

# Smooth Sailing: Alternative Funding for Start-Ups

Kevin Nicusanti  
Technology Commercialization  
Equity Funding Specialist  
SBTDC Chapel Hill



# Some of the Greatest Phrases from Sailing culture

- Batten down the hatches
- All Hands on Deck
- Shiver me timbers
- Walk the Plank
- Keel Over
- Even Keel
- Taken Aback
- Three Sheets to the Wind
- Between the Devil and the Deep Blue Sea
- Let the cat out of the Bag



# Today's Topic

## Funding for Start-ups and Growth

**Subject Matter Experts** approach to this session

Goal is to **build awareness** of a **range of funding sources**

- Traditional bank loans
- Specialty banking solutions   CFID
- New investor crowd funding
- You will have access to a copy of this presentation



# Today's Presenters

**Matthew Byrne** – SBTDC Director - Northeast Regional Service Center

**Elaine Fairman** – Executive Director :**BEFCOR** ( Business Expansion  
Funding Corporation ) Charlotte, NC

**William McGuire** – CEO **Incolo.io** Raleigh, NC



# SBTDC Technology Commercial Team

## Funding and Commercialization Advisory Services

- Primarily innovation and technology-based clients
- Equity Funding and Non-dilutive ( grant ) funding

## Primary Client Verticals

- Life Sciences/ BioTech
- Pharma
- Medical Devices
- TeleHealth
- SaaS/ Software/ Apps
- Ag Tech , Fin Tech



# SBTDC Technology Commercialization Team



**Andrea Giska**  
**Equity Funding  
Specialist**



**Kevin Nicusanti**  
**Equity Funding Specialist**



**John Ujvari**  
**Tech Comm Team  
Leader**



**Connor  
Steenbock**  
**Tech Commercialization Counselors**



**Ramya  
Vijapurapu**



# Today's Goal - Takeaways

Focus on funding mechanisms for range of non-technical businesses

- Bank loans and Debt financing
- Sources including SBA 7(a) and 504 loans
- CDFI loans
- Investor Crowd Funding





# Matthew Byrne – SBTDC Director NorthEast Center

- SBTDC 9+ Years Director and GBC
- Commercial Loan Officer – Vantage South Bank
- Personal Banker – Wachovia Bank 7+ years
- University Florida B.B.A. Finance & Economics



**Matthew Byrne**

SBTDC Director Northeast  
Regional Service Center





# If Money Doesn't Grow on Trees, Where Do You Go to Fund Your Small Business?

*Updated and Presented by:*

**Matthew Byrne, EDFP**

mjbyrne@ecu.edu

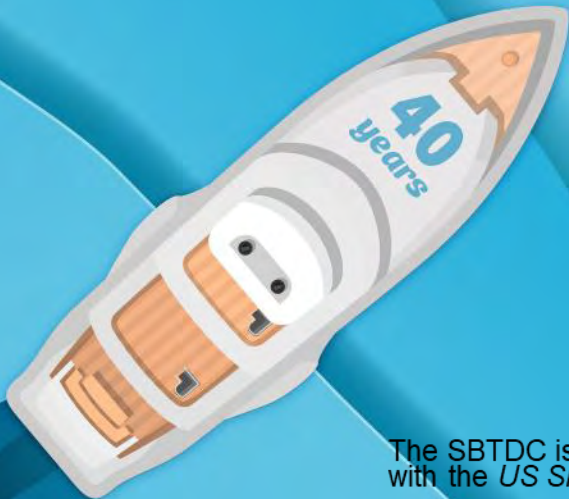
*Originally Prepared by:*

**Gene Holland, MBA, EDFP**

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**Small Business & Technology Development Center**

The SBTDC is a business and technology extension program of the UNC System and is funded in part by a Cooperative Agreement with the *US Small Business Administration*



# Quick Agenda

- Reasons and Sources for Funding
- Types of Small Business Funding
- Focus on Small Business Loans
- Small Business Credit Fundamentals
- Approaching the Lender: Parts of a Small Business Loan Package
- Other Sources of Funding
- Questions / Comments?
- The End!



# What is the **REASON / PURPOSE** ?

- Start-Up
- Expansion
- Trouble
- Opportunity
- Is the issue internal, external, both?
- Will the additional funding solve the problem?



# Examine the Situation Carefully...

- What is the underlying purpose?
- How much money do you need?
- When do you need the money?
- When and how will the funding source get their money back?
- Possible return on investment?
- Do you have a business plan?
  - Is this part of that Plan?
- What are the appropriate funding sources?



# Not All Money is EQUAL

As a Small Business Owner, you need to understand...

- If you accept the money, what are the conditions?
- What happens if you are unable to repay?



# Major Types of Funding

- Equity
- Debt (our focus today)
- Government-related
- Grants (*Ha Ha!*)
- Other sources



# Equity Funding

Most likely  
sources for  
small,  
lifestyle  
businesses



- YOURS
- Friends/Relatives
- Partner(s)
- Angel Investors
- Venture Capital





# Debt vs. Equity Capital

## (from the small business owner's perspective)

### Debt:

- Maintain more control over operations
- Can result in tax advantages (interest expense)
- Does not dilute owner equity
- Might be more “expensive”
- Need to be in a favorable position for underwriting
- MUST pay it back!

