# Financial 'eggs' come in many shapes and sizes

I've been dying to ask the Easter Bunny about business financing.

Don't laugh. It makes perfect sense. I've heard for years not to "put all your eggs in one basket," so I figure similar advice applies to the opposite situation. That is, it's also wise to shop for the best financial eggs before putting them in a business basket. And when the bunny was hanging around last month, I asked for advice:

"Dear Andrea: I'm exhausted from egg-hiding last month, but I'll take a minute to give you important info.

If you're seeking financing for a company that you own, want to start or want to sell, yes, shop around. There are lots of lenders and each has something unique to offer. Another option to consider is an investment firm that works primarily with small businesses, which seems to be of interest to you, based on what you wrote in your lovely note to me.

Obviously I'm not an expert in finance, but I've seen a lot of people randomly pick up eggs and add them to their business basket. It always makes me nervous for them.

Anyway, need to start coloring eggs for next year.

Best,

Easter Bunny"

I took the bunny's advice and attended the Three Rivers Entrepreneur Network meeting. John Sumpter, managing director of Aequitas Capital Management, gave a presentation about alternative sources of financing for small businesses. Sumpter discussed traditional vs. alternative sources of financing and offered advice to attendees about how to prepare for a meeting with an investment firm.

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Economic Diversity

In general, investment firms can use greater discretion in how and what they finance. This flexibility can be an advantage to businesses because the lender can assume more risk than a traditional bank, for example. Subsequently, more risk often means a greater number of finance options for the business owner.

Traditional sources of capital for smaller businesses often include friends and family, private investors, banks, federal grants and venture capitalists. Alternative sources include customer and vendor companies, private equity companies or investment firms.

Interestingly, Sumpter added that attorneys and accounting firms often are good sources of financing from an investment standpoint.

Companies such as Aequitas introduce business owners to these alternative sources.

"We often look to create unobvious mergers or company combinations," Sumpter said. "When it's done right, everyone benefits — either through the addition of a skill, a widget or capital — and we feel good about making an investment in a business area that we think has growth potential."

Aequitas Capital Management is based in Lake Oswego, Ore. Its niche includes working with businesses that have annual revenues of less than $200 million, and its transactions range from $500,000 to $25 million. Its professionals provide services in areas such as business coaching, acquisition and mergers and capital acquisition and investment.

During his presentation, Sumpter emphasized the importance of business owners having their "financial story" together before meeting with investment firms.

"We expect that you'll vigorously defend your business," Sumpter said. "The best way to do this is to have excellent records, and a deep base of knowledge about your industry and competition."

Sumpter added that investment firms will do their own research too, so anything not revealed by the business owner will eventually be uncovered by the firm.

Sumpter described three types of financing that Aequitas offers — senior debt (their debt fund), mezzanine or subordinated debt (their Hybrid fund) and equity (their Catalyst fund) — and there are many options in between.

Debt funds are entirely backed by collateral. There's minimal risk to the lender because if the business fails, the lender will receive whatever assets were put up by the business to secure the loan.

Mezzanine loans, also known as subordinated debt financing, are an intermediate step between secured debt and equity. With these loans, there may be some collateral, but not enough to cover the obligation. As a result, this type of financing is higher-risk and therefore more expensive. The gap between the collateral and debt is made up based on the company's ability to make payments.

And lastly, private equity involves an investor taking an ownership interest in a company, in exchange for their investment. Private equity is unlike debt in that it is usually not paid back. Often, an investor "rides the waves" with a company, hoping the investment pays off.

Occasionally, though, investment firms like Aequitas allow a portion of the equity to be paid back like a loan, therefore reducing the overall size or percentage of equity the investor ends up holding. This situation may be more attractive for the business owner because in the long run an outside investor owns less of the company.

Raising capital also should be a shopping experience. Sumpter encourages business owners to "ask lots of people and ask unobvious people" when looking for business investors.

Filling the usual gap between traditional equity funding sources and banks is what investment firms like Aequitas usually specialize in. In fact, the financial solutions Aequitas offers often are a combination of different types of capital, rather than just one.

In one brief presentation I learned that egg-hunting options are plentiful. Not every financial egg is created equal, just as each basket — or business, that is — is unique.

In closing his talk, Sumpter added, "get some perspective — talk to multiple lenders to learn about your options."

Sounds like Sumpter and the Easter Bunny are of the same mind. Hopefully you are too.

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