2016 Report on Oregon's Capital Ecosystem

The goal of this report is to shed light on some of the obstacles facing entrepreneurs in various sectors of our economy and to inspire innovation for how we can create new capital pathways so that great ideas can grow into flourishing businesses. Until now, innovators and lawmakers have lacked a simple way to visualize the capital ecosystem that can spur conversation about how to fill the gaps. To create solutions, we need to first see the problems more clearly. This report aims to provide that high-level view.

Where We Are Today

Oregon's economy relies on the steady growth of businesses that create jobs and bring trade. To grow, businesses need ready sources of capital. However, many entrepreneurs find that the capital ecosystem is difficult to navigate and often inequitable.

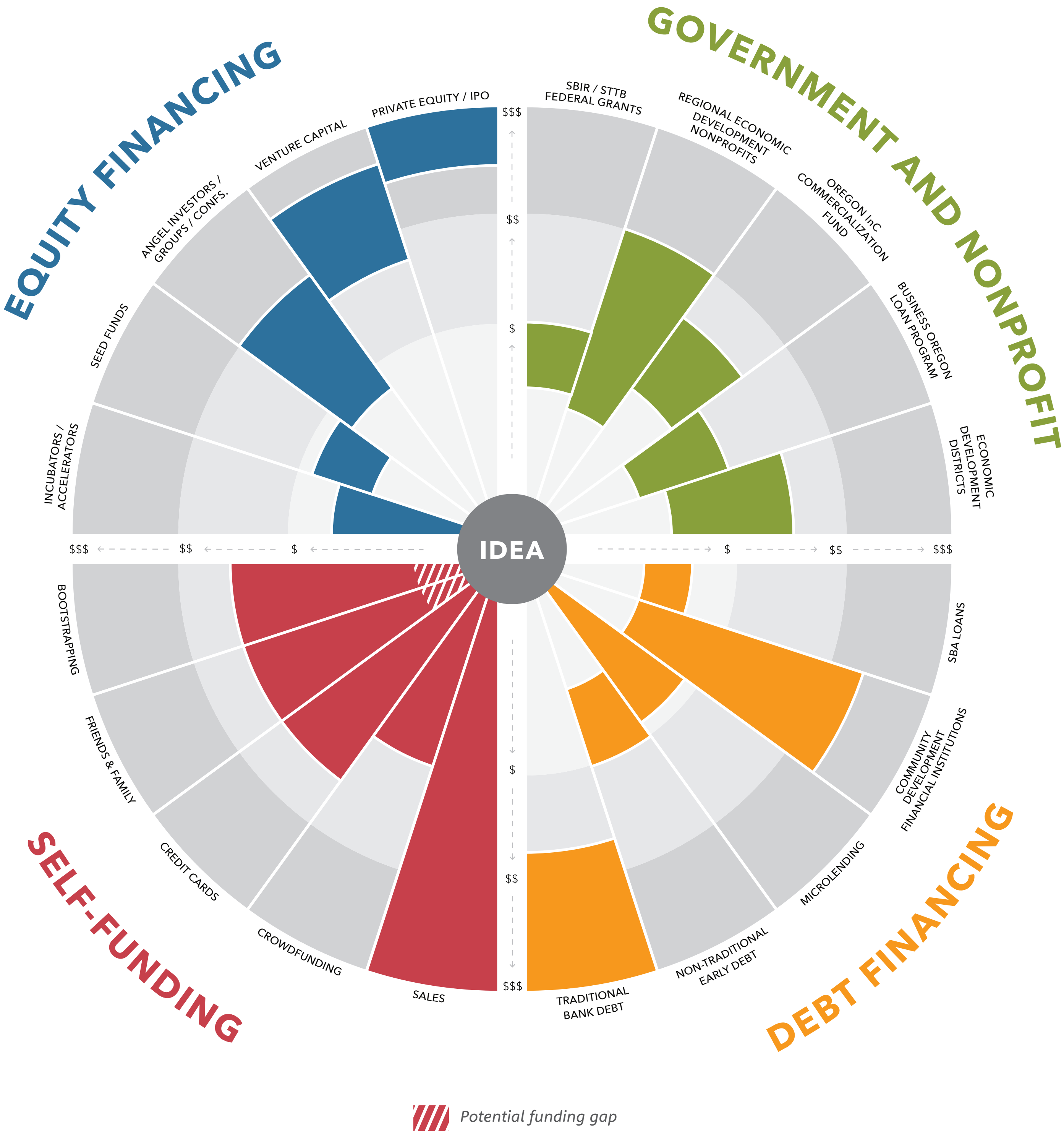
Government and funders have tried to solve this problem by focusing on the source of capital — for example, funding a new incubator or attracting more venture capital. This approach might increase the chances that Oregon will have a software success story. However, it focuses on the amount of available capital and doesn't help most entrepreneurs in our state access it.