### Equity:

- Source of capital in early or “unbankable” stages
- Pay out typically only if profitable/positive cash flow
- Dilutes equity
- Adds to the # of bosses!
- Owner goals might not align with investor goals



# Debt Funding

- Second Mortgage/HELOC/HEL
- Loan from Friend/Relative/Micro Investor\*
- Asset-Based LOC/Loan (ABL)
- Insurance or 401(k) loans
- Credit Card(s)
- Bank Term Loan (Long Term)
- Bank Line of Credit (Short Term)



# Bank Term Loans

- The borrower agrees to repay X amount of dollars over Y period of time at Z.00 % interest rate
- Loan proceeds can be used in many ways
  - Real Estate
  - Equipment
  - Inventory
  - “Working Capital”
- Terms should reflect the **useful life** of items purchased



# Bank Line of Credit

- Borrower pays only interest on the amount of the loan outstanding
- The loan should be used only to finance short-term aspects of the company like inventory or large orders; typically used when there is seasonality or cyclical activity
  - Seasonality: e.g., retailer must ramp-up inventory in fall for holiday activity—Christmas tree farmer example
  - Cyclical activity: similar to above; unpredictable but documented “lumpy” sales activity that can force the business owner to pay large sums for inventory/labor, etc. before collecting
- The loan usually must be paid down to \$0 within a 12-month period before continuing with the loan = “Clean-up Period”



# Asset-Based Line of Credit (ABL)

- Typically used by manufacturers and wholesale/distributors
- Line of Credit is secured by Inventory and Accounts Receivable
- Line can be drawn down from a real-time borrowing base of the above (typically 50% Inv and 80% A/R)
- Expensive due to monitoring of borrowing base, but often very necessary
- Somewhat complicated; rare-ish to see from community bank = No Clean Up...But Active



# Small Business Administration (SBA)

## 7(a)

- Interact with a bank, NOT the SBA
- Used for equipment, inventory, WC, sometimes real estate
- Bank partners with the SBA. SBA Guarantee helps bank become more comfortable with lending risk due to low equity, low cash flow
- Up to \$5MM. 85% guarantee up to \$150,000 and 75% guarantee above \$150,000.
- Variable rates from Base+2.25% - 4.75%. Fixed at Prime + 5%-8%

## 504 Program-- Certified Development Companies (CDCs)

- Primarily owner-occupied real estate ( $\geq 51\%$  for new proj), possibly equipment. **NOT for WC**
- Bank, CDC and Business owner make up the loan; Borrower 10%+ equity; CDC provides 40% of funds and SBA Guarantee, bank/lender 50%

[www.sba.gov](http://www.sba.gov)



# The Five C's of Credit

- **Capacity (Cash Flow)**: The business must be able to support its debts and expenses and be profitable, with positive cash flow. Can be CF from *operations/use of financed asset* OR *sale of financed asset*. PRIMARY FORM of REPAYMENT!
- **Capital**: Money you or investors are putting in or equity you already have in the business or the deal
- **Collateral**: The value of assets that secure the loan. SECONDARY FORM of REPAYMENT
- **Character**: Is the borrower willing to repay the loan? Do they have the skills to manage the business? Shows in credit scores/history
- **Conditions**: The economy, industry trends, or anything that will affect your business





# Elements of a Loan Package (Ideally!)

- Credit Report (Banker obtains the report)
- Personal Financial Statement (PFS)
- Personal Tax Returns (3yrs if possible)
- Historical Financials (3yrs if possible)
- Historical Tax Returns (3yrs if possible)
- Trade references (if applicable)
- Business Plan (startup)/Executive Summary (in business 2+yrs)
- P&L/Income Statement projection (1-3yrs)
- Proforma Balance Sheet (1-3yrs)



# What/Who Will Qualify?

- **Cash is King!** Lenders measure Debt Service Coverage = DSC (aka Debt Coverage Ratio = DCR)
- $\text{DSC or DCR} = \frac{\text{Annual Global Cash Flow (Net Income + non-cash addbacks)}}{\text{Annual Global Debt Service (Principal + Interest)}}$
- DSC should be at least 1.20x to 1.25x. SBA programs sometimes allow for 1.15x
- Leverage Ratio (Debt / Tangible Net Worth). Depends on many factors (industry, life cycle, etc.)
- Equity investment by Owner = “Skin in the Game.” Typically, at least 20%, but some SBA programs allow as little as 10%. Expressed as Loan-to-Value (LTV). LTV of 80% = 20% equity; 80% debt



# What About Collateral?

- In small business and commercial lending, collateral alone won't get the job done.
- **Cash Flow** is the **Primary Source of Repayment** (I am repeating this on purpose!)
- Collateral and Personal Guarantees are Secondary Sources of Repayment
- What does this mean? It means that Collateral and Guarantees are there, JIC things “go south” and you don't have the cash to repay the loan. Cash is the meat and potatoes. Collateral is dessert
- Banks don't want to own your grandmother's farm!! But they do want to take as much collateral as possible



# Grant Funding

## **More media hype than reality for small businesses!**

- Niche oriented
- Usually relatively small amounts
- Localized geographical area
- Often for non-profits or local governments

If you don't believe me visit [www.grants.gov](http://www.grants.gov)



# Other Sources of Funding

- Factoring
- Revenue-Based Financing (Clearco, Wayflyer, Capchase, Uncapped, Karmen, etc.)--BEWARE
- Leasing
- Suppliers
- Customers



# Questions / Comments?

Thank you !!!



