



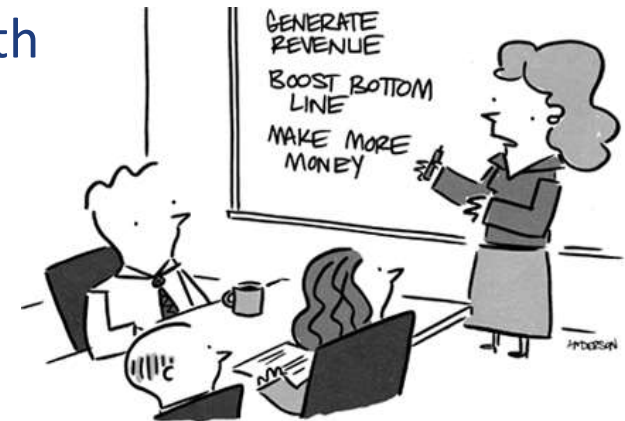
ALASKA'S DEVELOPMENT FINANCE AUTHORITY

ACCESS TO CAPITAL
ANVCA Annual Conference

May 31, 2017

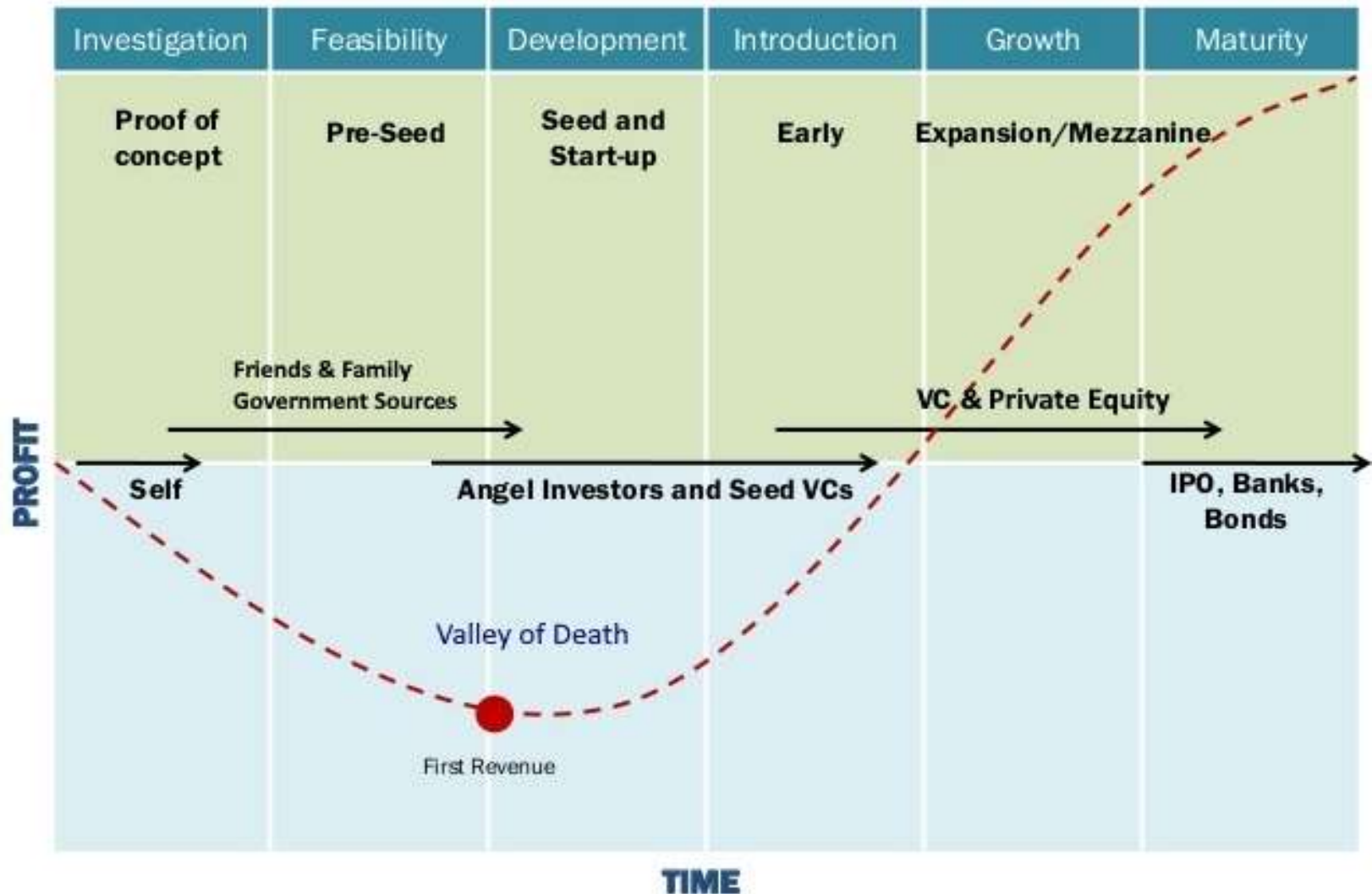
What is Capital?

