

Opportunity Zones

Equity for Operating Small Businesses

Presentation to CDFI Institute March 13, 2019



In last five years, CRF has made nearly \$250 million in Small Business Loans

Filling the Financing Gap with Innovative Products

SBA 7(a)

\$150K - \$4M

- For small businesses located in low-income communities or owned by people of color, women, or veteran which are businesses not served by traditional SBA lenders.

Patient Capital

\$100K - \$250K

- For a small business that needs growth capital but doesn't qualify for SBA.
- Patient form of capital with flexible terms which may include a period of monthly, interest-only payments and revenue royalty repayment.
- Also may cover gap in SBA 7(a) loan for non-eligible uses

Offered in Chicago, Milwaukee, Twin Cities, Detroit, and Denver/Colorado

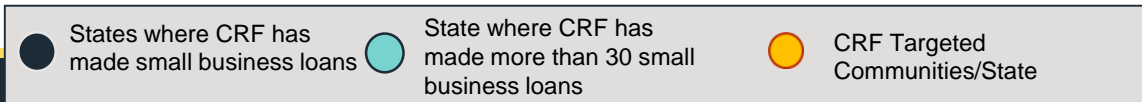
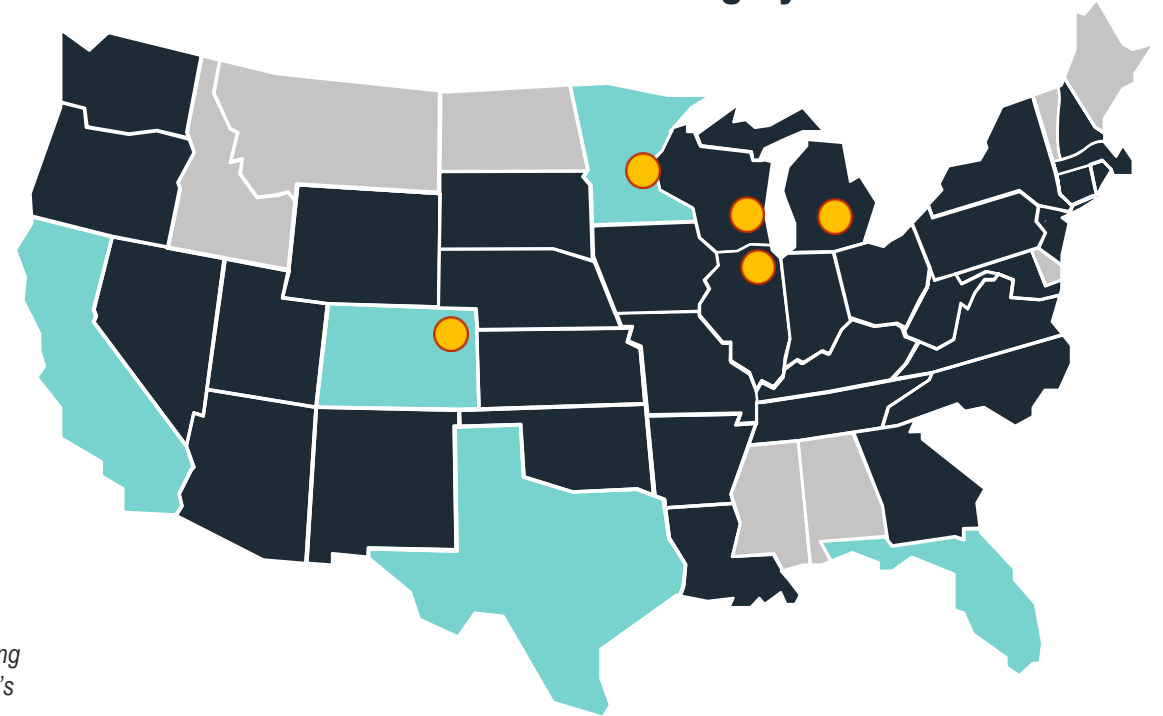
Boost Loan

\$50K - \$100K

- For existing small business who need capital within 15 days.
- Responsible alternative to online lenders that offers faster decisions and access to capital with responsible terms.
- Acts as short-term bridge to longer term loan