# Economic Development Loans

*Elaine C. Fairman*  
**BEFCOR**





# Elaine Fairman, BEFCOR

Elaine joined Business Expansion Funding Corporation “BEFCOR” as the Executive Director in 2012. During her leadership, the team has grown from 7 to 25 and **assistance to NC’s small businesses has expanded exponentially.**

**BEFCOR** is an SBA-licensed Certified Development Company and a US Department of Treasury approved Community Development Financial Institution –CDFI - an **organization driven to deliver small business loan options, including SBA 504 and micro loans.**

Elected by her industry peers, she has been honored to represent the **SBA 504 industry** by serving 8 years as a NADCO Board member, with 6 years on the Executive Committee

Elaine earned a Bachelor of Science degree in Business Administration from Coastal Carolina and an MBA from Winthrop University.



# Financing Options for Startups

## TRADITIONAL

Banks

Credit Unions

Non-Bank Lenders

(similar to banks, do not generally have branches,  
may not take deposits)

## NON-TRADITIONAL

Non-Profit Lenders

**Economic and Community  
Development Lenders**

CDFIs

Government, SBA, Etc.

May be flexible

Greater risk appetite

## Other Sources

Friends

Online Predatory Lenders

Family

Finance Companies

Crowd Funding

Vendors

Equity Sources



# Most Loan Requests are....

**Completely  
Bankable**

**Somewhat  
Bankable**

**Not  
Bankable**



# This is where BEFCOR fits in:



Sometimes bank financing is available; however, terms may not be acceptable. An economic development lender's participation can help the borrower get lower payments.



**Somewhat  
Bankable**  
or Bankable with  
Terms that are not  
favorable

**Not  
Bankable**



# Non-Traditional Economic Development Loan Programs

## Loan Guarantees

- Lender provides capital
- Assurance of Repayment via Guarantee
- Examples are SBA 7a, USDA B&I

## GAP Programs

- Multiple lenders provide loans
- The “Safest” portion may come from a bank, then another lender takes risk
- **SBA 504**, CDFIs, Others

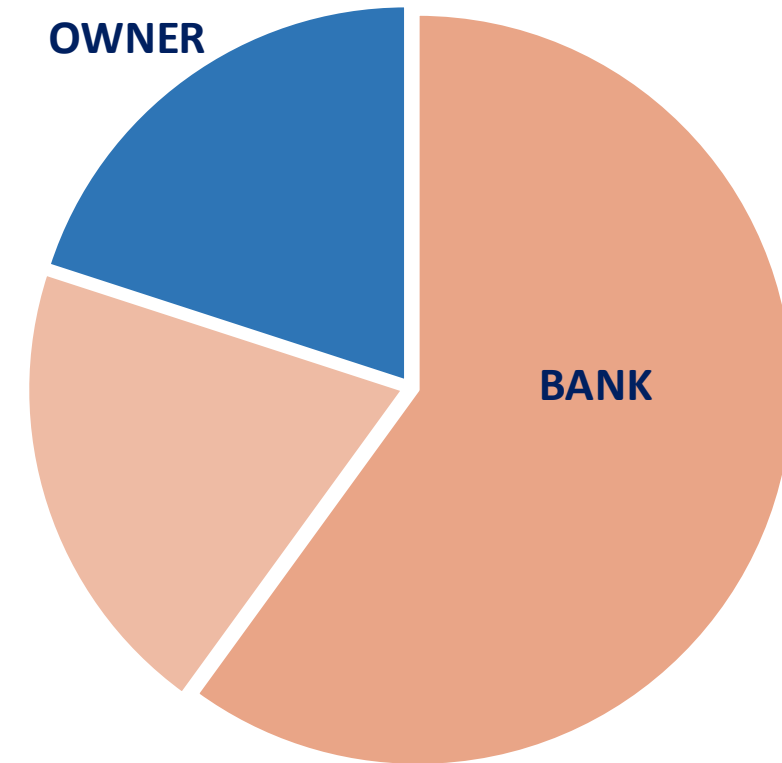
## Other

- “Different,” creative
- **CDFI Loans**
- Local Loans or specific types of business
- Each program is different
- State, Federal, Local, Non-Govt.
- Equity programs
- ETC.!!!



# Loan Guarantees

- Bank/Lender provides approx. 80% of the funds you need.
- Down payment = 20% or more
- Bank receives a “Guarantee” from SBA that most of their loan --usually 75% -- will be repaid, by either business or SBA.
- Reduces bank's risk
- 1 Lender