- Financial assets or the financial value of assets:
 - Cash
 - Machinery, Equipment, Automobiles
 - Real Estate, Facilities
 - Patents, Software, Brand Names
 - Anything that can be used to create wealth
- Understand your capital needs
- Capital comes at a cost
- Match sources of funds to uses of funds
- Utilize your assets to leverage debt
- Leverage public funding programs – state and federal

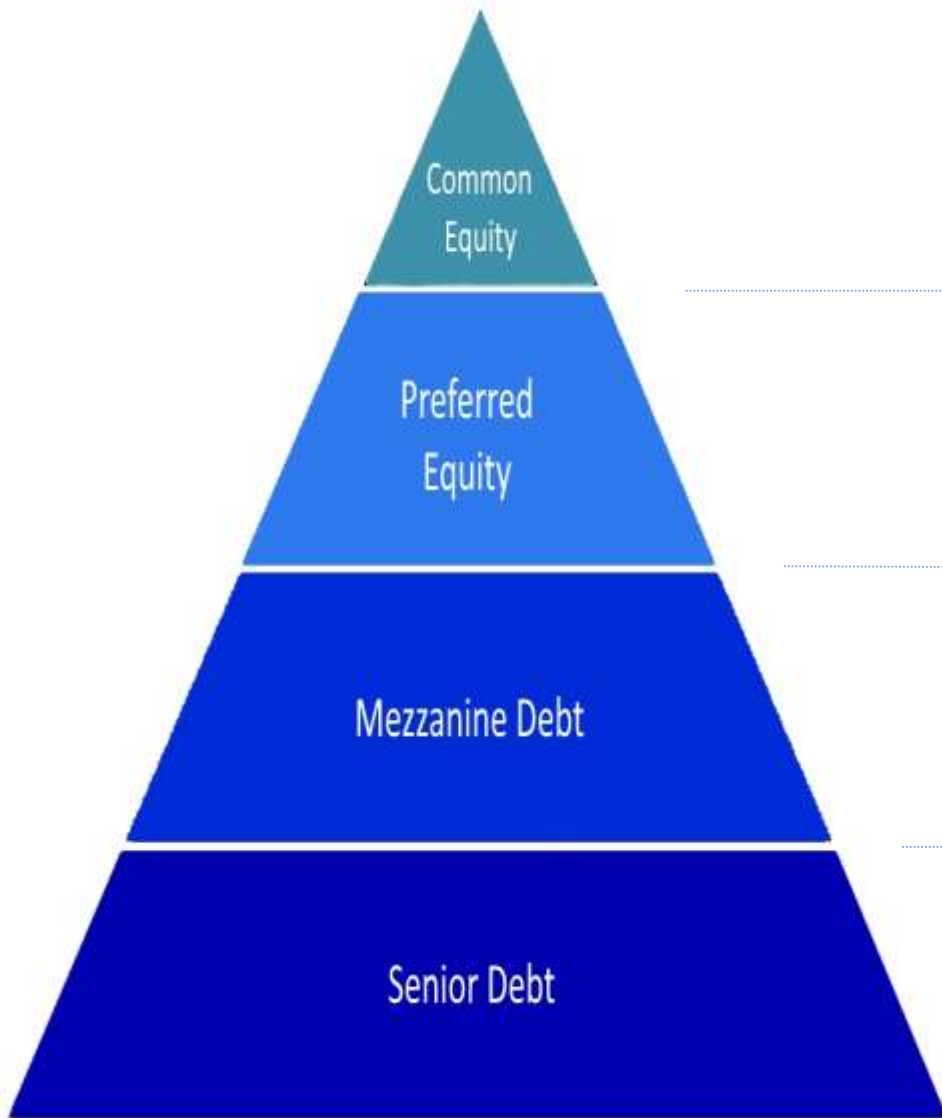


"It's a good start, but does anyone have any more specific ideas for increasing profits?"