A standard term-loan product being originated by several other CDFI's

Small Business Lending by State

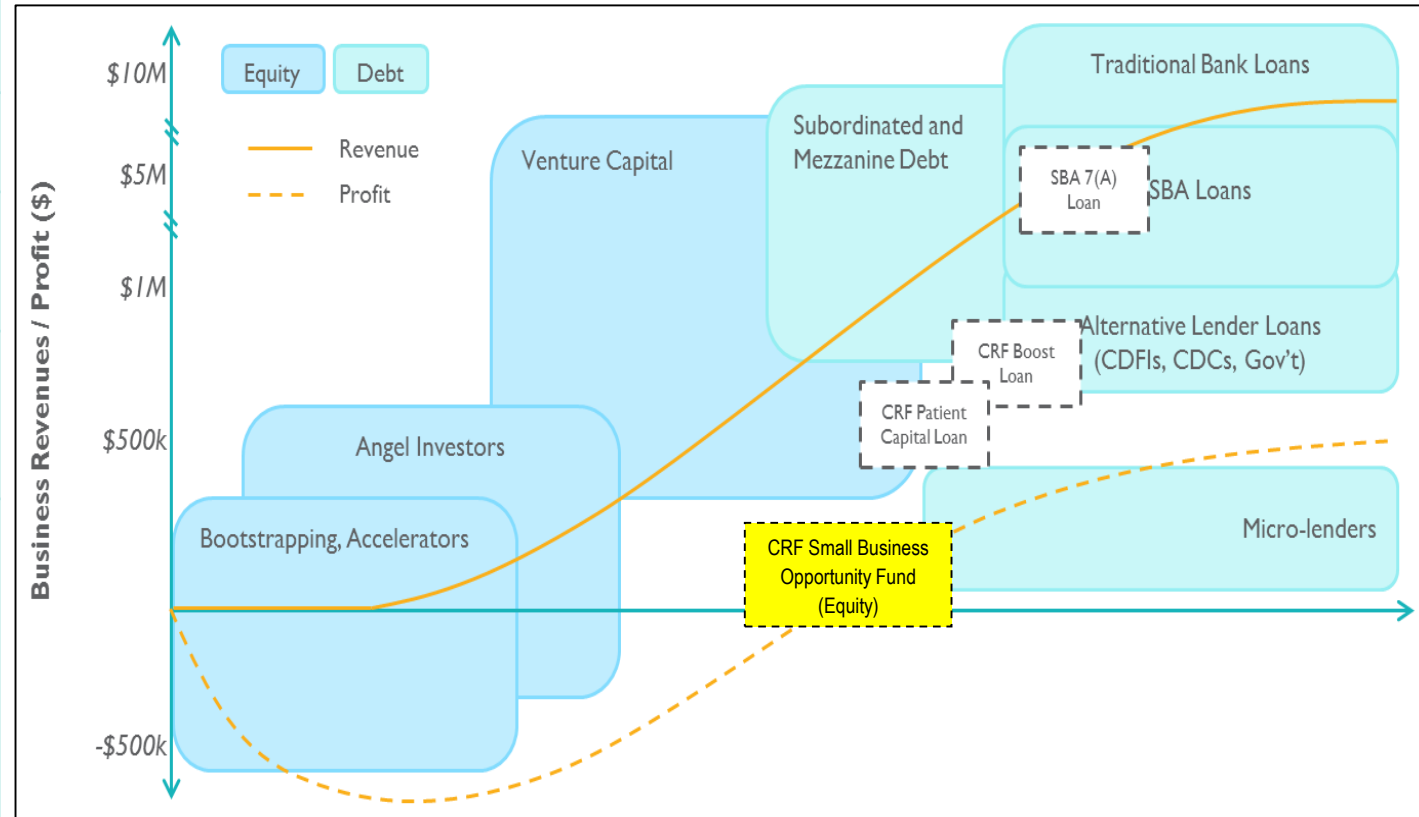


So, what have we learned?