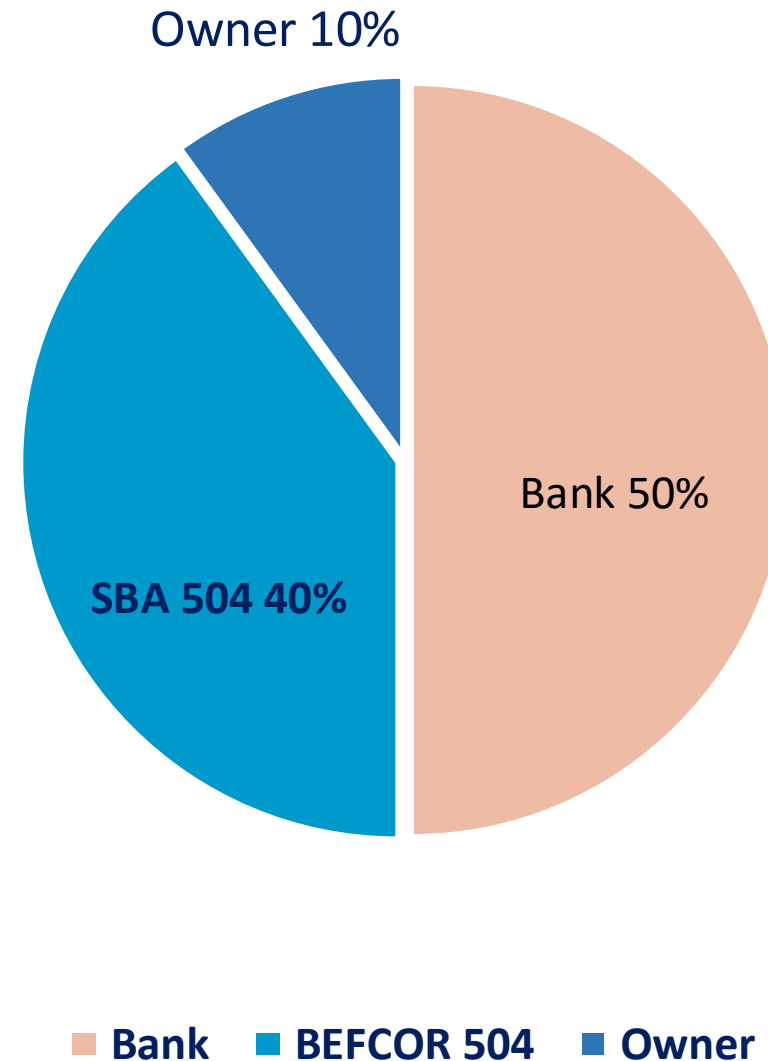


■ Bank (Guaranteed) ■ Bank (no Guar.) ■ Owner



# Gap Financing

- Bank/Lender finances a portion, usually 50% -- similar to a conventional loan
- Down payment = 10% or more
- SBA 504 or other program provides the next 30-40%; financing the riskiest portion at very favorable terms
- 2 lenders, 504 usually has lower rate and more patient term – and offers payment certainty





# SBA 504 Loans from BEFCOR

## Benefits of SBA 504 Loans

Up to 40% of  
Fixed Asset  
Project

Bank +  
Borrower  
Provide Portion  
of Funding

Below Market  
FIXED Rates

Attractive  
Terms: 10, 20,  
25 Years

### 504 ELIGIBLE COSTS

Land	Building	M&E	Prof. Fees, Etc.	REFI
Property	Construction	New	Surveys, Engineering, Architectural Design	Everything in other columns
Signage	Expansion	Used	Environmental, Appraisal	
Landscaping	Renovation	FF&E	INTERIM INTEREST	
Parking			Title Ins., Some Closing Costs	



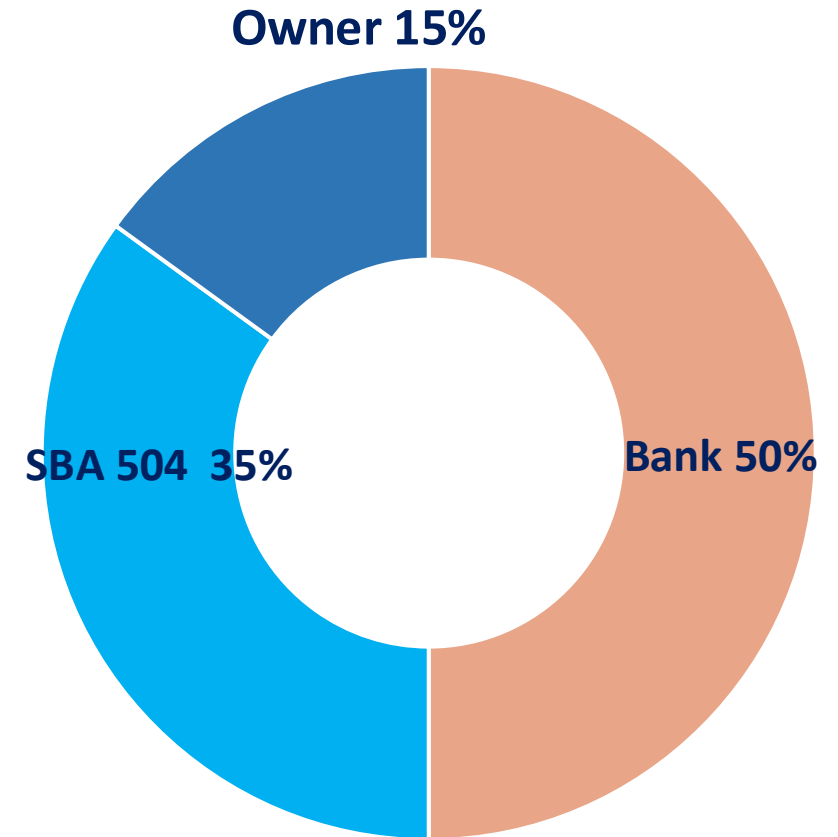
# SBA 504 For New Business 50-35-15

## Project Costs

Land, Bldg.	\$ 1,720,000
Renovation	\$ 150,000
M&E	\$ 100,000
Soft Costs	\$ 30,000
Total	\$ 2,000,000

