

## **Capital Continuum**

Invoctm

**Investment Clubs** 

Group of individuals who meet regularly to pool money and invest, equity or debt

EXAMPLES: No Small Potatoes (Maine)

Friends, Family, Fools

Higher risk, may never see a return

**Grants** 

Potentially risky to funder, but no repayment required by grantee

EXAMPLES: VSJF, Foundations, USDA Rural Development

**Banks** 

Risk averse, collateral based

**VSJF Flexible Capital Fund** 

Sub debt, royalty financing, risk tolerant, no ownership dilution

\$

Lower risk, lower reward

**DEBT** SUB DEBT

ROYALTY FINANCING

CONVERTIBLE DEBT

EQUITY

Higher risk, higher reward

\$

Community-based Lenders / Revolving Loan Funds

Collateral and / or cash flow based, mission driven

EXAMPLES: VT Community Loan Fund, VEDA/VACC Community Capital of Vermont, The Carrot Project

\$

Angel Investors and Venture Capital

High risk tolerance, ownership position, requires exit strategy

EXAMPLES: North Country Angels, Fresh Tracks Capital

**State and Federal Government** 

Collateral driven, looks at past performance

EXAMPLES: USDA, SBA

\$

Program-Related Investments

Very mission driven, equity or debt, usually lower returns required

**EXAMPLE:** Foundations (e.g., Castanea Foundation)

\$

**Boot-strapping** 

Vendor / customer financing and growth from cash flow

## **Definitions:**

- **Debt:** Amount of money borrowed by one party from another. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.
- **Subordinated Debt:** A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings. In the case of default, creditors with subordinated debt wouldn't get paid out until after the senior debt holders were paid in full. Therefore, subordinated debt is more risky than unsubordinated debt.
- Royalty financing: Is not readily available in Vermont. It is based on a company selling a piece of gross revenue instead of selling ownership hence it's often called "near equity." In exchange for a loan, the company gives the investor a percentage of sales until the investor has received back principal plus additional interest negotiated with the investor.
- Convertible Debt: Instruments that are essentially asset-backed loans that can require the business owner to give up some future equity (ownership) in the business if the lender wishes to convert the debt to an equity position in the company.
- **Equity financing:** The act of raising money for company activities by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation.
- **Grants:** Contribution, gift, or subsidy (in cash or kind) bestowed by a government or other organization for specified purposes to an eligible recipient. Grants are usually conditional upon certain qualifications as to the use, maintenance of specified standards, or a proportional contribution by the grantee or other grantor(s).
- Frogram Related Investments (PRIs): Investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods such as loans, loan guarantees, and even equity investments in charitable organizations or in commercial ventures for charitable purposes.

\*Definitions from www.investopedia.com and www.businessdictionary.com.