



## Financing options

|                      | <b>Debt</b>  | <b>Sub debt</b>  | <b>Royalty participating debt</b>   | <b>Equity</b>  |
|----------------------|--|--|---|--|
| <b>Terms</b>         | Pay set principal and interest   | Pay set principal and interest                                       | No set cost<br>Percentage of future revenue   | No set cost<br>Percentage of ownership                             |
| <b>Typical cost</b>  | Interest paid on debt at prime plus 0-3%                                       | Interest paid on debt at prime plus 4-10%                            | ¼% to 3% of sales   | 5% to 40% of company   |
| <b>Requirements</b>  | Collateral and cash flow to cover repayment<br>Profitable for past three years | Established business<br>Healthy cash flows                           | Good growth prospects<br>Strong management<br>GPM 25% or better                         | High growth prospect<br>Compelling market<br>GPM 45% or better     |
| <b>Advantages</b>    | Lowest cost capital<br>Lowest growth threshold<br>Maintain ownership           | More patient<br>Goes beyond collateral<br>Maintain ownership         | Cost adapts to performance<br>No ownership dilution<br>Growth and business continuation | No fixed payments<br>No credit claim<br>Maximizes growth           |
| <b>Tradeoffs</b>     | Fixed cost obligation<br>Low asset leverage<br>Credit claim on assets          | Fixed cost obligation<br>Pricier than debt<br>Credit claim on assets | Must pay as grow  | Dilution of ownership<br>Highest growth threshold and capital cost |
| <b>Investor role</b> | Arms-length transaction<br>Focus on repayment                                  | Close monitoring<br>Focus on repayment and growth                    | Value-added partner<br>Focus on growth and continuation of business                     | Central player<br>Focus on high growth and exit/sale               |
| <b>Sources</b>       | Traditional lenders and Regional Development Groups (RDCs)                     | Mezzanine financiers<br>RDCs<br>Private investors                    | Royalty financiers<br>Some mezzanine<br>Some angel                                      | Angels<br>Venture capital  |