



VSJF Flexible Capital Fund, L3C

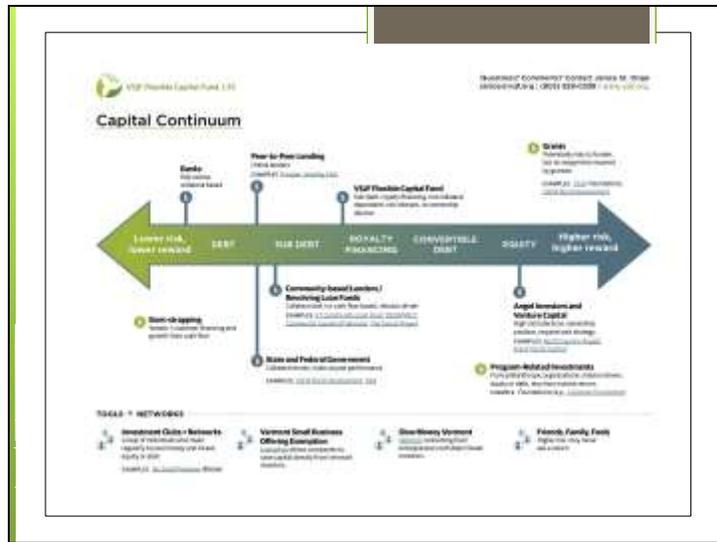
Understanding the many shades of capital

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Bullish

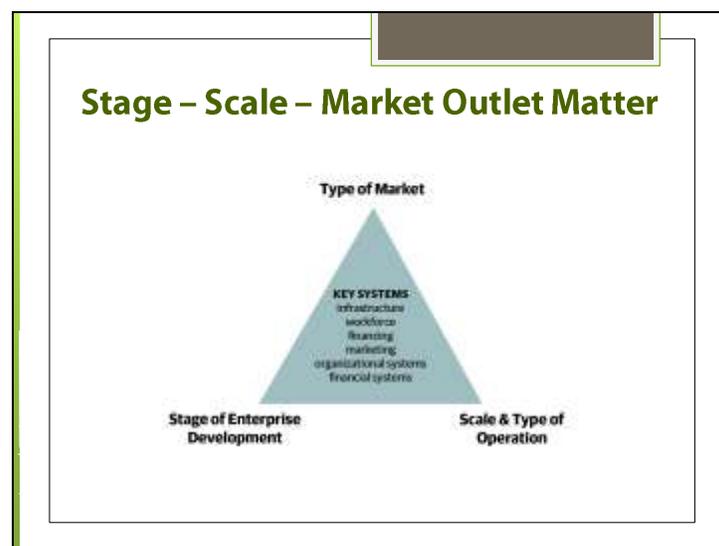


- I'm bullish on what's already been happening in Vermont over the last few years on the capital scene
- Not pitching a specific legislative request – but rather **pitching the need for the legislature, in crafting legislation and policy, to be aware of all of the players that exist in the capital continuum already and to consider that one size does not fit all.**



- There are now more kinds of capital out in the market than we’ve ever seen before. There is more collaboration among regional funders and investors; and Vermont businesses are even attracting the attention of national funders
 - My organization, the Flex Fund is the first lender in Vermont focused on royalty (or revenue share) financing
 - Foundations are getting in the game not only with grants to non-profits, but now a few provide program related investments in the form of equity and debt to for profits
 - New regional funds and market specific funds are cropping up like Fair Food Fund and Fresh Source Capital
 - The National Slow Money Movement has seen the onslaught of individuals interested in investing locally in their community farm & food businesses and now we have a group in Vermont
 - Funds as far away as California, like RSF Social Finance, are looking for deals in Vermont
 - Crowdfunding is on the horizon and with the new rule changes to the Vt. SBOE, entrepreneurs will find it easier to raise private equity financing.
- No longer just two choices, loan or equity investment, there is convertible debt, contract financing, royalty / revenue share financing, grants, the list goes on
- There are more networks to help link entrepreneurs to capital and assistance
 - VVN
 - Peak Pitch
 - Road Pitch
 - Slow Money Vermont – focused on Ag
 - Start Up VT and Launch VT
 - Department of financial regulation is in the game and doing the tour to educate the business community on VSBOE

- But we still have challenges –
 - **Licensed lender law which Cairn Cross talked about; the Flex Fund is a licensed lender and I would concur that it can be an inhibitor to new investors and lenders coming into the Vermont market**
 - Startup/early stage equity capital for non-tech businesses (have Vermont Seed Capital Fund, but it is primarily focused on high growth, tech businesses); **there is still a gap in start up funding for all the other moderate growth, non-tech businesses that are starting up.**