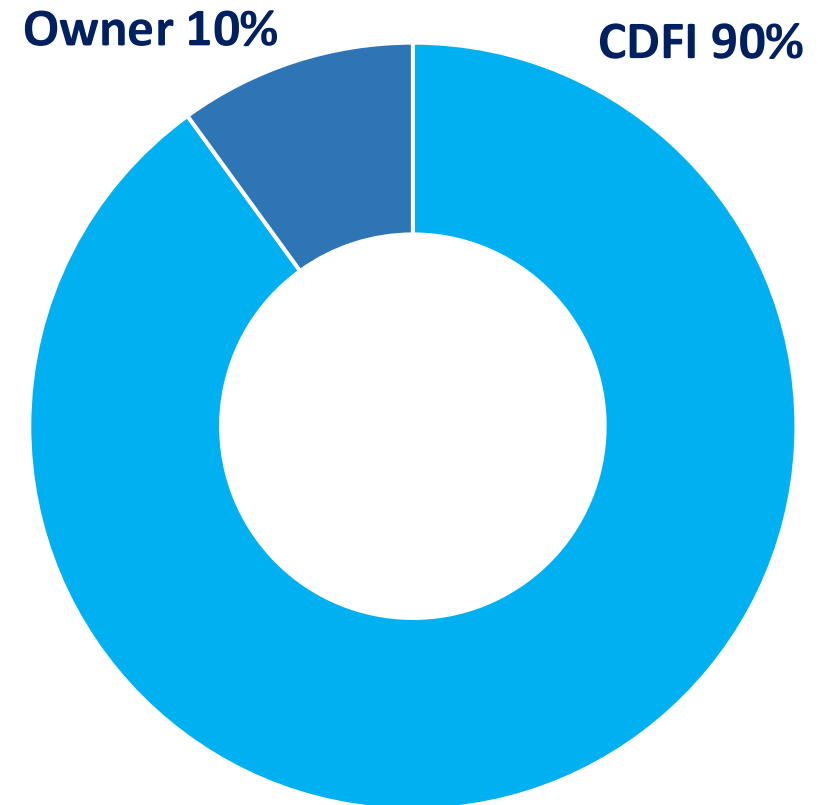
## Financing

Bank	\$ 1,000,000	50%
BEFCOR SBA 504	\$ 700,000	35%
Borrower	\$ 300,000	15%
Total	\$ 2,000,000	100%



# “Other” Financing – CDFI Example

- One or multiple lenders, such as CDFIs
- Creative
- Bank is not required
- Down payment may be optional; although all lenders like to see owner commitment
- Flexible



