funds and family offices that usually aim to take a more active approach to their investments.

In regard to debt financing, gone are the days when the only option was the local bank. The more stringent regulatory environment that emerged after the recession has spawned a dizzying array of debt funds that offer flexible solutions to companies who need financing beyond what their banks can provide. For example, mezzanine and structured debt firms may aggressively provide capital to fund expansions, with less dilution than equity financing. New structures like unitranche facilities combine the cost and risk-profile attributes of senior and mezzanine debt into one loan. Irvine-based mobile device accessory company, Incipio recently secured such a facility—a $55 million unitranche loan—from private debt fund Monroe Capital, allowing the company to accelerate its growth through product development and acquisitions.

Making a Match: The Right Deal at the Right Time

A new breed of entrepreneurs are redefining business models, creating disruptive technologies and raising the bar when it comes to solving customers' problems. In today's environment of constant reinvention, selecting the right financing partner is a critical decision for any company at an inflection point. Finding the best capital partner depends on the type of capital structure that supports the company's objectives. More importantly, like in any successful relationship, there must be shared values and a strong cultural fit.

Whether a company wants to expand with growth equity, refinance existing debt or turnaround the business, there are many factors to consider in choosing the right path. In addition to understanding the basic terms associated with different financing options, an owner might ask capital providers:

- If there is a bump in the road with my business, what will you do?
- Do you understand the nuances of my industry, including supply chain issues and unique customer payment arrangements?
- How quickly will I get a decision maker on the phone if I need something?

The Perfect Catch

We recently worked with a company that manufactures and distributes professional audio equipment, selling its world-class products in 80 countries. Our client's products sit in famous recording studios, historic churches and concert halls from New York to New Delhi. Several years ago, the company embarked on a relationship with a bank that claimed to understand its business and wanted a long-term relationship. Sure enough, when the company experienced a bump in the road—namely, production delays for a new product line that led to its first unprofitable year in decades—the bank began to make life difficult, eventually deciding that it was no longer willing to lend to the company.

We ran an advisory process to align our client with a lender who was truly in it for the long haul. Rather than focusing solely on interest rate and brand name, we had the company focus more on the fine print and intangibles that really drive the lender-borrower relationship: the people they would be working with, the financial covenants tucked into the back pages of the loan contract, and the lender's track record with others in the industry. After years in a bad relationship, our client was thrilled to join forces with a true long-term partner.

In an environment ripe with options, the one option the entrepreneur shouldn't have is making the wrong decision. The exhausting and distracting search for the right capital partner often makes the selection of an experienced advisor the difference in securing an optimal capital solution.

[1] *Federal Financial Institutions Examination Council*
[2] *Forbes.com*