Key Learnings	Minnesota, Chicago, SE Michigan Markets
These businesses are “equity-starved” with growth capital coming from personal savings, credit cards, and predatory lenders and not from “Friends and Family”.	Businesses owned by women and people of color are the fastest growing segment of start-ups/early stage businesses.
Sourcing equity capital from traditional investors is very challenging (too small, too risky, too much support required, not growing fast enough, and no way to exit).	There is demand for capital (debt and equity) between \$100K - \$750K that is not being met by current capital providers.
The more flexible debt capital that is provided the more comprehensive business advisory services is needed.	A high industry concentration of businesses are in: <ul style="list-style-type: none">• Food and Beverage Manufacturing• Construction & related contracting• Professional & Technical Services• Early Childcare• Retail and Food Service
Providing more debt capital isn't always the right answer – these businesses need more time to grow revenue & cash flow without the burden of debt repayments	
Their external networks are limited making it difficult to find the right resources (capital, customers, coaching/mentorship)	

CRF's Small Business Equity Product Concept

Equity Investment	\$150,000 - \$750,000
Investment Term	5 – 10 years
Targeted Rate of Return	10-12%
Purpose	Working Capital, Purchase of Inventory, Purchase of Equipment, Purchase of Commercial Real Estate, Lease-hold improvements, Business Acquisition
Other Factors	<ul style="list-style-type: none"> • Years in business > 1 year • Business located in low-income community (preferably qualified o-zone) • Business owned by people of color, women or veteran • Ownership with strong character and relevant management experience



Small Business types being evaluated

Small Food & Beverage
Manufacturers located in
Ozone



Early Childcare Center in
Ozone



Preservation of existing a
business in Ozone



Minority Contractors
based in Ozone



A few questions we are trying to answer:

- **Demand:** Will our targeted small businesses give up a % of ownership for equity injection? If so, what impact does it have on the small business?
- **Attracting Investors:** Can we attract investors that are willing to take on the risk of investing in small businesses and have the patience to wait 10 years for returns? What enhancement will be required to the Ozone fund structure to provide some protection for investor interests?
- **Sourcing:** How do we best source investment opportunities?
- **Valuation:** How do we best value a small business over time?
- **Exits:** Can we design an exit that allows small business owner to buy-out investors?

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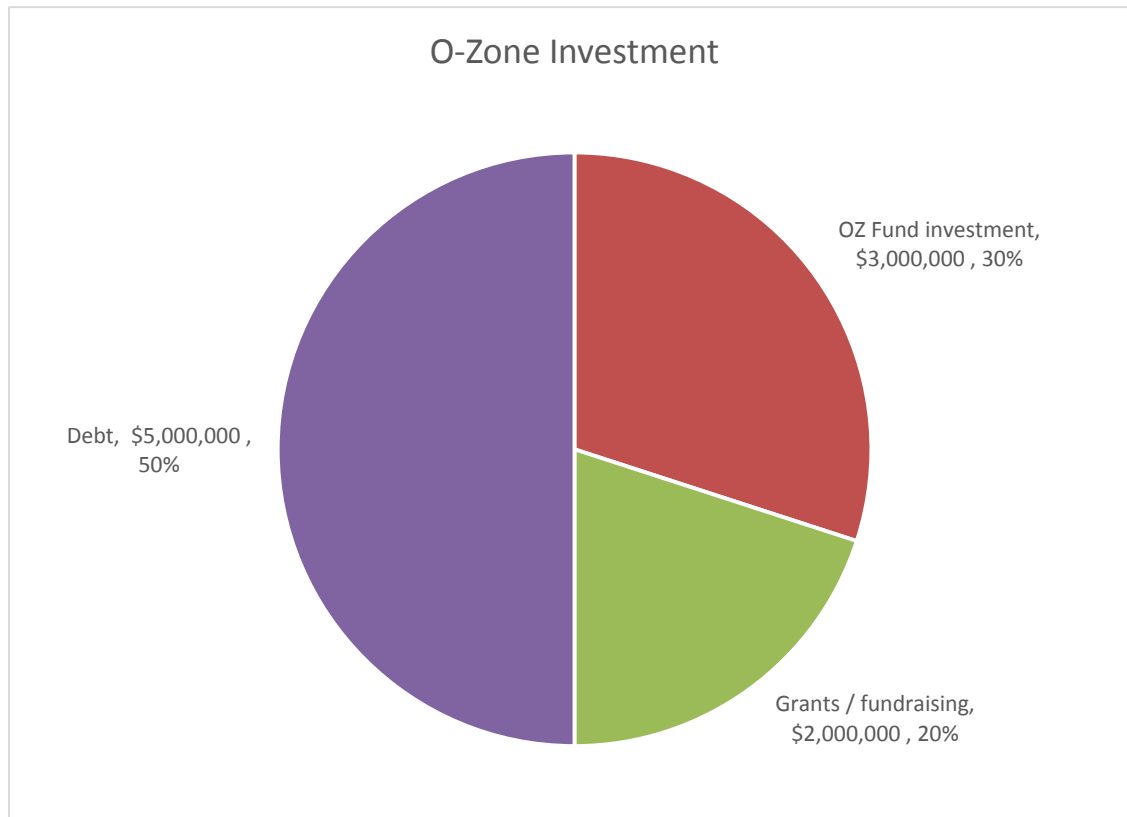
- **Will Entrepreneurs Sell Equity to an Opportunity Fund:** Small business owners are often loathe to give up any equity. Will they sell shares to a “friendly” investor?
- **Business Advisory:** What comprehensive set of services need to be offered to help these small business grow and maximize return for investors?
- **Partnerships:** What partnerships do we need establish to be successful?
- **Economics:** Can we refine business operating model that allows CRF to cover operating costs?
- **Scaling:** Can we replicate and find ways to get other CDFIs involved sourcing investments or making loans along side equity investments?