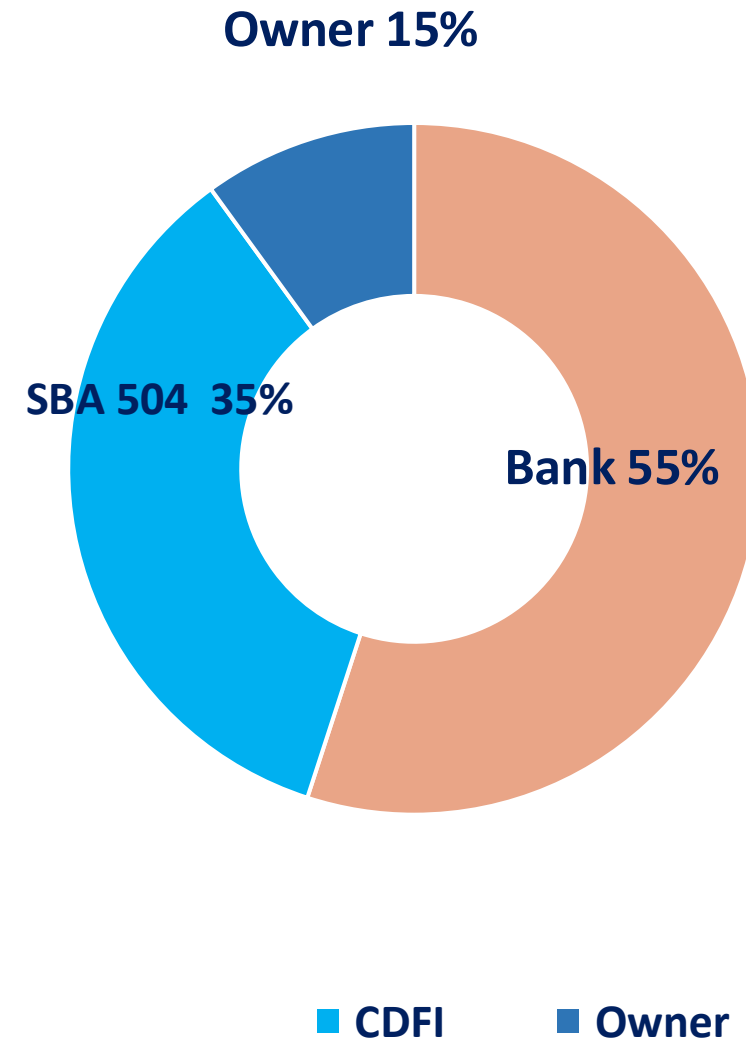
# CDFI Project with BEFCOR

## Project Costs

Land, Bldg.	\$ 275,000
Total	\$ 275,000

## Financing

Bank	\$ 151,500
BEFCOR CDFI	\$ 96,000
Borrower	\$ 27,500
Total	\$ 275,000



# BEFCOR: 1 Mission, 2 Paths

Comparison	SBA 504 Loans	CDFI Loans
Loan Min./Max.	Up to \$5.5 million*	\$150,000
Loan/Financing Structure for Startups	50%- <u>35%</u> -15% (bank, 504, borrower)	0-100%, flexible
Geography	NC + 4 SC Counties	NC Only, Specified Areas
Interest Rate, currently	6.43% Fixed	5.9%
Repayment Terms	10, 20, 25 years, fully amortizing	Various amortizations, 5-year balloon
Strategy	Long-term financing for growth	Financing during riskiest time, with expectation business will refi at 5 years and transition to bank financing



# Project Uses/Costs

Tangible

## Fixed Assets

Land, Signage, Site Improvement

Building Purch., Expansion, Construction

Machinery, Equipment, Installation and Transport

FF&E

Intangible

## Non-Fixed Assets

Working Capital

Goodwill

“Book of Business”

Customer List

“Name” of Business

Costs of Debt

## Loan Costs

Professional Fees

Architect

Engineering

Appraisal

Environmental

Title, Some Closing



# Key Financing Structuring Considerations

**Project Costs and Categories, Amount of Borrower Contribution**

**SENSITIZED PROJECTIONS AND CASH FLOW**

**Bank's Perception of the Loan – Interested? Some? All?**

**Location and Type of Business**

**Eligibility Factors – which programs fit**

**Size of Project – over or under \$250,000?**

**Borrower's Preferences, Understanding of the Loan Process**

**Best Deal for Borrower – best rates, lowest payment**

**Borrower's Goals, Growth Trajectory, what will be needed next**



# CDFI Solutions

Attorney in business for <2 years wants to buy a building. Small project for 504. Bank will not provide 90%.

Rural day care owner rents and is tired of moving to new spaces. Bad credit. Cannot get bank financing. Needs permanent home. Require Credit Counseling.

**CDFI**

Charlotte business needs to purchase new equipment for gym. He leases his building.

Pet Board business owner was retiring. New Owner needed RE and WC financing.





# NC Organizations



## Lenders – Abbreviated List

- NC Rural Center
- CDFIs
  - BEFCOR
  - Aspire
  - Carolina Small Business Fund
  - PCAP
  - Mountain Biz Works
  - Carolina Community Action
  - Durham 100
- CDCs for 504 Loans
  - BEFCOR
  - Carolina Bus Cap.
  - 504 Capital from VA

## Reputable Resources

- SBTDCs
- SBCs
- The Institute
- WBC
- NC Sec. of State
- SCORE
- ETC.

### Notes:

1. FREE RESOURCES ARE PREFERRED.
2. RECOMMEND ONLY WHEN WE KNOW the quality of the provider.
3. Some for-profit conventional consulting services may not always put business owners' best interest first.



# William McGuire

*Dad of 3 and Serial Entrepreneur & Investor*



\$15m raised by Incolo community **35%+ crowd dollars; 5k+ people**

Personally invested in 90+ startups **CRE, SMBs, Venture**

Head of Partnerships @ North Cove Leisure Club **157 acre outdoor venue**

Principal @ House Hack Helpers **Flipping with 3 million watching**

Co-Founder / Ops @ WNC Strong **Berkshire Hathaway for Western NC**



# **Investment Crowdfunding**

## **Funding for all Entrepreneurs**

- 1. What investment crowdfunding is and is not  
(History to Current)**
- 2. How does it work for your clients?**
- 3. Why is it valuable for businesses?**



# What investment crowdfunding **IS** and IS NOT



## The story begins in the 1930's

**1930's**

Laws aimed at protecting people limit access **ONLY** to the rich to invest in startups & private companies



**80+ YEARS**

**2016**

Reg CF is born. Founders can raise up to \$1.07m of investment from anyone & now since 2021, \$5m/yr