The Capital Lifecycle

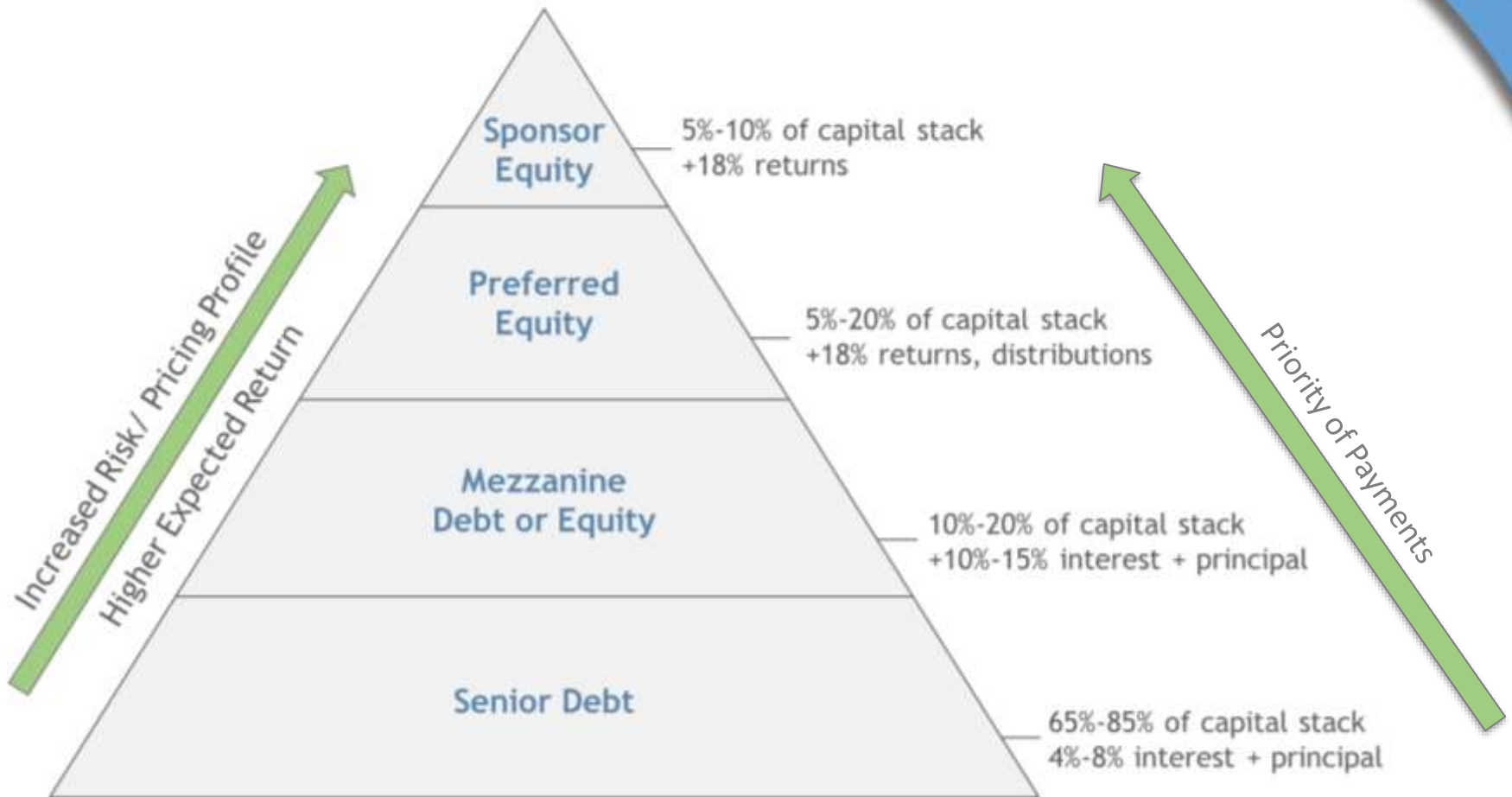


Capital Structure



- Highly dilutive and may result in loss of control
 - Restrictive covenants
 - Short term in nature with strict amortization
 - Requires personal guarantees from founders
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- May include complicated provisions such as liquidation, conversion, callability, and voting rights
 - Generally carries a dividend
 - Long term capital
 - No amortization
 - Highly dilutive
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- Generally 2nd lien term loans
 - Requires positive cash flow
 - Long-term capital with limited to no amortization
 - Flexible and customized covenants
 - Generally includes warrants but less dilutive than equity
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- Evolving and term loans
 - Fully collateralized
 - Long-term capital with limited to no amortization
 - Flexible and customized covenants
 - Generally includes warrants but less dilutive than equity