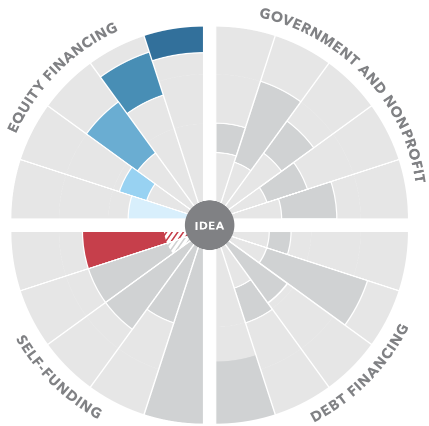
Navigating the Ecosystem

The success that businesses have navigating the capital ecosystem depends on many factors. Scalable companies (software, for example) are more likely candidates for angel and venture funding that can lead to comfortable exit points. Companies not as easy to scale, like those in the retail, service, consumer products, and bioscience sectors, do not have as clear a pathway.

In fact, these are the companies that create the most jobs and tend to keep more money in the state, leading to a more sustainable tax base. With a clear view of all capital opportunities, we can begin to imagine new pathways for these — and all — businesses, which will improve our entire economy.

We've separated the capital ecosystem into four quadrants. The scale radiates out from the entrepreneur's idea to maturity. Along the way, the business seeks funds where possible. Sometimes the capital sources are connected, and sometimes the entrepreneur encounters gaps. The scale of the map (from $ to $$$) is relative to the quadrant and the type of company — for example, a services-oriented company might require less capital than one manufacturing consumer products. One note: the cross-hatching in the Self-Funding quadrant represents the initial gap many potential entrepreneurs face if they do not have financial resources to get up and running.

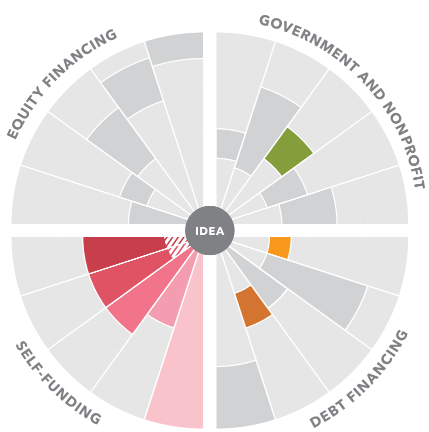




- BOOTSTRAPPING
- INCUBATORS / ACCELERATORS
- SEED FUNDS
- ANGEL INVESTORS / GROUPS / CONFS.
- VENTURE CAPITAL
- PRIVATE EQUITY / IPO

Software Companies

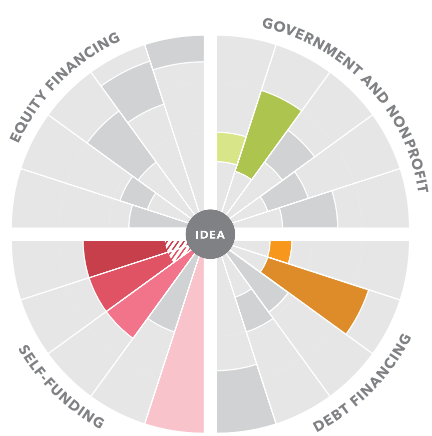
Software companies tend to have a short bootstrapping period before they enter a clearly defined, clearly connected pathway through equity funding. There are many incubators and accelerators that act as feeders for investors such as seed funds, angels, and venture capital.