- I wanted to go back to my comment that one size does not fit all, nor does one type of capital.
- A start up company, selling direct to consumer has different financing needs than a more mature manufacturer that is growing their brand regionally and nationally, sells through distributors to retail chains, and is looking for more space to expand.
- **I would encourage you to take into account in all of the ideas you look at, and the primary tools you use (legislation), the scale, stage and scope of the enterprise issues you are trying to address**



- Unlike Neil Patrick Harris, I'd like to make the argument that we don't necessarily need to create that next new fund or organization, but rather **see through what we've already started – and meaningfully invest in the organizations that are getting results.**



- **It takes time to see results from investments that we've made in previous years. We often don't stick around to see what the results will be before we move on to the next great thing.**
- I would argue that we have some key programs and initiatives in place regarding capital, and we just need to see it through with meaningful support.
- **State investments like funding for the WLEF are critical – these funds function like equity and allow small and early stage farm & food businesses to leverage those dollars in order**

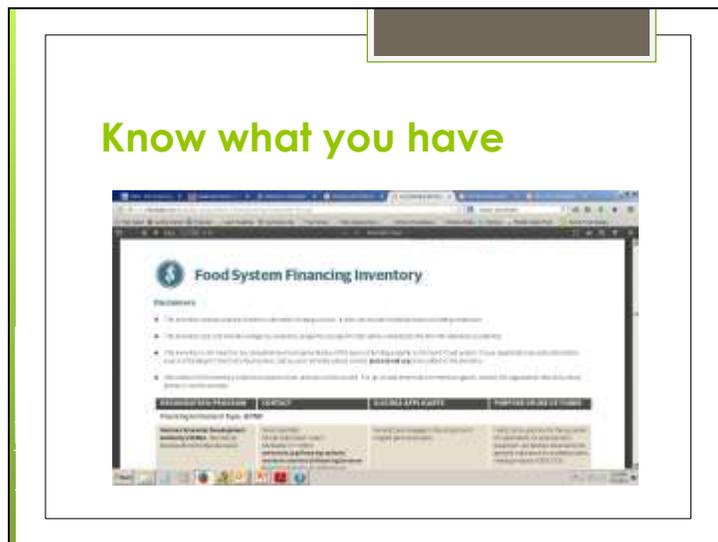
to access more traditional sources of capital. They accelerate the rate at which these businesses grow.

- Legislative support and understanding of the CEDS plan can help Vermont leverage federal funds for key economic development projects
- **In a tight budget year, maintaining funding for our TA providers like the RDCs, SBDC, VSJF, Farm Viability, VADP, and VMEC to name a few is critical.** These services go hand in hand with any capital infrastructure we've built in Vermont. These are the folks we need – or need to train – to help entrepreneurs navigate the many shades of capital that is now available to help grow their business.



- It's not just about the money, but what comes with it that counts.
- It seems like every meeting I go to with funders, investors and lenders, the topic eventually turns to **technical assistance and the need to increase advisory capacity.**
- And, getting ready for the money is as important as getting it in hand; How many businesses have you seen that come to you as a funder looking for you to invest, but they don't understand their financials – and cost drivers; and, they don't have thoughtful and reasonable assumptions behind their projections; Or, they don't have the right team in place. For us, **team competency and skill is one of the most important factors in considering whether to invest.**
- **Close collaboration between and among funders and TA providers is critical in building good deal flow and ensuring proper fit of capital with an entrepreneurs needs. We need to stretch beyond our own traditional networks and reach out beyond our comfort zone to ensure businesses find the right funding.**
- Good TA and advisory capacity can also reduce risk in a deal. So there is value in building collaboration not just among funders but also among TA providers, mentors and advisors. If we really want to step up our game, we'll reach beyond our borders and build strong networks across state lines.

- It's our job as capital providers to ask ourselves, what can we do to create investable opportunities that are not there today? How can we help businesses that don't have their act together and nurture them so that when they do have their act together and are growing, they make better borrowers or investees?
- While this is not something you can legislate, it's important for you as incoming legislators to **understand the strong link between money, networks and technical assistance.**



- While I said I wasn't going to pitch one particular idea, I will say that if you wanted to take an action, one of the next steps I believe that is critical to understanding the financing needs of Vermont businesses is to **identify where the gaps are with real data.**
- But this type of project actually requires money and research. The idea is to identify in a baseline year, how much capital (and what kind of capital) is being deployed to Vermont's businesses in a base year. Once we have a baseline, we can measure progress against this.
- This project was actually recommended and is included in the State of Vermont CEDS plan.