Using O-Zone Financing in NFP Community Projects

Presentation to CDFI Coalition

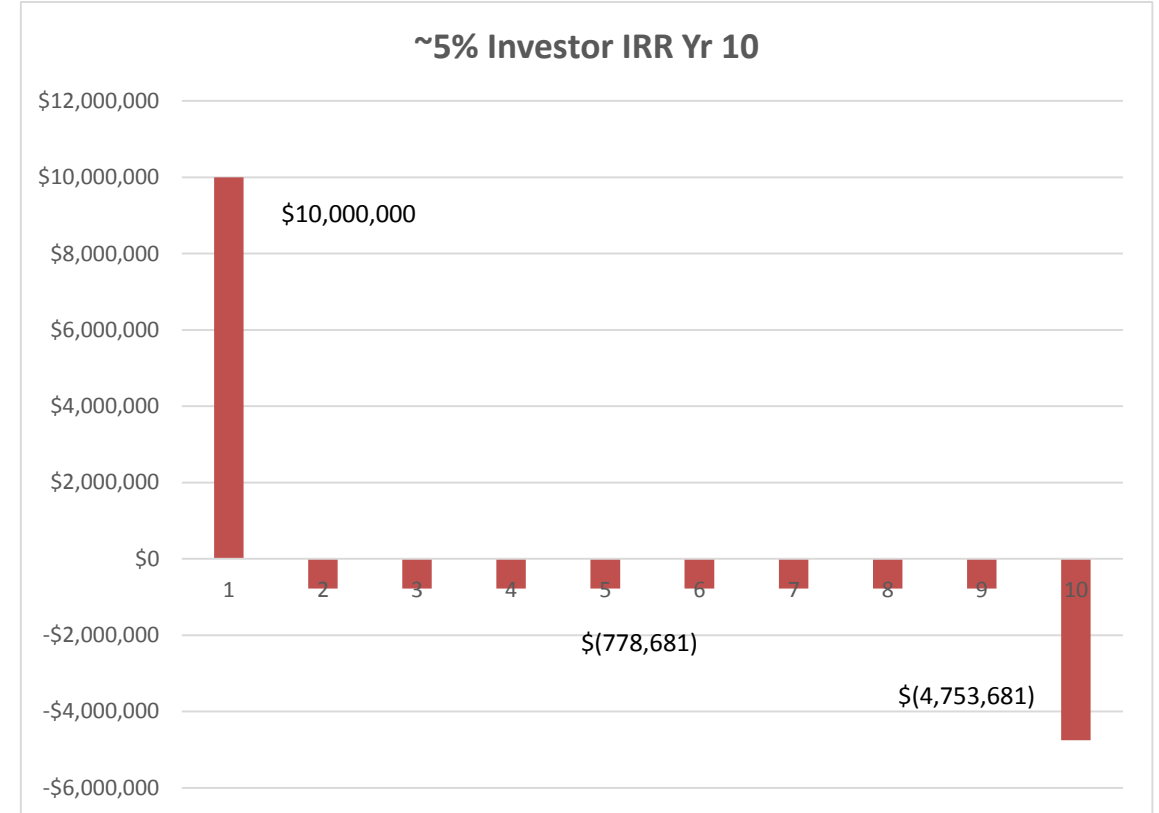
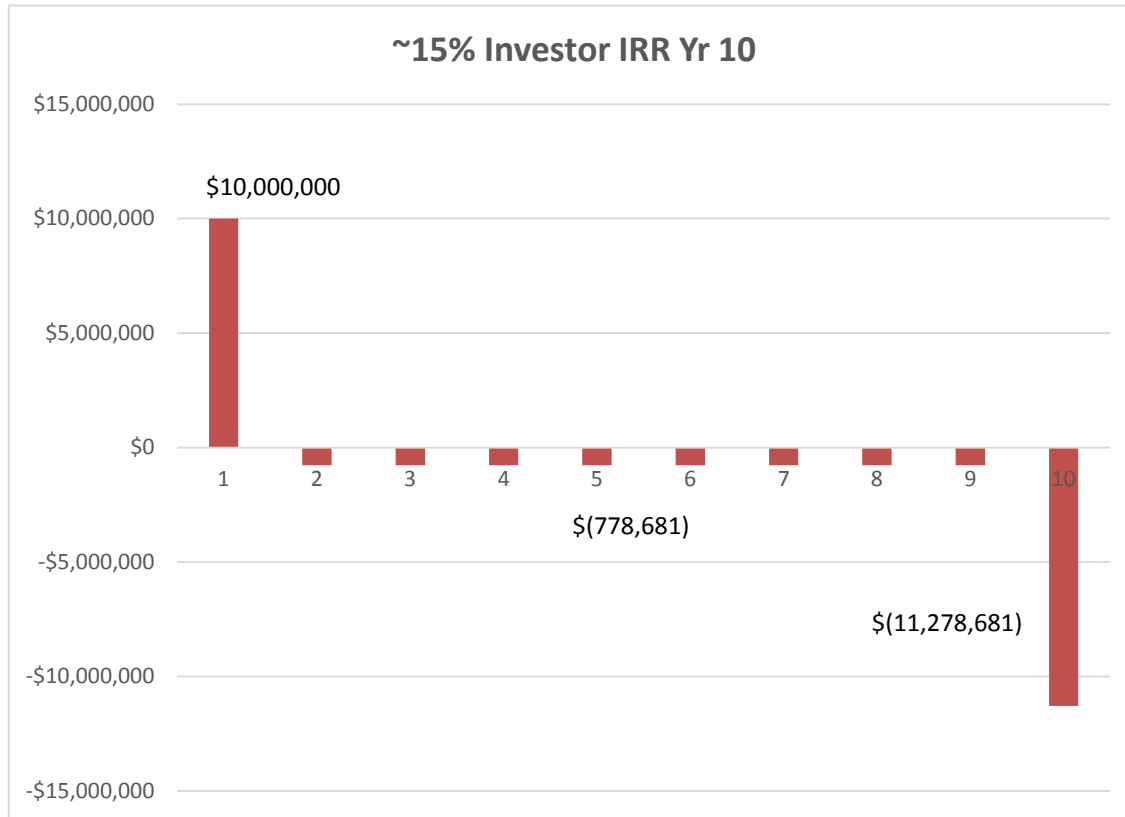
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\$3MM OZ Investment \$10MM Project



- \$3MM O-Fund investment
 - 3.5% current pay
- \$2MM Grants/Fundraising
- \$5MM Debt
 - 6.25% Interest Rate
 - *Blended IR: 4.18%*
 - 10-year full amortization
- Key assumption: Sponsor desires ownership of RE/Business

\$3MM OZ Investment: 15% v. 5% IRR



- O-Funds provide significant, low (current) cost of capital (<4.5% as illustrated)
- Current market investors require significant payoff requirement at termination.
- Managing payoffs:
 - Sinking Fund: minimizes new capital required
 - Impact investor: +/- 5% reduces final payment due