- BOOTSTRAPPING
- FRIENDS & FAMILY
- CREDIT CARDS
- CROWDFUNDING
- SALES
- NON-TRADITIONAL EARLY DEBT
- SBA LOANS
- OREGON InC COMMERCIALIZATION FUND

Consumer Products Companies

Consumer products companies do not have an established pathway to capital at each stage of their growth. Some get angel and other funding. Early on, though, most have difficulty finding debt with favorable terms, and must rely on bootstrapping — if they have resources — or high-interest loans that eat into their profits from sales. There are some government-funded sources available, but many aren't aware of them or do not qualify.



- BOOTSTRAPPING
- FRIENDS & FAMILY
- CREDIT CARDS
- SALES
- CDFIs
- SBA LOANS
- REGIONAL ECON. DEV. NONPROFITS
- SBIR / STTB FEDERAL GRANTS

Rural Companies

Rural entrepreneurs striving to get businesses up and running have their own set of challenges. They often don't have access to the same resources as entrepreneurs in population centers, including technical support, mentoring, and capital. Angel investors are rare and in great demand. They must rely on regional economic development nonprofits to point them in the right direction — organizations that don't have the resources to get the word out or serve the existing companies in need.

There are some clear obstacles for many entrepreneurs as they attempt to navigate the ecosystem:

- **LACK OF START-UP RESOURCES** can stop good ideas from seeing the light of day. Many entrepreneurs (or prospective entrepreneurs) with great ideas and skills don't have access to their own start-up funds or money from family and friends.

- **ALL DEBT IS NOT CREATED EQUAL.** Entrepreneurs without personal resources often can't come up with collateral, which means that they end up seeking debt with less-than-favorable terms, or can't get any debt at all.

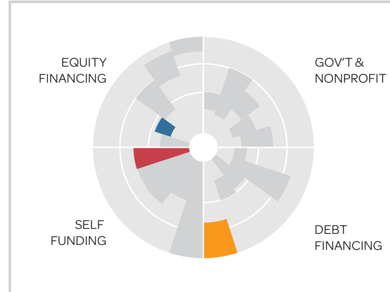
- **LOCATION, LOCATION, LOCATION.** Businesspeople outside capital centers are often at a disadvantage. Capital infrastructure in many regions is not as robust, and resources are still relatively invisible to the entrepreneur. Also, regional ideas for fixing the problem have been poorly financed or have not gotten enough attention.

- **PERCEPTIONS ABOUT DIFFERENT TYPES OF COMPANIES.** There is a belief in the capital ecosystem that consumer products and other kinds of companies are a riskier bet than software companies. The reality is that consumer products companies offer less risk, and thus often less chance of a huge payday in the short term. However, to knowledgeable investors looking to contribute to the region, they might provide a much more attractive and "safer" return over the long-term.

- **WOMEN AND MINORITY ENTREPRENEURS** run, as the evidence shows, some of the most reliably profitable businesses — but they have more trouble finding funding.