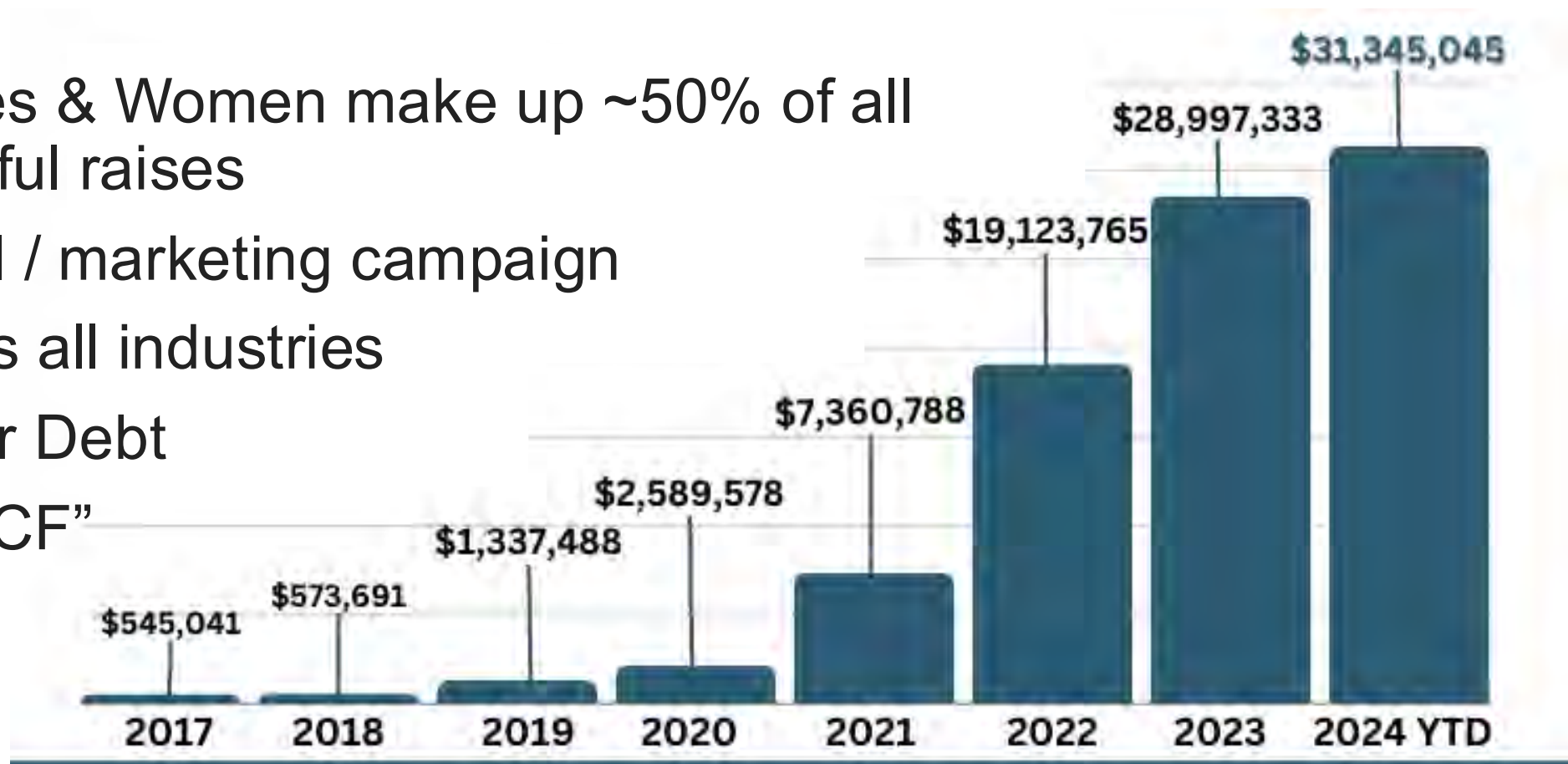




# What Investment Crowdfunding **IS**

## Way to Raise up to \$5m+

- Minorities & Women make up ~50% of all successful raises
- Is Social / marketing campaign
- Supports all industries
- Equity or Debt
- Is “Reg CF”



Cumulative Reg CF raised \$ for NC companies [incolo.io/grind](https://incolo.io/grind)



# What Investment Crowdfunding (Reg CF) **IS NOT**

## NOT...

- Donation or Product Campaign i.e. Kickstarter
- Build it and they will come
- Free (All costs in ~10% to 15% of capital raised)
- A replacement to SBA, Bank, Angel, Inventory, Equipment, VC, or other forms of capital (*it compliments these*)



# How Does Reg CF Work for Your Clients?

## Most of the time...

...when partners or founders send founders to me to ask about investment crowdfunding // Reg CF, it usually goes like this

- Need funding soon (but not yesterday)
- Solid customer base or is starting out with at least 100 people they'd want to target for investment
- Need help bringing investors in (or have done it in the past with a few people or with 'traditional' capital)



# Why is Reg CF Valuable to Businesses?

## Aligns w/ Growth Path

- Provides a bridge to larger capital (or in conjunction with a larger capital round – equity, debt, etc.)
- Can pair with SBA 504 and/or 7(a) capital
- Adds business growth channels

Your fans are your best sales-people aka. 100's or 1,000' of investors become/increase marketing and sales ambassadors.





**Sully's  
Golf & Gather**  
[www.sullysgolf.com](http://www.sullysgolf.com)

- Partner for \$500k (equity)
- \$90k+ investment from their customers \$100 and up (Revenue Share)

# Opened largest indoor golf sim business in NC



corner looking for a new  
affordable and flexible  
way to golf, and then you  
find us.



Wouldn't have asked for a better day  
to be out playing. Grateful to be  
part of this wonderful community.





