Royalty financing

Questions to reflect upon
Do you remember a deal that you wanted to do but was too high risk for debt?

What are the barriers preventing you from moving forward with higher-risk investing?
Royalty financing

• An investment, not a loan
• Fills gap between debt, straight equity
• Return mostly from cashflow
• Monthly payment based on a % of gross revenue for a negotiated period of time
Why is royalty relevant to community development?

- Another way to get capital to second-and third-stage companies
Why is royalty relevant to community development?

- Growth capital that doesn’t require
  - Sale of business
  - Dilution of ownership
  - Loss of control to outside investor

Royalty is different than debt

- Higher-risk
- Customized
- Pricing offsets risk but win-win
- Due diligence focus: Team, sales pipeline, growth proposition
Additional capacity needed

- Raise flexible capital
- Advisory board with investing experience
- Grants to offset possible early losses

Additional capacity needed

- **Hire or train staff to:**
  - Build investment case without formula
  - Engage and earn the trust of owners
  - Add value (beyond capital) to portfolio companies
Vested for Growth

Risk-tolerant capital, business education, and peer-learning opportunities to help owners of small businesses increase profits and create higher-quality jobs

Investment record 2002-2012

- **18 deals** (1 outlier during experimental phase)
- **17-deal record:**
  - Average invested: $280,000
  - Amount gained: $1,247,549 on 15 deals
  - Amount lost: $137,218 on two deals
  - IRR: 15.5%
Typical scenarios

Merger and acquisition
New product development

Additional capital for equity-backed company
Questions?

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