Wildfang

Women-owned apparel company based in Portland

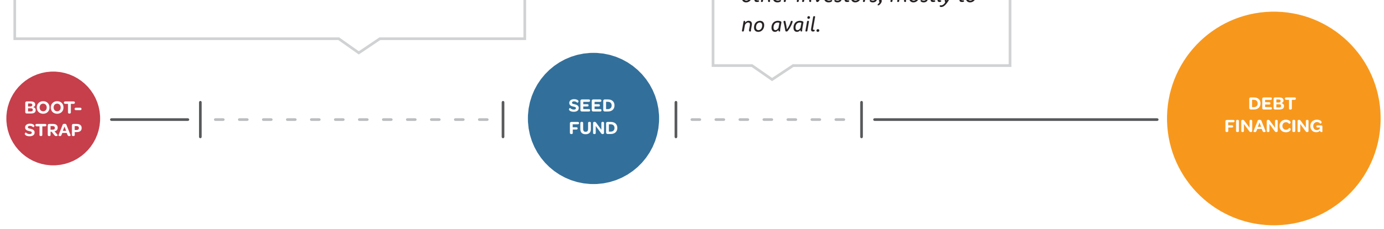


When Wildfang started out, they bootstrapped the business to get it off the ground and into the retail market. The brand found a successful niche, "badass women/tomboy," that appealed to a diverse group and led to sales.

Success in the market didn't equal the ability to fundraise in Portland. They applied to just about every angel group and conference, but with a lack of consumer investors in these groups, everyone is looking for another Nike with explosive growth, as opposed to a solid brand.

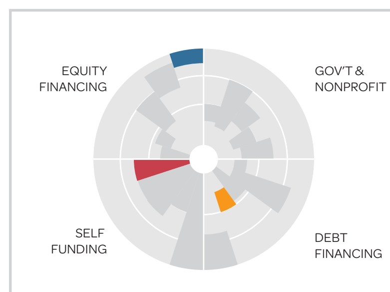
Even after raising money from a seed fund, they continued to pitch to other investors, mostly to no avail.

Debt financing was only available to them when they hit the $1.5M revenue threshold.



Pacific Northwest Kale Chips

Portland-based snack food company



Pacific Northwest Kale Chips started with $15,000 in personal savings/cash in the bank, then took out two business credit cards with credit lines of approximately $8,000 each — which they maxed out quickly — and two of their friends provided them with $12,000 each. Still, they sought in vain for both traditional and non-traditional funding. They did get a loan from a natural foods grocer at a low interest rate and with no personal guarantee for new equipment.

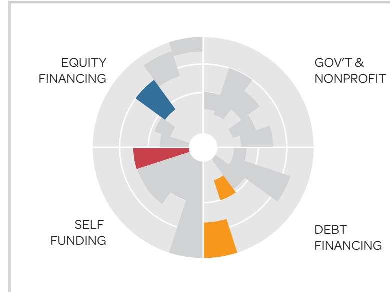
Even as sales rose, the founders couldn't get funding from any bank. They found some microlending opportunities, but it required a personal guarantee, which they weren't willing to do.

Anytime they paid down some of their credit card debt, they purchased new equipment on the card to keep production up.

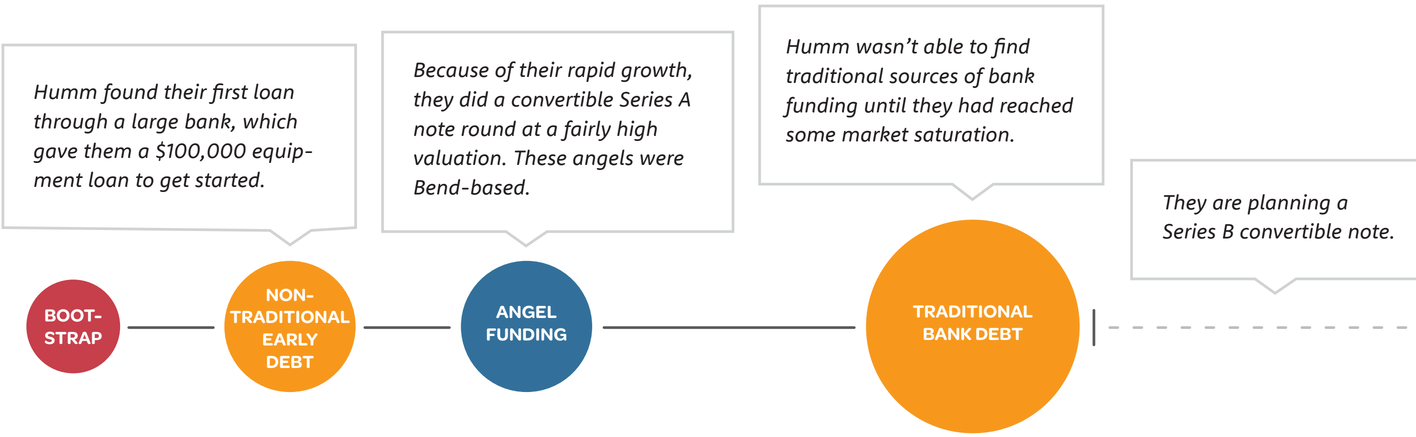
They were ultimately bought out by Boulder, CO company Made in Nature.