# OAK and GRIST

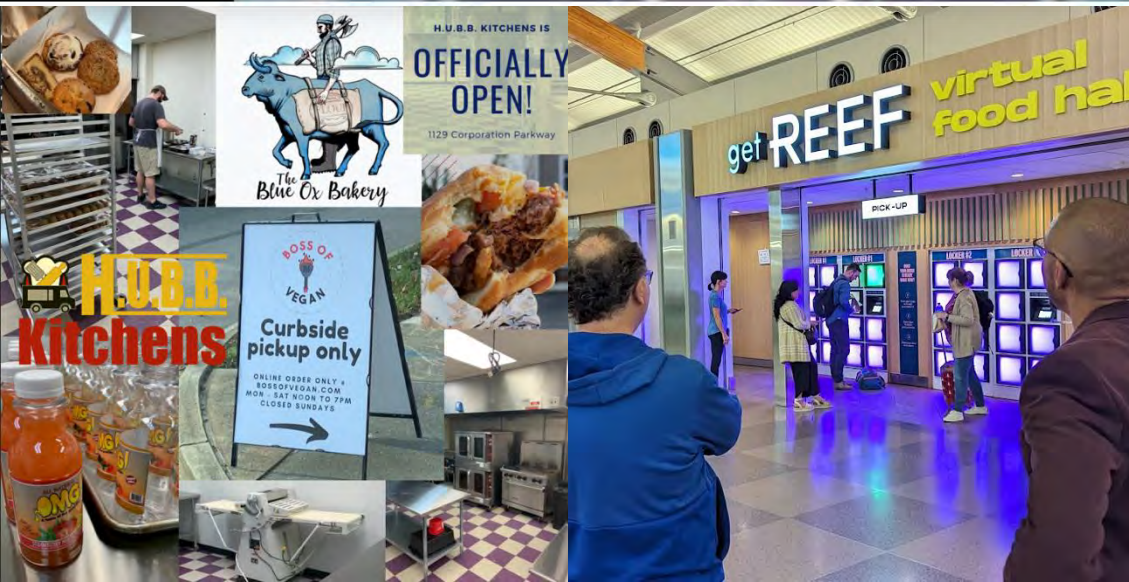
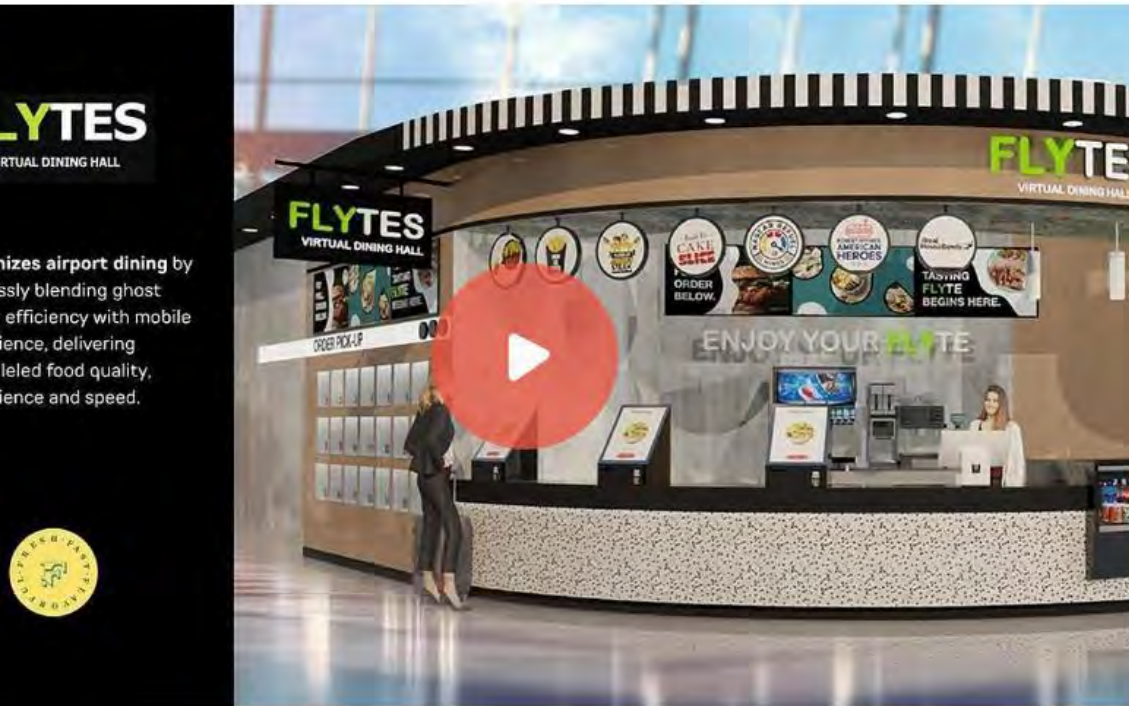
[www.oakandgrist.com](http://www.oakandgrist.com)

One of the ONLY  
grain to glass distilleries in NC

- Raised \$122k of equity capital from dozens of fans & customers in Jan 2022
- Scaled to distribution in 39 states
- Emptied clean water in tanks to provide his neighbors drinking water during Helene



ing a successful \$4.9m+ revenue proof of  
cept to multiple airports nationwide



# Flytes HUBB Kitchens

[wefunder.com/flytes](https://wefunder.com/flytes) | [hubbkitchens.com](https://hubbkitchens.com)

Airport Growth Raise

Shared Commercial Kitchen

- 1<sup>st</sup> Reg CF Raise ~\$67k, Revenue Share to expand HUBB Kitchens to 3 locations
- Crowd investor x Jason to the CRO of RDU International. He x Jason x REEF, world's Largest ghost kitchen operator
- Collaboratively built 1<sup>st</sup> multi-brand airport kitchen in the country – serving 13 national & local brands: Pei Wei to Beyu Coffee
- Flytes now has contracts for 2 locations in Nashville, the Pentagon, and 30<sup>th</sup> Street Train Station. Funded via Private C. Notes, Equity, and SBA debt.

Questions ??

Thank you

William McGuire

<https://Incolo.io>

[William@incolo.io](mailto:William@incolo.io)



# Smooth Sailing: Alternative Funding for Start-Ups

## Thank You