Capital Stack



Debt

Borrowed money, repaid over time with interest

- Debt does not sacrifice ownership interests
- Includes asset-based financing, leasing, trade credit
- Direct loans or loan participations
- Bonds: tax-exempt and taxable
- Senior, Subordinated & Mezzanine debt
- The Five C's of Credit are critical to ensuring a project is bankable

SMALL BUSINESS LOANS



"Your business plan seems to depend on winning a lot of state lotteries...."

The 5 C's of Credit



"Do you have any other collateral... besides this e-mail from a Nigerian prince?"

Business Loans



Working capital loans (1-3 years), help cyclical businesses bridge cash flow gaps in accounts payable, inventory, wages, etc.

- Banks & Credit Unions
- Supplier Credit
- Factoring or Advances (lend on future receipts)
- Accounts Receivable loans

Long-terms loans (3-30 years), mortgages, land and site development, machinery, equipment, and other fixed assets

- Banks & Credit Unions
- CDFIs
- Public Sources

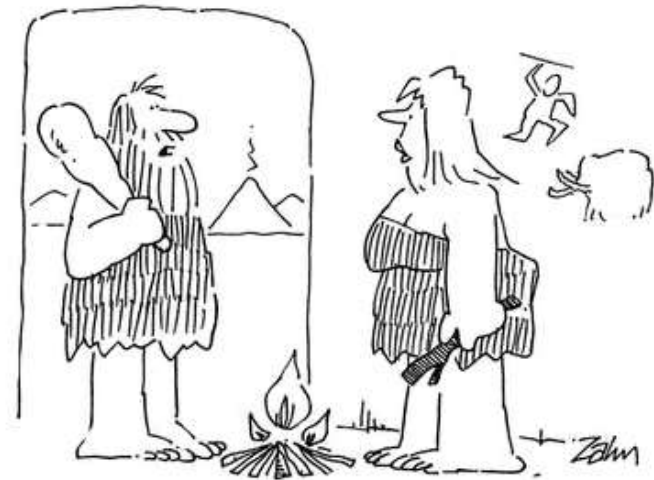
Bonds



- Bonds are a common form of long-term debt
- Generally issued by a governmental entity
- Three types of bonds:
 - Governmental
 - Private Activity Bonds
 - Corporate (issued by the corporation)
- Bond rates determined by credit quality and duration
 - The higher the credit rating of the issuer or the strength of the project's projected revenues, the lower the rates
 - Bond maturities can range from a day or less to more than 30 years, rates increase with time

Private Activity Bonds

- Tax-exempt bonds issued by a government entity to provide special financing benefits for qualified projects – lots of conditions, few eligible activities
- Used for projects of a private developer, and the government generally does not pledge its credit.
- Issued as municipal bonds because the project serves a public need or enhances the economy of the city, borough or state.
- PABs include:
 - Industrial Development Bonds
 - 501(c)(3)
 - Tax-Exempt Facility
 - Energy (QECP & CREB)



"Those government bonds we bought – they weren't Atlantis government bonds, were they?"

Mezzanine Debt



- Mezzanine debt is the middle layer of capital that falls between secured senior debt and equity.
- Usually not secured by assets, and is lent strictly based on a company's ability to repay the debt from free cash flow.
- Often used by growing businesses to bridge the gap between what conventional banks will lend against assets, and the total value of a new project or acquisition.
- They are a riskier form of a loan for a lender to make and are usually only provided to companies with strong credit backgrounds.
- Mezzanine debt is more expensive than senior debt, but less expensive than equity.
- Corporate expansion projects, acquisitions, recapitalizations, management buy-outs, and leveraged buy-outs