Humm Kombucha

Women-owned beverage company in Bend

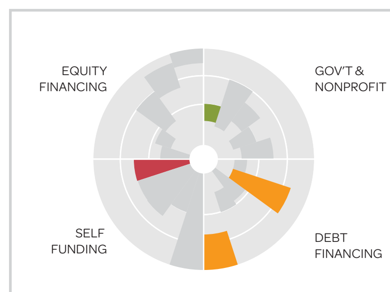


Humm's two founders initially bootstrapped their idea, finding their way from debt financing to equity financing, always looking for new sources of capital as they rapidly grew.

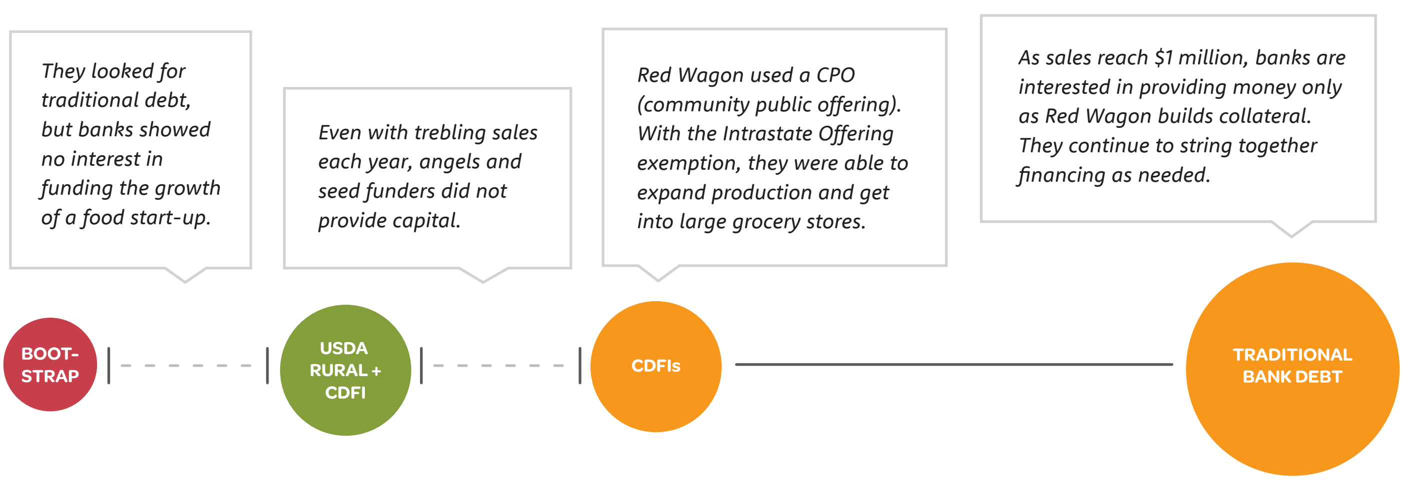


Red Wagon Creamery

Small batch, all-natural ice cream company based in Eugene

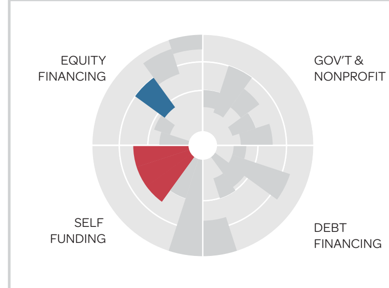


Red Wagon bootstrapped by opening a food cart and building sales. They then moved into a storefront with help from government and CDFI loans that also helped get their product into grocers across the state.



