December 2010

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Sources of Financing

Capital Concerns

Creative ways to find financing in a down market // By Rachel Cieri

It's no secret that cash isn't easy to come by these days. Lenders and investors are still ducking their heads just out of sight, fearful of returning to a high-risk environment. And for growing companies, that can bring business to a halt.

Fortunately, willing sources of financing are just waiting to be found. Despite the protests of many frustrated funding-seekers, Instamed president and CEO Bill Marvin knows from experience that the existence of available capital is not the problem.

"I think that it's just wrong to say that there isn't capital out there," Marvin says. "There is. The question is, can you convince that capital to go with your business? You just have to know the price and the criteria that it invests in."

Marvin successfully raised $6 million for his healthcare payments network in October, and he says the key was a strong base of investors and competition between them. Rather than try to convince a single source to part with the entire $6 million, Marvin stayed in continual contact with several investors and lenders. That way, Instamed had the upper hand, letting them vie for a stake in the company. Marvin also settled with a combination of debt and equity capital, a move that he says makes his company more financially sound.

"Limiting yourself to one investor limits [you to] how deep their pockets are, so by having multiple investors, you have more capital on the table," he says. "Having four primary investor groups makes it even better because it creates competition. Competition is good for setting a fair price in any market."

SPREADING THE WEALTH

Of course, it didn't hurt that Marvin had established relationships with each of his investors, totaling $22 million of debt and equity capital since 2004. For Ed Coringrato, CEO and president of optical components developer Cyoptics, that broad base of relationships was integral to his company's financial success.

"We were challenged in this communication industry by what I call the great depression of 2001 to 2004," he explains. "Those who survived managed cash very carefully and worked some business development relationships to survive the 'nuclear winter' that we went through. At Cyoptics, we had the advantage of having a good investor base."

When Cyoptics was founded in 1999, it was a venture-backed company because of its capital-intensive nature, and as it grew and expanded, it made several acquisitions of other companies that "came with cash."

"Investors felt better about investing in a combined company versus a singular company because the combined company had more scale and a broader product portfolio," Coringrato says.

Investor and lender comfort, as Coringrato and Marvin recognize, is the real obstacle to financing a company in a down market. Coringrato has noticed that one positive trend is leading him down a different path than he would have considered otherwise: the private equity community is picking up the slack where many venture capitalists have backed off.

Coringrato also pointed out that some industries have a global market – CEOs don't have to limit themselves to U.S.-based investors or markets. "The thresholds for IPOing are a lot lower outside the U.S.," he says. Though he sees Cyoptics staying with more traditional sources of financing, he believes creativity will be the quality that keeps companies afloat.

For Robert Stack, president and CEO of Community Options Inc., that creativity is helping his nonprofit move forward. Community Options provides housing for people with disabilities, and after the mortgage crisis, Stack has had to jump through hoops to secure the debt equity for those homes. Just a few years ago, he'd be able to finance 100 percent of each of the organization's 150 houses, but today, it's nearly impossible to get a bank to agree to it.

Instead, he's been experimenting with rolling multiple houses into one bond. Even then, banks have been devaluing bonds and forcing the organization to put up cash to sustain it. With those financial challenges from the banks, Stack is in the process of putting together "a collective of people who would consider investing on a low level," a new route of financing for the organization.

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TIMING IS EVERYTHING

Though every company's financing needs are unique, one thing every CEO needs is time on his or her side.

"The cliché 'patience is a virtue' is something we all have to remember," Stack says. "I think we have to wait this out and make sure the timing works."

Marvin says that the timing of the down market means businesses will have to adjust their expectations when searching for capital.

"I know that if we had been a business in the late '90s, we probably could have raised twice the amount," he says. "If you can raise money, you're not going to get it on as favorable terms as you otherwise would have, had you raised it in different economic times."

The solution, Marvin says, is for businesses to "be further out in front of the capital race." If the revenue trends of the business suggest that capital will run out in six months, the time to start searching was yesterday. The further in advance businesses ask for capital, the more favorable the terms of the investment or loan are likely to be.

"If you start early, adjust your expectations and look to build a base of investors as opposed to trying to get one investor and be one-and-done, you're on your way," Marvin says. CEO

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