Advantages & Disadvantages of Debt



Advantages

- Raising debt capital can be faster than raising equity capital.
- Debt capital is typically cheaper than equity capital
- The lender does not gain an ownership interest in the business

Disadvantages

- The loan amount and the interest payments can saddle the balance sheet and income statement of the company
- For some debt instruments, the terms can be complex and may onerously burden the business
- If the debt is personally guaranteed, liability will extend to non-business assets
- If the company gets into trouble, the debt financier could become adversarial

AIDEA Debt Programs



Loan Participation

- Purchase up to 90% of a loan to a max of \$25 million
- Loan to be originated by a bank or credit union
- Long-term up to 25 years
- Fixed and variable rates
- Commercial real estate

Direct Loans

- 75% Loan to Value
- Fixed rates
- Natural Resources
- Tourism
- Energy
- Federal Facilities
- Communications
- Enterprise Infrastructure
- Transportation

Revenue Bonds

- Tax-exempt
- Taxable
- IDB, 501(c)(3), Exempt Facility
- Various sectors and uses:
- Hospitals, clinics
- Manufacturing
- Processing

Equity

- Equity is cash paid into the business
 - Either the owner's cash or someone else's
- Investment capital for acquiring equity ownership
- Shares are issued in proportion to the amount of the investment in relation to the valuation of the company
- Sources of equity financing include:
 - friends and family
 - angel investors
 - employees, customers, and suppliers
 - private equity & venture capital firms
 - investment banks & insurance companies
 - government-backed Small Business Investment Corporations (SBICs)



Private Equity



- High cost of capital
- Investors may be hands-on or passive in company's management
- Investors often have sector or geographic criteria, e.g. PT Capital focuses on Arctic investments
- Uses of funds
 - working capital for acquisitions, growth, and expansion
 - new-product development
 - restructuring of the company's operations, management, or ownership
- Venture and angel investors looking for early-stage and high growth potential companies
- PEF and institutional investors are looking for existing or mature firms

Advantages & Disadvantages of Equity



Advantages

- Lack of recurring principle/interest payments makes the business more able to cope with the ebb and flow of the business
- Corporation's risk is shared with investors
- Right investors can add significant value
- Smooth transition option for business owners looking to ease out of the business
- May be the only type of capital for rapidly growing and asset-lite companies
- Equity investor is committed to the company until exit. If the company gets into trouble, the equity investor is likely to help with the turnaround

Disadvantages

- The Owner answerable to investors and some loss of control
- Can be more expensive than debt capital (albeit at a lower risk)
- It typically takes longer to raise equity capital than debt capital
- Deal terms can be complex, especially regarding valuation.

AIDEA Preferred Equity



Natural Resources

- Extracting
- Processing
- Manufacturing
- Transporting

Energy

- Generation
- Transmission
- Distribution
- Conversion

Economic Development

- Transportation
- Communications
- Community Public Purpose

Federal Facilities

- Military
- US Coast Guard
- Civilian

Tourism

- Infrastructure
- Facilities
- Excluding Accommodations

AIDEA works with partners to finance industrial projects throughout the state.

Projects support industrial development:

- oil, gas, and mining
- fisheries,
- federal facilities,
- communications
- logistics.

AIDEA finances:

- industrial roads
- ports and harbors
- manufacturing and processing facilities.

State Support Tools

Numerous programs and sectors

Often used in conjunction with other tools, and include loans, guarantees, and grants

- AIDEA: loans, guarantees, bonds, and preferred equity
- DCCED: commercial fishing, mariculture, RDIF, SBED, microloans
- AHFC: grants, multi-family & senior housing loans, energy loans
- DNR: agriculture loans, oil & gas and mining incentives
- DOR: tax credit



“I think I can get us a tax credit if we start cooking the books with solar heat.”

Federal Support Tools



- Over 100 programs, and cover all finance categories
- Often used in conjunction with other tools, and include loans, guarantees, and grants
 - USDA - loans, guarantees, and grants
 - SBA – 504, 7(a), exports, disaster, microloans
 - DOE – tax credits, grants, guarantees
 - HUD – brownfields, LIHTC, CBDG grants, Section 108 guarantees
 - CDFI – technical and financial assistance, NMTC
 - Ex-Im Bank – loan guarantees and credit insurance
 - IRS (tax credits), NASA, DOD, DOT, Treasury, EPA, HHS, DOJ



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