Homeschool Outerwear

Portland-based snowboard gear company



In 2009, Homeschool was founded as a small competitor to large snowboard gear companies. They began by bootstrapping and ran into challenges, not least of which was the perception among funders that consumer product companies are extremely capital intensive and that the return might not be as good.

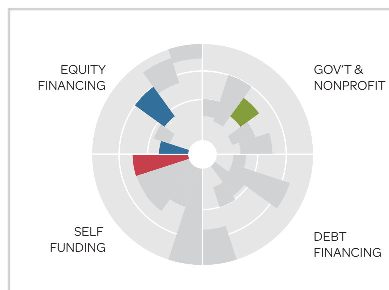
The founders say that some debt, which can run 12–20%, hinders the ability to hire more people while ramping up.

Homeschool relied mostly on personal and family money to get things going.

Homeschool continues to seek funding, but have found it difficult to locate more angels. The founders say that people generally invest in what they know, and most angel investors are typically from the tech space.

Ampere Scientific

Clean-tech start-up based in Corvallis



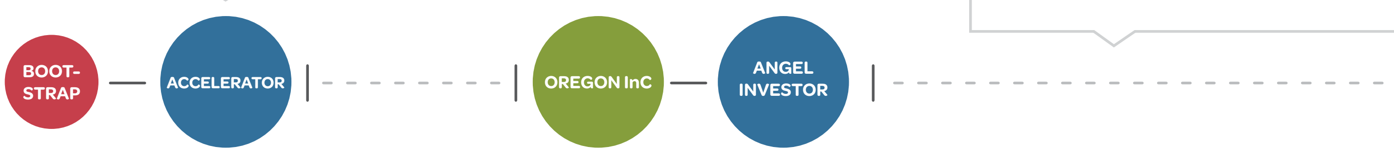
The two cofounders started this company based on technology developed when they were employees at a U.S. Department of Energy laboratory. They got started with a total of $25,000 of their own money and small loans from friends and family.

After winning an initial contract, AmpSci was part of an accelerator, which claims 1% equity (nondilutive until $1 million, than dilutive after that).

After getting denied for a development fund, Oregon BEST invested in tech development.

The founders took angel funds while giving up 10% equity, with the option to re-up for another 10% later.

AmpSci submitted an SBIR application to the National Science Foundation, and are waiting for the final award decision (and will be submitting an SBIR application to the DOE). For both applications they have taken advantage of the Oregon BEST SBIR/STTR Support Center for free grant writing consultation and assistance.



The Way Forward

We hope this report can be a platform to provoke conversation about solutions for closing capital gaps for growing businesses in Oregon. Below are a few of the ideas that have been suggested by contributors to this report. Some of the ideas are already in development or in effect, but many entrepreneurs don't know that they exist, or the programs are currently underfunded.

This is just the start. We look forward to more conversation, more ideas, and more action.

- Hire "capital coaches" throughout the state — independent, salaried positions that help entrepreneurs navigate the system and connect capital sources into a clear and accessible network
- Create a comprehensive, statewide capital resource for entrepreneurs, including documentation that helps them understand how to access various kinds of capital
- Support regular, regional capital angel and lending conferences and other types of activities that connect investors and entrepreneurs around the state
- Innovate new forms of debt financing that better serve the needs of entrepreneurs and make a long-lasting community impact
- Developing capacity, rules, and laws around new forms of community-driven capital and crowdfunding

Thank You

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